Luye Pharma Group Ltd.
绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code : 2186

Global Offering

Joint Sponsors

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

LUYE PHARMA GROUP LTD.
绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**999,640,000 Shares (comprising 667,540,000 new Shares and 332,100,000 Sale Shares, and subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**99,964,000 new Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**899,676,000 Shares (comprising 567,576,000 new Shares and 332,100,000 Sale Shares, and subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$5.92 per Share plus brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)**
Nominal value	**:**	**US$0.02 per Share**
Stock code	**:**	**2186**

Joint Sponsors

UBS　citi　中信証券國際 CITIC Securities International

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

UBS　citi　CLSA A CITIC Securities Company

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 2 July 2014 and, in any event, not later than Monday, 7 July 2014. The Offer Price will not be more than HK$5.92 and is currently expected to be not less than HK$5.38. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$5.92 for each Share together with a brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK$5.92 per Offer Share.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) with the consent of our Company, may reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK$5.38 to HK$5.92 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at **www.hkex.com.hk** and our website at **www.luye.cn**. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders are unable to reach an agreement on the Offer Price by Monday, 7 July 2014, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors" of this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Wednesday, 9 July 2014. Such grounds are set out in "Underwriting" of this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

26 June 2014

Latest time to complete electronic applications under **White Form eIPO** service through the designated website at www.eipo.com.hk[2] . . . . . 11:30 a.m. on Wednesday, 2 July 2014

Application lists open[3] . . . . . 11:45 a.m. on Wednesday, 2 July 2014

Latest time to lodge **white** and **yellow** Application Forms . . . . . 12:00 noon on Wednesday, 2 July 2014

Latest time to complete payment for **White Form eIPO** applications by effecting internet banking transfers or PPS payment transfers . . . . . 12:00 noon on Wednesday, 2 July 2014

Latest time to give **electronic application instructions** to HKSCC[4] . . . . . 12:00 noon on Wednesday, 2 July 2014

Application lists close . . . . . 12:00 noon on Wednesday, 2 July 2014

Expected Price Determination Date[5] . . . . . Wednesday, 2 July 2014

Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Public Offering

is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . . Tuesday, 8 July 2014

A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.luye.cn** from . . . . . Tuesday, 8 July 2014

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function . . . . . Tuesday, 8 July 2014

Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before(6)(7)(8) . . . . . Tuesday, 8 July 2014

Despatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before . . . . . Tuesday, 8 July 2014

Dealings in the Shares on the Stock Exchange expected to commence on . . . . . Wednesday, 9 July 2014

Notes:

(1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering".

(2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 2 July 2014, the application lists will not open and close on that day. For more details, please refer to "How to Apply for Hong Kong Offer Shares—Effect of Bad Weather on the Opening of the Application Lists". If the application lists do not open and close on Wednesday, 2 July 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the "Expected Timetable", we will make an announcement in such event.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for Hong Kong Offer Shares—Applying By Giving **Electronic Application Instructions** to HKSCC via CCASS."

(5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Selling Shareholders on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 2 July 2014, and, in any event, not later than Monday, 7 July 2014. If, for any reason, the Offer Price is not agreed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders by Monday, 7 July 2014, the Hong Kong Public Offering and the International Offering will not proceed. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK$5.92 per Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$5.92 for each Share, together with the brokerage fee of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.003% but will be refunded the surplus application monies as provided in "How to Apply for Hong Kong Offer Shares."

(6) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on Wednesday, 9 July 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

(7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong Identity Card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong Identity Card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong Identity Card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

(8) Applicants who have applied on **white** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or share certificates (where applicable) in person from our 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 between 9:00 a.m. to 1:00 p.m. on Tuesday, 8 July 2014. Applicants being individuals who opt for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

Applicants who have applied on **yellow** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all information required may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **yellow** Application Form applicants are the same as those for **white** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for the Hong Kong Offer Shares—Despatch/Collection of Share Certificates and Refund Cheques—If you Apply Via **Electronic Application Instructions** to HKSCC" for details. Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections "How to Apply for the Hong Kong Offer Shares—Refund of Application Monies" and "How to Apply for the Hong Kong Offer Shares—Despatch/Collection of Share Certificates and Refund Cheques."

The above expected timetable is a summary only. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 2 July 2014, the application lists will not open and close on that day. Please refer to "How to Apply for Hong Kong Offer Shares—Effect of Bad Weather on the Opening of the Application Lists". You should refer to "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" beginning on page 40 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We focus on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism. Our product portfolio consists of 29 products and centres around seven key products, six of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. Our sales of patent-protected products accounted for 92.2%, 85.9% and 83.6% of our total revenue for 2011, 2012 and 2013, respectively. We have strong R&D and sales and marketing capabilities. We also have a proven track record of identifying, acquiring and integrating pharmaceutical companies with market-leading drugs and technologies.

Our Key Products and Key Therapeutic Areas

All of our key products are competitively positioned in one of our three key therapeutic areas and have gained top-ranking market shares measured by revenue. According to MENET, oncology-related pharmaceutical products constituted the single largest market for pharmaceutical products in the PRC in 2013. Our portfolio of oncology products includes Lipusu, the second most popular domestically manufactured pharmaceutical product for cancer treatment in China in 2013, and Tiandixin, the third most popular chemical immunostimulant with oncology indications in China in 2013, according to IMS, as well as CMNa, a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. Market data from MENET shows that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2013. Our key cardiovascular system products include Xuezhikang, the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, and Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS. Alimentary tract and metabolism-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2013 based on MENET data. According to IMS, based on revenue in 2013, we were the fourth largest domestic pharmaceutical manufacturer of oral diabetic medications and the sixth largest manufacturer of liver protection medications in China.

For 2011, 2012 and 2013, our revenue from sales of our seven key products was RMB1,577.6 million, RMB1,864.6 million and RMB2,215.1 million, respectively, accounting for 88.9%, 87.3% and 88.1% of our total revenue for the respective period, representing a CAGR of 18.5% over the period.

Our Business Model, Customers and Suppliers

We primarily sell our products within the PRC. We generate demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing activities, including academic promotion, and generate revenue by selling our

pharmaceutical products to distributors who, in turn, sell our products to hospitals and other medical institutions, either directly or through their sub-distributors. We develop our marketing and promotion strategies centrally in order to maximise our brand recognition and optimise our product positioning in the PRC market. We implement our strategies primarily through three internal sales teams that are aligned to our key therapeutic areas. We also utilise independent third party promoters where we believe it enables us to leverage their relationships to expand our hospital coverage efficiently. We believe this approach enables us to optimise the allocation of our marketing resources. In total, our sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 employees, over 500 third party promoters and over 800 distributors that collectively enabled us to sell our products to 30 provinces, autonomous regions and municipalities throughout the PRC and to over 8,000 hospitals in 2013.

Our suppliers primarily include suppliers of active pharmaceutical ingredients and raw materials and our subcontracting manufacturers. The active pharmaceutical ingredients and raw materials required for the production of our pharmaceutical products are generally readily available in the market through many suppliers. We generally believe we have alternative sources for our principal active pharmaceutical ingredients and raw materials that can provide us with substitutes of comparable quality at comparable prices.

Our R&D Capabilities and New Product Pipeline

We believe our ability to develop innovative pharmaceutical products through our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. Our market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas—oncology, cardiovascular system and alimentary tract and metabolism and central nervous system—with a focus on those candidates that have the potential for future commercialisation in global markets. We balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities.

As of 31 December 2013, we had a pipeline of 22 PRC product candidates in various stages of development that we are targeting to launch by 2020, including 17 product candidates that we are targeting to launch by 2018. These candidates included eight oncology products and four alimentary tract and metabolism products, as well as ten products within the central nervous system therapeutic area, which according to MENET was the fastest growing therapeutic area in China from 2008 to 2013. As of 31 December 2013, our R&D team consisted of 266 employees, including 30 Ph.D. degree holders and 124 Master's degree holders in medical, pharmaceutical and other related areas. As of 31 December 2013, we had been granted 230 patents and had 84 pending patent applications in the PRC, and had been granted 75 patents and had 77 pending patent applications overseas.

We intend to supplement our existing product portfolio and pipeline of product candidates through an acquisition strategy that focuses on pharmaceutical products that we deem to possess high growth potential in the PRC, primarily within our existing three therapeutic areas, as well as central nervous system, which we expect to become an additional key therapeutic area for us. We believe this approach will enhance our profitability by driving additional revenues through our existing sales and marketing infrastructure and production facilities. In 2011, we acquired Sichuan Baoguang Pharmaceutical Co. Ltd. (now Sichuan Luye) and its product Bei Xi and we began promoting the product through our internal sales and marketing infrastructure. We grew our revenue from sales of Bei Xi from RMB153.7 million in 2012, the

first full financial year following its acquisition, to RMB238.9 million in 2013, representing growth of 55.4%. We will also explore acquisitions involving complementary technologies that we believe will enhance our ability to implement our market-driven R&D strategies, and international acquisitions consistent with our long-term strategies.

Our International Expansion Plans

Over the longer term, we intend to become a leading pharmaceutical company globally. We believe we are one of the first Chinese pharmaceutical manufacturers to conduct clinical trials in international markets, including the United States. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market. One of these product candidates, Xuezhikang, is already a key cardiovascular system product for us in the PRC market and has completed phase II clinical trials in the United States, and the other three product candidates are being concurrently developed for the PRC and U.S. markets. For overseas market product candidates, we will seek to maximise the potential value of our product candidates by pursuing flexible development, partnership and commercialisation strategies tailored to the target market.

Our Production Facilities

Our production activities are carried out at five facilities, two located in Yantai, Shandong Province, one located in Nanjing, Jiangsu Province, one located in Beijing and one located in Luzhou, Sichuan Province. As of 31 December 2013, we operated a total of 30 production lines at these facilities. We plan to increase our production capacity by constructing new production lines, as well as to upgrade our production facilities, to meet demand for our products. We adopt a phase by phase approach in our expansion and upgrade plan, primarily taking into consideration our projected sales, and continually re-evaluate our capital expenditures and the timing of our projects based on market demand for our products, the progress of the development of our product candidates and technological developments that are relevant to our production process. Our current expansion and upgrade plan involves all five of our production facilities.

Our Inventory

The shelf life of our key products are 18 months for Lipusu, 24 months for Tiandixin, CMNa, Xuezhikang, Lutingnuo and Bei Xi, and 36 months for Maitongna. For 2011, 2012 and 2013, our inventory turnover days were 109.4 days, 129.1 days and 166.6 days, respectively. The increases primarily reflected increases in our inventory levels during the corresponding period. Please refer to "Financial Information—Net Current Assets—Inventories" for further details of our lengthened average inventory turnover days during the Track Record Period. We provision for obsolete and slow-moving inventories on a case-by-case basis in accordance with IFRS. For 2011, 2012 and 2013, we made provision for impairment loss of our inventories in the amount of RMB1.2 million, RMB0.6 million and RMB1.8 million, respectively.

Our Revenue, Profit and Gross Profit Margin

For 2011, 2012 and 2013, our total revenue was RMB1,774.4 million, RMB2,135.9 million and RMB2,515.1 million, respectively, representing a CAGR of 19.1% over the period. For 2011, 2012 and 2013, our net profit was RMB166.2 million, RMB175.6 million and RMB327.9 million, respectively, representing a CAGR of 40.5% over the period. For 2011, 2012 and 2013, our gross profit margin was 83.0%, 83.5% and 83.6%, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and position us well for continued growth:

- We focus on three of the largest and fastest growing therapeutic areas in the PRC—oncology, cardiovascular and alimentary tract and metabolism. We expect the central nervous system therapeutic area to become another key area of focus for us in the PRC.

- Our key products enjoy strong competitive positioning for high prevalence medical conditions that are expected to grow significantly in China.

- We have significant competitive strengths in R&D centred around three technology platforms and a robust pipeline of product candidates.

- Our sales network provides us with extensive coverage of hospitals and other medical institutions in China and our in-house sales teams provide us with deep penetration in our key therapeutic areas.

- We have expanded our business through selective strategic acquisitions, and have a proven track record in identifying appropriate targets and successfully integrating acquired companies.

- We have a stable, experienced, dedicated and visionary senior management team, as well as a sound corporate governance system.

OUR STRATEGIES

Our objective is to consolidate and further enhance our leading position in our key therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism—and develop a strong position in the PRC central nervous system therapeutic area. Over the longer term, our objective is to become a leading pharmaceutical company globally. In order to achieve our goals, we plan to pursue the following strategies:

- Deepen our market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts.

- Expand our portfolio of competitively positioned, innovative products in key therapeutic areas through market-driven drug development programmes.

- Accelerate the growth of our business and our product portfolio through acquisitions and effective integration.

- Grow our international business through drug development programmes for overseas markets.

- Increase our production capabilities through the steady growth of our production capacity and continuous upgrades.

- Continue to improve our profitability and enhance efficiency in key aspects of our operations.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We are subject to various risks related to our business and our industry. These include risks that (i) we are particularly susceptible to factors adversely affecting our key products due to our revenue concentration; (ii) our products are excluded from the Medical Insurance Catalogues; (iii) our products are adversely impacted by PRC price controls; (iv) we are unsuccessful in the centralised tender process for sales to PRC public hospitals; (v) we fail to maintain the necessary licences for the development, production, promotion, sale and distribution of our products; (vi) our employees, distributors or promoters engage in corrupt practices; (vii) our products cause severe side effects; (viii) our products do not meet quality standards; (ix) we become subject to product liability claims; (x) we suffer disruption to our production facilities; (xi) our competitors successfully market substitute products; (xii) our suppliers fail to supply us with raw materials at commercially acceptable prices; (xiii) our intellectual property rights are inadequate to protect us; and (xiv) we fail to develop and commercialise new pharmaceutical products. A detailed discussion of these and other risks relating to our business, our industry, the PRC and the Global Offering are set out in "Risk Factors" beginning on page 40 of this prospectus.

PRICE CONTROL

Pricing of pharmaceutical products in the PRC is heavily regulated.

As of the Latest Practicable Date, 19 of our pharmaceutical products were included in the national Medical Insurance Catalogue. These 19 products included five of our key products, Maitongna, Bei Xi, Xuezhikang, CMNa and Lutingnuo. For 2011, 2012 and 2013, our revenue from sales of these 19 products accounted for approximately 54.2%, 55.4% and 56.0% of our total revenue for the respective period. As of the Latest Practicable Date, an additional seven of our products were included in the relevant provincial Medical Insurance Catalogues. These seven products included two of our key products, Lipusu and Tiandixin. For 2011, 2012 and 2013, our revenue from sales of these seven products accounted for approximately 44.3%, 43.4% and 43.0% of our total revenue for the respective period.

Our pharmaceutical products included in the Medical Insurance Catalogues are subject to price controls by the NDRC, either at the national level or the provincial level. Price controls are mainly in the form of fixed or maximum retail prices. The PRC government authorities do not impose restrictions over the prices at which pharmaceutical products may be sold to distributors, hospitals and other medical institutions; however, fixed or maximum retail prices indirectly limit the wholesale prices at which we can sell the relevant product to distributors. We set the selling prices for our products to our distributors by taking into account factors such as our successful bidding prices in the centralised tender processes for sales to PRC public hospitals and other medical institutions, our costs of production, our gross profit margins and the margins for our distributors and third party promoters.

During the Track Record Period the NDRC lowered or imposed maximum retail prices for four of our key products—Maitongna, Bei Xi, Lutingnuo and CMNa. The lowering or imposition of the maximum retail prices for those products affected by the NDRC price adjustments had only a limited impact on the overall average selling prices, revenue and gross profit margins of our products because we were able to partially pass on the price adjustments to our distributors and suppliers and provide the products to hospitals and other medical institutions through our distributors at prices that allow a profit margin for hospitals and other medical institutions. Overall, the lowering of the maximum retail prices for those products affected by the NDRC price adjustments did not have a material negative impact on our results of operations during the Track Record Period.

To mitigate the risks associated with potential price control measures imposed on our products and to lessen the potential impact on our business and results of operations, we seek to continue to expand our product portfolio to reduce our reliance on any single product or small group of products. We will also continue to monitor and adjust our product portfolio to focus on higher margin products to mitigate the potential impact of future price control measures on our overall profitability.

Further details of relevant PRC regulations governing pricing and their impact on our product pricing are set out in "Regulations—PRC Laws and Regulations Relating to the National Medical Insurance Programme and Price Controls of Pharmaceutical Products" beginning on page 101 of this prospectus and "Business—Sales, Marketing and Distribution—Product Pricing" beginning on page 164 of this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth selected financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants' Report set out in Appendix I to this prospectus. The selected financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as "Financial Information" beginning on page 204 of this prospectus.

Summary Consolidated Statements of Comprehensive Income

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Revenue	1,774,390	100.0	2,135,943	100.0	2,515,111	100.0
Cost of sales	(301,121)	(17.0)	(351,813)	(16.5)	(413,506)	(16.4)
Gross profit	1,473,269	83.0	1,784,130	83.5	2,101,605	83.6
Other income and gains	25,934	1.5	12,717	0.6	35,902	1.4
Selling and distribution expenses	(980,111)	(55.2)	(1,209,717)	(56.6)	(1,378,061)	(54.8)
Administrative expenses	(151,566)	(8.5)	(157,906)	(7.4)	(146,508)	(5.8)
Other expenses	(147,307)	(8.3)	(145,522)	(6.8)	(206,669)	(8.2)
Finance costs	(19,636)	(1.1)	(29,145)	(1.4)	(24,091)	(1.0)
Share of profit of an associate	545	0.0	894	0.0	990	0.0
Profit before tax	201,128	11.4	255,451	11.9	383,168	15.2
Income tax expense	(34,902)	(2.0)	(79,862)	(3.7)	(55,224)	(2.2)
Profit for the year	166,226	9.4	175,589	8.2	327,944	13.0

Selected Financial Information from Our Consolidated Statements of Financial Position

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current assets	932,041	1,088,568	1,652,370
Current liabilities	878,987	884,200	1,302,983
Net-current assets	53,054	204,368	349,387
Total equity	1,404,387	1,583,807	1,897,695

Revenue by Therapeutic Area and Key Product

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Oncology						
Lipusu (力撲素)	584,160	32.9	699,912	32.8	847,155	33.7
Tiandixin (天地欣)	162,630	9.2	181,673	8.5	185,757	7.4
CMNa (希美納)	34,072	1.9	36,891	1.7	43,330	1.7
Other oncology products	19,059	1.1	22,354	1.1	23,923	1.0
Total oncology products	799,921	45.1	940,830	44.1	1,102,165	43.8
Cardiovascular System						
Xuezhikang (血脂康)	326,228	18.4	295,887	13.9	338,453	13.5
Maitongna (麥通納)	244,131	13.8	285,859	13.4	333,532	13.3
Other cardiovascular system products	43,567	2.4	48,908	2.2	51,094	1.9
Total cardiovascular system products	613,926	34.6	630,654	29.5	723,079	28.7
Alimentary Tract and Metabolism						
Bei Xi (貝希)	34,621	1.9	153,653	7.1	238,919	9.4
Lutingnuo (綠汀諾)	191,775	10.8	210,711	9.9	227,910	9.1
Other alimentary tract and metabolism products	53,642	3.1	86,722	4.1	108,408	4.4
Total alimentary tract and metabolism products	280,038	15.8	451,086	21.1	575,237	22.9
Other Therapeutic Area Products	80,505	4.5	113,373	5.3	114,630	4.6
Total	1,774,390	100.0	2,135,943	100.0	2,515,111	100.0

Note:

(1) None of our key products were registered as generic drugs (drugs that had been previously approved by the CFDA for marketing and sale and had existing national standards for production). We developed Maitongna and launched the product for manufacture and sale in 1995. We acquired the proprietary rights to manufacture and sell Lutingnuo in 2001 from an independent third party, and launched the product in 2003 when it was first approved by the CFDA for manufacture and sale in the PRC. We added our other key products to our portfolio through acquisitions from companies that either developed or acquired these products.

RECENT DEVELOPMENTS

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since 31 December 2013, being the date of our consolidated financial statements as set out in the Accountants' Report included in Appendix I to this prospectus.

Since 31 December 2013, our revenue and gross profit have grown in line with our expectations. For the three months ended 31 March 2014, our total revenue for the period was RMB741.4 million, our gross profit for the period was RMB615.4 million and our gross profit margin for period was 83.0%. The primary driver for our revenue growth for the three months ended 31 March 2014 was increased sales of oncology products, in particular Lipusu. We also

recorded strong revenue growth in our other products segment. For the three months ended 31 March 2014, our revenue from oncology products, cardiovascular system products and alimentary tract and metabolism products was RMB376.5 million, RMB182.0 million and RMB122.1 million, respectively.

Unless stated otherwise, our financial information for the three months ended and as of 31 March 2014 included in this prospectus is derived from our unaudited interim condensed consolidated financial statements, which have been reviewed by the reporting accountants of the Company in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and CLSA Limited are the Joint Global Coordinators of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of initially 99,964,000 new Shares (subject to reallocation) in Hong Kong; and
- the International Offering of initially 899,676,000 Shares (subject to reallocation and the Over-allotment Option), including 567,576,000 new Shares and 332,100,000 Sale Shares, initially being offered by us and the Selling Shareholders, respectively, outside the United States in offshore transactions in reliance on Regulation S, and in the United States to QIBs.

The Offer Shares will represent approximately 30.1% of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 34.6% of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering.

OFFERING STATISTICS

	Based on an Offer Price of HK$5.38	Based on an Offer Price of HK$5.92
Market capitalisation of our Shares[(1)]	HK$17,867 million	HK$19,661 million
Unaudited pro forma adjusted net tangible asset per Share[(2)(3)]	HK$1.51 (RMB1.21)	HK$1.62 (RMB1.30)

Notes:

(1) The calculation of market capitalisation is based on 3,321,073,843 Shares expected to be in issue following completion of the Capitalisation Issue and the Global Offering.

(2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" included in Appendix II to this prospectus and on the basis of a total of 3,321,073,843 Shares expected to be in issue following the completion of the Capitalisation Issue and the Global Offering. This calculation is based on the indicative Offer Prices of HK$5.38 and HK$5.92.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a dividend of US$52,865,878 (equivalent to approximately RMB324,339,000 using an exchange rate of RMB6.1351 per US$1.00) declared by our Company to Luye Investment and a repurchase of 51,932,992 Shares from Luye Investment for a total consideration of RMB200,000,000 in May 2014. Had the dividend and repurchase of Shares been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK$1.32 (assuming an Offer Price of HK$5.38 per Share) and HK$1.42 (assuming an Offer Price of HK$5.92 per Share), respectively.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$3,592 million (after deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering), assuming an Offer Price of HK$5.65 per Share, being the mid-point of the indicative offer price range stated in this prospectus. We plan to use our net proceeds from the Global Offering as follows:

- approximately 20% of the net proceeds, or approximately HK$718 million, to expand our portfolio of pharmaceutical products;

- approximately 20% of the net proceeds, or approximately HK$718 million, for research and development;

- approximately 20% of the net proceeds, or approximately HK$718 million, for selective acquisitions of domestic or international pharmaceutical companies. We have not yet identified any targets to be acquired but we intend to explore acquisitions or potential targets that have oncology, cardiovascular system, alimentary tract and metabolism and central nervous system pharmaceutical products or that have the potential to enable us to penetrate new therapeutic areas, as well as other international targets;

- approximately 20% of the net proceeds, or approximately HK$718 million, to fund capital expenditure projects to increase our production capabilities;

- approximately 5% of the net proceeds, or approximately HK$180 million, to expand our sales and marketing network;

- approximately 5% of the net proceeds, or approximately HK$180 million, will be used to partially repay our borrowings under our U.S. dollar secured loans; and

- approximately 10% of the net proceeds, or approximately HK$360 million, will be used for working capital and general corporate purposes.

To the extent that our actual net proceeds from the Global Offering differ from our estimate above, we intend to apply the actual net proceeds in the same proportions set out above.

We estimate the net proceeds to the Selling Shareholders from the sale of their Sale Shares initially offered under the Global Offering (prior to any exercise of the Over-allotment Option) and pursuant to the exercise of the Over-allotment Option in full will be approximately HK$1,816.2 million and HK$2,636.2 million, respectively (after deducting the underwriting fees and commissions payable by the Selling Shareholders), assuming an Offer Price of HK$5.65 per Share, being the mid-point of the indicative offer price range stated in this prospectus. We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

DIVIDEND POLICY

We did not declare dividends during the Track Record Period. In May 2014, we declared dividends of US$52,865,878 (equivalent to approximately RMB324.3 million using an exchange rate of RMB6.1351 per US$1.00) to Luye Investment, our immediate holding company, in order for Luye Investment to settle its amount due to us. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and applicable Bermuda law.

LISTING EXPENSES

Assuming an Offer Price of HK$5.65 per Share (being the mid-point of the indicative offer price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, which are payable by us are estimated to amount in aggregate to be approximately RMB144.0 million. We did not incur listing expenses during the Track Record Period. We expect to charge approximately RMB37.6 million of the estimated listing expenses to profit or loss during 2014 and to capitalise approximately RMB106.4 million following the Listing.

EXISTING INVESTORS

In the privatisation and delisting of the Shares from the SGX-ST, AsiaPharm Holdings, Luye Holdings and the Founding Shareholders formed a consortium with CDH Flower, CPE Greenery and Beyond Border (collectively, the "Existing Investors") and entered into a Consortium Agreement under which the Existing Investors agreed to subscribe in cash for the Exchangeable Bonds in an aggregate amount of US$248,711,018.31 and three special shares in the capital of Luye Holdings.

The Existing Investors have served a notice to Luye Investment to exchange their entire holding of the Exchangeable Bonds subject to and conditional and immediately upon each of the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into, becoming unconditional and not having been terminated, and the Capitalisation Issue being completed. Upon full exchange of the Exchangeable Bonds and following the Capitalisation Issue, Luye Investment will transfer a total of 1,110,503,913 Shares to the Existing Investors. Further, CPE Greenery will make a distribution in specie of 267,902,223 Shares to be obtained from the exchange of its Exchangeable Bonds to one of its shareholders, CPE Palm Beach L.P., who will in turn distribute in specie all of such Shares to its sole limited partner Tropical Excellence.

Immediately after the completion of the Capitalisation Issue and the Global Offering, and assuming that the Over-allotment Option is not exercised, CDH Flower, CPE Greenery, Beyond Border and Tropical Excellence will hold approximately 6.4%, 6.8%, 5.4% and 5.9% of the issued share capital of our Company, respectively. Further details of the Existing Investors are set out in "History and Development—Existing Investors" beginning on page 121 of this prospectus.

SHAREHOLDER INFORMATION

Immediately after the completion of the Capitalisation Issue and the Global Offering, and assuming that the Over-allotment Option is not exercised, Mr. Liu Dian Bo will be interested in and control indirectly through Luye Investment approximately 45.4% of our issued share capital and will remain as our controlling shareholder under the Listing Rules. Luye Investment is indirectly wholly owned by AsiaPharm Holdings, which in turn is owned as to 70% by Ginkgo Trust Limited as trustee of the Liu Family Trust.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in "Glossary of Technical Terms."

"affiliate"	means any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Apex Group Holdings"	Apex Group Holdings Limited, a company with limited liability incorporated in Hong Kong on 10 June 1993, and a wholly-owned subsidiary of our Company
"Application Forms"	**white** application forms, **yellow** application forms and **green** application forms, or where the context so requires, any of them, relating to the Hong Kong Public Offering
"AsiaPharm Holdings"	AsiaPharm Holdings Limited, a company with limited liability incorporated in Bermuda on 2 July 2003, and a holding company of our Company. It is owned as to 70% by the Liu Family Trust, 15% by Mr. Yuan Hui Xian and 15% Mr. Yang Rong Bing. Mr. Liu Dian Bo, Mr. Yuan Hui Xian and Mr. Yang Rong Bing are the directors of AsiaPharm Holdings
"AsiaPharm Investments"	AsiaPharm Investments Limited, a company with limited liability incorporated in Bermuda on 2 July 2003, and a wholly-owned subsidiary of our Company
"BCC Research"	a market research company covering changes driven by science and technology, an independent third party
"Beijing WPU"	北京北大維信生物科技有限公司 (Beijing WBL Peking University Biotech Co. Ltd.), a company with limited liability established in the PRC on 1 September 1994, and a wholly-owned subsidiary of our Company
"Bermuda Companies Act"	the Companies Act 1981 of Bermuda as amended, supplemented or otherwise modified from time to time
"Beyond Border"	Beyond Border Investment Limited, a company with limited liability incorporated in the Caymans Islands on 17 October 2011, and one of the Existing Investors. Beyond Border is jointly owned by Harvest Hill Investment Ltd. and AXA Direct Asia II, L.P. Please refer to "History and Development—Existing Investors—Information on the Existing Investors—Beyond Border" for further details of the ownership structure of Beyond Border

"BMI"	Business Monitor International, a market research company focusing on country risk, industry and financial market analysis, an independent third party
"Board"	the board of directors of our Company
"Business Day"	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for normal banking business
"BVI"	the British Virgin Islands
"Bye-laws"	the bye-laws of our Company conditionally adopted on 19 June 2014, as amended or supplemented from time to time
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in "A. Further Information about Our Company and Our Subsidiaries—3. Resolutions of the Shareholder of Our Company" in Appendix IV to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant, a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

"CDH Flower"	CDH Flower Limited, a company with limited liability incorporated in the Cayman Islands on 16 January 2012, and one of the Existing Investors. CDH Flower is wholly owned by CDH Pharmaceutical Investments Limited. Please refer to "History and Development—Existing Investors—Information on the Existing Investors—CDH Flower" for further details of the ownership structure of CDH Flower
"CFDA"	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理局)
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company"	Luye Pharma Group Ltd., an exempted company with limited liability incorporated in Bermuda on 2 July 2003
"Consortium Agreement"	the consortium agreement dated 28 January 2012 and entered into between AsiaPharm Holdings, Luye Holdings, the Founding Shareholders and the Existing Investors, as amended from time to time
"Covenantors"	the Founding Shareholders, AsiaPharm Holdings, Luye Holdings, Luye International and Luye Investment
"CPE Greenery"	CPE Greenery Ltd., a company with limited liability incorporated in the Cayman Islands on 16 January 2012, and one of the Existing Investors. CPE Greenery is owned by CPEChina Fund, L.P. and CPE Palm Beach L.P. Please refer to "History and Development—Existing Investors—Information on the Existing Investors—CPE Greenery" for further details of the ownership structure of CPE Greenery
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Directors"	the directors of our Company
"EIT"	the enterprise income tax of the PRC

"EIT Law"	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得税法》) issued on 16 March 2007 and its implementation rules issued on 6 December 2007, both effective from 1 January 2008
"Exchangeable Bonds"	the convertible and exchangeable bonds in the aggregate principal amount of US$248,711,018.31 issued by Luye Holdings which are convertible into shares of Luye Holdings or exchangeable for Shares in our Company
"Existing Investors"	CDH Flower, CPE Greenery and Beyond Border, holders of the Exchangeable Bonds and all the issued special shares in the capital of Luye Holdings
"Formal Notice"	the press announcement in agreed form to be issued in connection with the Hong Kong Public Offering pursuant to the Listing Rules
"Founding Shareholders"	Messrs. Liu Dian Bo (劉殿波先生), Yuan Hui Xian (袁會先先生) and Yang Rong Bing (楊榮兵先生), the Founding Shareholders of our Group and each an Executive Director
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**green** application form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group"	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
"HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 99,964,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation)

"Hong Kong Public Offering"	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to reallocation) for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), on the terms and subject to conditions set out in this prospectus and the Application Forms
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Underwriters"	underwriters of the Hong Kong Public Offering whose names are set out in "Underwriting—Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 25 June 2014 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters, the Founding Shareholders, AsiaPharm Holdings, Luye Holdings, Luye International, Luye Investment and us, as further described in "Underwriting"
"IFRS"	the International Financial Reporting Standards
"IMS"	IMS Health Incorporated, a global provider of market intelligence to the pharmaceutical and healthcare industries, an independent third party
"independent third party"	an individual or a company who or which is not a director, chief executive or substantial shareholder of our Company or any of our subsidiaries, or an associate of any of such director, chief executive or substantial shareholder
"International Offer Shares"	the 899,676,000 Shares (subject to reallocation and the Over-allotment Option), including 567,576,000 new Shares and 332,100,000 Sale Shares initially being offered by our Company and the Selling Shareholders, respectively, for subscription or sale pursuant to the International Offering
"International Offering"	the offering of the International Offer Shares at the Offer Price outside the United States in accordance with Regulation S, and in the United States only to QIBs in reliance on Rule 144A or another available exemption from registration requirement of the U.S. Securities Act, as further described in "Structure of the Global Offering"

"International Purchase Agreement"	the underwriting agreement relating to the International Offering expected to be entered into on or about the Price Determination Date by, among others, the Joint Global Coordinators, the Selling Shareholders, the International Purchasers, Luye Investment and us, as further described in "Structure of the Global Offering—The International Offering"
"International Purchasers"	the underwriters of the International Offering
"Joint Bookrunners"	UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and CLSA Limited
"Joint Global Coordinators"	UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and CLSA Limited
"Joint Sponsors"	UBS Securities Hong Kong Limited, Citigroup Global Markets Asia Limited and CITIC Securities Corporate Finance (HK) Limited
"Kang Hai Pharmaceutical"	Kang Hai Pharmaceutical Technology Development Limited, a company with limited liability incorporated in Hong Kong on 22 June 2002, and a wholly-owned subsidiary of our Company
"Latest Practicable Date"	17 June 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the main board of the Stock Exchange
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date, expected to be on or around 9 July 2014, from which the Shares are listed and dealings therein are first permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

"Liu Family Trust"	a discretionary trust set up by Mr. Liu Dian Bo (our Executive Chairman) for the benefit of his family members. The trustee of the Liu Family Trust is Ginkgo Trust Limited, a company with limited liability incorporated in Guernsey on 8 May 2014 and wholly owned by Shorea LBG, a company limited by guarantee incorporated in Guernsey on 8 May 2014 whose sole member is Mr. Liu Dian Bo
"Luye Holdings"	Luye Pharma Holdings Limited, an exempt company with limited liability incorporated in the Cayman Islands on 31 August 2011, and the holding company of Luye International
"Luye Hong Kong"	Luye Pharma Hong Kong Limited, a company with limited liability incorporated in Hong Kong on 31 July 2007, and a wholly-owned subsidiary of our Company
"Luye International"	Luye Pharmaceutical International Co. Ltd., an exempt company with limited liability incorporated in the Cayman Islands on 10 December 2007, and the holding company of Luye Investment
"Luye Investment"	Luye Pharmaceutical Investment Co. Ltd., an exempt company with limited liability incorporated in the Cayman Islands on 10 December 2007, and the immediate holding company of our Company
"Luye Investment Group"	綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.), an investment holding company established in the PRC on 17 November 1993, and is owned by the Founding Shareholders as to 70% by Mr. Liu Dian Bo (our Executive Chairman) and 15% by each of Mr. Yang Rong Bing and Mr. Yuan Hui Xian (each an Executive Director)
"Luye Trading"	煙台綠葉藥品貿易有限公司 (Yantai Luye Drugs Trading Co. Ltd.), a foreign investment enterprise with limited liability established in the PRC on 27 March 1997, and a wholly-owned subsidiary of our Company
"M&A Rules"	Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company

"MENET"	China Medical and Pharmaceutical Economic Information Network, an independent third party
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOH"	the Ministry of Health of the PRC (中華人民共和國衛生部), one of the predecessor of the NHFPC
"Nanjing Luye Sike"	南京綠葉思科藥業有限公司 (Nanjing Luye Sike Pharmaceutical Co. Ltd.), a company with limited liability established in the PRC on 22 February 2002, and a wholly-owned subsidiary of our Company
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NHFPC"	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), which was reorganised from the former MOH and National Population and Family Planning Commission in March 2013
"OECD"	the Organisation for Economic Co-operation and Development, an independent third party
"Offer Price"	the final HK dollar price per Offer Share (exclusive of brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering and the International Offer Shares are to be offered under the International Offering, to be determined in the manner further described in "Structure of the Global Offering—Pricing"
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional Sale Shares to be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option

"Over-allotment Option"	the option expected to be granted by the Selling Shareholders to the International Purchasers and the Joint Bookrunners, pursuant to which the Joint Global Coordinators may, on behalf of the International Purchasers and the Joint Bookrunners, at any time from time to time on or before the expiration of the period of 30 calendar days from the last day for the lodging of applications in the Hong Kong Public Offering, require the Selling Shareholders to sell up to an aggregate of 149,946,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering
"PBOC"	People's Bank of China, the central bank of the PRC
"PRC" or "China"	People's Republic of China and "Chinese" shall be construed accordingly. References in this prospectus to the PRC or China exclude Hong Kong, Macau and Taiwan
"PRC government"	central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"Price Determination Date"	the date on which the Offer Price is fixed for the purpose of the Global Offering
"QIB"	a qualified institutional buyer as defined in Rule 144A
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to the Board by our Shareholder, particulars of which are set forth in "A. Further Information about Our Company and Our Subsidiaries—3. Resolutions of the Shareholder of our Company" in Appendix IV to this prospectus
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"S$"	Singapore dollars, the lawful currency of the Republic of Singapore

"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government authority responsible for matters relating to foreign exchange administration
"Sale Shares"	the 332,100,000 Shares initially offered for sale by the Selling Shareholders under the International Offering, together with, where relevant, any additional Shares to be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option
"SAT"	the State Administration of Taxation of the PRC (國家税務總局)
"Section 505(b)(2)"	section 505(b)(2) of the United States Federal Food, Drug, and Cosmetic Act
"Selling Shareholders"	Luye Investment, Beyond Border, CDH Flower, CPE Greenery and Tropical Excellence
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Shandong Luye"	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.), a one-person company with limited liability established in the PRC on 8 June 1994, and a wholly-owned subsidiary of our Company
"Shareholders"	holders of Shares
"Shares"	shares with a nominal value of US$0.02 each in the capital of our Company
"Sichuan Luye"	四川綠葉寶光藥業股份有限公司 (Sichuan Luye Baoguang Pharmaceutical Co. Ltd.), a joint stock company with limited liability established in the PRC on 21 December 2000, and a wholly-owned subsidiary of our Company
"Solid Success"	Solid Success Holdings Limited, a company with limited liability incorporated in the BVI on 22 August 2002, and a wholly-owned subsidiary of our Company
"Stabilising Manager"	Citigroup Global Markets Asia Limited

"State Council"	State Council of the PRC (中華人民共和國國務院)
"Steward Cross"	Steward Cross Pte. Ltd., a company with limited liability incorporated in Singapore on 16 May 1996, in which we hold a 36% interest
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Luye Investment on or about the Price Determination Date pursuant to which Luye Investment will agree to lend to the Stabilising Manager up to 149,946,000 Shares on the terms set out therein
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Track Record Period"	the period comprising the three years ended 31 December 2013
"Tropical Excellence"	Tropical Excellence Infrastructure Pte. Ltd., a private limited company incorporated in Singapore on 2 November 1996, and managed by GIC Special Investments Pte. Ltd. Tropical Excellence is expected to be a Shareholder following the distribution in specie of certain Shares by CPE Greenery as further described in "History and Development—Existing Investors—Shareholding of the Existing Investors upon Listing"
"Underwriters"	the Hong Kong Underwriters and the International Purchasers
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Purchase Agreement
"U.S." or "United States"	United States of America, its territories and possessions, any State of the United States and the District of Columbia
"U.S. Securities Act"	United States Securities Act of 1933, as amended
"USD" or "US$"	United States dollars, the lawful currency of the United States
"we," "us" or "our"	our Company or our Group, as the context may require
"**White Form eIPO**"	the application for the Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk**

"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"WHO"	World Health Organisation, an international agency associated with the United Nations and based in Geneva
"Wuhu Luye"	蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.), a company with limited liability established in the PRC on 16 April 2001. It is owned as to 90% by Luye Investment Group, a company owned by the Founding Shareholders, and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party

In this prospectus, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

This glossary contains definitions of certain terms used in this prospectus in connection with our Company and our business. Some of these may not correspond to standard industry definitions.

"acarbose"	a drug for use in the management of non-insulin-dependent diabetes that reduces plasma glucose by slowing the absorption of starches and sugars from the intestine
"active pharmaceutical ingredient" or "API"	the substance in a pharmaceutical drug or a pesticide that is biologically active
"adjunct"	an additional substance, treatment or procedure used for increasing the efficacy or safety of the primary substance, treatment or procedure or for facilitating its performance
"adjunctive therapy"	any accessory treatment used in combination to enhance primary treatment
"adjuvant therapy"	an adjuvant is a pharmacological or immunological agent that modifies the effect of other agents. Adjuvants are inorganic or organic chemicals, macromolecules or entire cells of certain killed bacteria, which enhance the immune response to an antigen
"aescine"	a mixture of chemicals with anti-inflammatory, vasoconstrictor and vasoprotective effects found in aesculus hippocastanum (the horse chestnut)
"aesculus wilsonii"	a tree species in the genus aesculus found in eastern Asia
"alimentary tract"	the musculomembranous digestive tube extending from the mouth to the anus
"alzheimer's disease"	the most common form of dementia, a neurologic disease characterised by loss of mental ability severe enough to interfere with normal activities of daily living, lasting at least six months, and not present from birth
"amfebutamone hydrochloride"	also known as bupropion, an antidepressant medication used to treat major depressive disorder and seasonal affective disorder by increasing certain types of activity in the brain
"anhedonia"	the inability to experience pleasure from activities usually found enjoyable, for example, exercise, hobbies, music, sexual activities or social interactions

"antidepressant"	a drug used to prevent or treat clinical depression
"anti-inflammation" and "anti-edematous"	anti-swelling
"anti-microtubule"	a type of drug that blocks cell growth by stopping mitosis (cell division)
"anti-oxidation"	the prevention of oxidation
"anti-tuberculosis drugs"	drugs used for the treatment of a serious disease that mainly affects the lungs
"antineoplastic agents"	agents that inhibit or prevent development of neoplasms; check maturation and proliferation of malignant cells
"antipsychotic"	counteracting or diminishing the symptoms of a psychotic disorder such as schizophrenia, paranoia or bipolar disorder
"anxiety"	a multisystem response to a perceived threat or danger
"aphthous ulcers"	a small painful ulcer in the mouth. It usually remains for five to seven days and heals within two weeks with no scarring
"atherosclerotic plaque"	a deposit of fat and other substances that accumulate in the lining of the artery wall
"biodegradable polymer"	a material which degrades primarily by the action of microbial enzymes, which has applications in medical devices for orthopaedics, dentistry, drug release (e.g., stents) and tissue engineering
"bioequivalence"	the relationship between two preparations of the same drug in the same dosage form that have a similar bioavailability
"biomolecules"	molecules produced by living cells, e.g., a protein, carbohydrate, lipid or nucleic acid
"bipolar disorder"	a mood disorder that causes radical emotional changes and mood swings, from manic, restless highs to depressive, listless lows
"blood cholesterol"	a popular term for serum cholesterol, generally understood to mean total cholesterol

"blood glucose"	the concentration of glucose in the blood, represented in milligrams of glucose per decilitre of blood
"breast cancer"	cancer caused by the development of malignant cells in the breast
"bronchogenic carcinoma"	any of a group of carcinomas of the lung, so called because it arises from the epithelium of the bronchial tree
"cancer"	cancer is not just one disease, but a large group of almost 100 diseases. Its two main characteristics are uncontrolled growth of the cells in the human body and the ability of these cells to migrate from the original site and spread to distant sites
"canker sores"	small white or yellowish sores or ulcers that develop inside the mouth
"capsaicin"	is used to help relieve a certain type of pain known as neuralgia and minor pain associated with rheumatoid arthritis or muscle sprains and strains
"capsules"	very small containers that are filled with medicine and swallowed whole
"cardiovascular"	pertaining to the heart and blood vessels
"central nervous system"	the brain and spinal cord
"cerebral oedema"	brain swelling due to increased volume of the extravascular compartment from the uptake of water in the grey and white matter
"cerebrovascular"	relating to the blood supply to the brain, particularly with reference to pathological changes
"cervical cancer"	a disease in which the cells of the cervix become abnormal and start to grow uncontrollably, forming tumours
"chemoprotective agents"	administered concurrently with chemotherapies in order to protect healthy tissue from the toxic effects of anticancer drugs
"chemotherapy"	treatment of cancer with anticancer drugs
"Chinese medicines"	an ancient and still very vital holistic system of health and healing, based on the notion of harmony and balance, and employing the ideas of moderation and prevention

"cholesterol"	a waxy, fat-like substance that occurs naturally in all parts of the body
"Class I hospitals"	the smaller local hospitals designated as Class I hospitals by the NHFPC hospital classification system, typically having fewer than 100 beds and primarily providing more basic healthcare services limited to the surrounding community
"Class II hospitals"	the regional hospitals designated as Class II hospitals by the NHFPC hospital classification system, typically having 100 to 500 beds, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions
"Class III hospitals"	the largest and best regional hospitals in China designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives
"clinical trial"	a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs
"compounds"	a substance consisting of two or more elements in union
"coronary revascularisation"	the restoration of perfusion to a body part or organ that has suffered ischemia. It is typically accomplished by surgical means. Coronary artery bypass surgery and percutaneous coronary intervention are the two primary means of revascularisation
"cysteine"	a sulphur-containing, nonessential amino acid produced by enzymatic or acid hydrolysis of proteins, readily oxidised to cysteine; sometimes found in urine
"cytoplasm"	the protoplasm of a cell exclusive of that of the nucleus
"depression"	a mental state of altered mood characterised by feelings of sadness, despair, and discouragement
"diabetes"	a chronic disease that occurs either when the pancreas does not produce enough insulin or when the body cannot effectively use the insulin it produces

"diabetic multiple peripheral neuropathy"	damage or disease affecting nerves, which may affect sensation, movement, gland or organ function, and other aspects of health, depending on the type of nerve affected, caused by diabetes
"divalproex sodium"	an anticonvulsant used in the treatment of petit mal and related seizure disorders
"dopamine agonist"	a compound that activates dopamine receptors in the absence of dopamine
"dopaminergic"	activated or transmitted by dopamine; pertaining to tissues or organs affected by dopamine
"doxorubicin hydrochloride"	an anthracycline antibiotic which is prescribed in the treatment of a wide variety of malignant neoplastic diseases, including leukaemias, lymphomas, sarcomas, germ cell tumours, and carcinomas (e.g., lung, breast, prostate, ovary)
"elcatonin"	a calcitonin derivative used as an anti-parathyroid agent
"epilepsy"	any of a group of syndromes characterised by paroxysmal transient disturbances of brain function that may be manifested as episodic impairment or loss of consciousness, abnormal motor phenomena, psychic or sensory disturbances, or perturbation of the autonomic nervous system; symptoms are due to disturbance of the electrical activity of the brain
"erythema"	redness of the skin due to congestion of the capillaries
"exenatide"	an antidiabetic drug
"extended release"	a term applied to a drug that is designed to deliver a dose of a medication over an extended period
"facial paralysis"	occurs when a person is no longer able to move some or all of the muscles on one side of the face
"FDA"	U.S. Food and Drug Administration
"fluoxetine"	a selective serotonin reuptake inhibitor used as the hydrochloride salt in the treatment of depression, obsessive-compulsive disorder, bulimia nervosa and premenstrual dysphoric disorder
"free radicals"	compounds with an unpaired electron, which makes them extremely reactive

"fulvestrant"	an antineoplastic agent used to treat advanced breast carcinoma in oestrogen-receptor-positive patients
"gastroenterology"	a subspecialty of internal medicine concerned with the study of the physiology and diseases of the digestive system
"gels"	suspensions made from gums, gelatine or pectin that are used on mucosae and in cases in which long-lasting, slow-acting astringent properties are needed
"gemcitabine hydrochloride"	a drug that kills malignant cells undergoing DNA synthesis; arrests progression of cells at G1/S border
"generic drug"	a drug that is no longer under patent protection, which may be produced by any manufacturer which follows good manufacturing protocols
"glinide"	a class of drugs used to treat type 2 diabetes
"glucocorticoid"	any of a group of anti-inflammatory steroid like compounds, such as hydrocortisone, that are produced by the adrenal cortex, are involved in carbohydrate, protein, and fat metabolism, and are used as anti-inflammatory agents
"glutamic acid"	a dibasic, nonessential amino acid widely distributed in proteins, a neurotransmitter that inhibits neural excitation in the central nervous system; its hydrochloride salt is used as a gastric acidifier
"glutathione"	a tripeptide of the amino acids glycine, cysteine, and glutamic acid occurring widely in plant and animal tissues and forming reduced and oxidised forms important in biological oxidation-reduction reactions
"glycine"	a nonessential amino acid occurring as a constituent of proteins and functioning as an inhibitory neurotransmitter in the central nervous system; used as a gastric antacid and dietary supplement, and as a bladder irrigation in transurethral prostatectomy

"GMP" or "Good Manufacturing Practices"	Good Manufacturing Practice, guidelines and regulations from time to time issued pursuant to the PRC Law on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》) as part of quality assurance which ensures that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to the quality and standards appropriate for their intended use
"gonadotropin"	any hormone that stimulates the gonads, especially follicle-stimulating hormone and luteinising hormone
"granules"	a granular form medicine for oral administration
"GSP" or "Good Supply Practices"	the Good Supply Practice for Pharmaceutical Products (《藥品經營品質管制規範》) published by the MOH on 22 January 2013 in relation to the management procedures and standards regulating the pharmaceutical products supply chain in China
"head and neck cancer"	a group of cancers found in the head and neck region
"hepatology"	a branch of medicine which deals with diseases of the liver
"high density lipoprotein"	a type of lipoproteins, which are combinations of fats (lipids) and proteins. High density lipo protein transports cholesterol from tissues of the body to the liver, then the cholesterol can be eliminated in the bile. High density lipo protein cholesterol is considered the "good" cholesterol
"hodgkin's disease"	a cancer of the lymphatic system
"Huperzine A"	an ACE (acetylcholinesterase)-inhibiting sesquiterpene alkaloid found in the plant firmoss (Huperzia serrata). While not FDA-approved for such, it is sold in the United States as a memory-enhancing dietary supplement; it is used in traditional Chinese medicine for oedema, fever and blood dyscrasia
"hypercholesterolaemia"	the presence of an abnormally large amount of cholesterol in the blood
"hypoxemia"	deficient oxygenation of the blood
"immunomodulatory"	capable of modifying or regulating one or more immune functions or an immunologic adjustment, regulation, or potentiation

"immunostimulant"	a substance that increases the ability of the immune system to fight infection and disease
"import clinical trials"	clinical trials conducted in China for products already marketed in other overseas market(s)
"IND"	Investigational New Drug application
"inflammation"	a protective tissue response to injury or destruction of tissues, which serves to destroy, dilute, or wall off both the injurious agent and the injured tissues
"innovative pharmaceutical product"	pharmaceutical products that are new chemical or biochemical entities or are different from existing options to treat diseases
"insulin"	a substance that the human body makes and uses to turn sugar into energy
"ionising radiation"	high-energy radiation capable of producing ionisation in substances through which it passes
"irinotecan"	a DNA topoisomerase inhibitor used as the hydrochloride salt as an antineoplastic in the treatment of colorectal carcinoma
"KOLs"	acronym for Key Opinion Leaders who are physicians that influence their peers' medical practice, including but not limited to prescribing behaviour
"lecithin"	any of a group of phospholipids that on hydrolysis yield two fatty acid molecules and a molecule each of glycerophosphoric acid and choline
"lentinan"	a plant extract that is a potent stimulator of the reticuloendothelial system; used as an immunomodulator
"lentinus edodes"	an edible mushroom native to East Asia, which is cultivated and consumed in many Asian countries. It is a feature of many Asian cuisines. It is also considered a medicinal mushroom in some forms of traditional medicine
"leukaemia"	cancer that starts in blood-forming tissue, such as the bone marrow, and causes large numbers of abnormal blood cells to be produced and enter the bloodstream
"levetiracetam"	an anticonvulsant used in the treatment of partial seizures in adults with epilepsy

"lipid"	any of a heterogeneous group of fats and fatlike substances, including fatty acids, neutral fats, waxes, and steroids, which are water-insoluble and soluble in nonpolar solvents
"liposome"	a microscopic spherical particle formed by a lipid bilayer enclosing an aqueous compartment
"liquids"	the state of matter in which a substance exhibits a characteristic readiness to flow, little or no tendency to disperse, and relatively high incompressibility
"low density lipoprotein"	a lipoprotein that contains relatively high amounts of cholesterol and is associated with an increased risk of atherosclerosis and coronary artery disease
"lumbar disc disease"	the drying out of the spongy interior matrix of an intervertebral disc in the spine
"lung cancer"	cancer that forms in tissues of the lung, usually in the cells lining air passages
"lymphoblastic leukaemia"	a progressive, malignant disease of the blood-forming organs, marked by distorted proliferation and development of leukocytes and their precursors in the blood and bone marrow
"lymphoma"	any neoplastic disorder of lymphoid tissue
"lyophilisation"	method of drying by vacuum and freezing
"lyophilised powder"	soluble drug in powder form for injection which is prepared through the process of freezing, sublimation and dehydration under low temperature and low pressure conditions
"macromolecules"	a large molecule composed of thousands of atoms
"malignant lymphoma"	a group of malignancies characterised by the proliferation of cells native to the lymphoid tissues, i.e., lymphocytes, histiocytes, and their precursors and derivatives; the group is divided into two major clinicopathologic categories: Hodgkin's disease and non-Hodgkin's lymphoma
"malignant tumours"	invasive tumour, usually non-encapsulated; forms metastases, destroys local tissues, tends to recur after excision and has a high mortality rate, unless treated aggressively

"medical device"	any article or healthcare product intended for use in the diagnosis of disease or other condition, or for use in the care, treatment or prevention of disease, which does not achieve any of its primary intended purposes by chemical action or by being metabolised
"Medical Insurance Catalogue"	the National Basic Medical Insurance Catalogue (《國家基本醫療保險藥品目錄》) issued by the PRC Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部), or the provincial Medical Insurance Catalogues determined by provincial governments. Further information is set out in "Regulations—PRC Laws and Regulations Relating to the National Medical Insurance Programme and Price Controls of Pharmaceutical Products"
"metabolism"	the sum of all the physical and chemical processes by which living organised substance is produced and maintained (anabolism), and also the transformation by which energy is made available for the uses of the organism (catabolism)
"metastasis"	the spread of cancer from one part of the body to another
"metformin"	an antihyperglycemic agent that potentiates the action of insulin, used in the treatment of type 2 diabetes mellitus
"microsphere"	a spherical shell that is usually made of a biodegradable or resorbable plastic polymer, that has a very small diameter usually in the micron or nanometer range, and that is often filled with a substance (as a drug or antibody) for release as the shell is degraded
"mixtures"	a combination of different drugs or ingredients, as a fluid with other fluids or solids, or of a solid with a liquid
"monascuspur pureus"	a species of mold that is purplish-red in colour
"monotherapy"	treatment of a condition by means of a single drug
"montmorillonite"	a clay mineral consisting of hydrated aluminium silicate: an important component of bentonite
"mouth ulcers"	in large animals, ulcers of the oral mucosa usually caused by secondary bacterial infection of less severe mucosal lesions caused by a primary disease, e.g. mucosal disease
"nasopharyngeal cancer"	a malignant neoplastic disease of the nasopharynx

"National List of Essential Drugs"	a list of drugs promulgated by the MOH to promote fair prices for and equal access by the general public to essential medicines
"natural drug" or "natural medicine"	a drug manufactured from natural active ingredients extracted from plants, animals and/or minerals
"NDA"	New Drug Application
"neuroblastoma"	a type of cancer that usually originates either in the tissues of the adrenal gland or in the ganglia of the abdomen or in the ganglia of the nervous system
"non-Hodgkin's lymphoma"	any of a large group of cancers of lymphocytes (white blood cells). Non-Hodgkin's lymphomas can occur at any age and are often marked by lymph nodes that are larger than normal, fever, and weight loss
"non-small-cell lung cancer"	any carcinoma (as an adenocarcinoma or squamous cell carcinoma) of the lungs that is not a small-cell lung cancer
"nucleic acids"	the cellular molecules DNA and RNA that act as coded instructions for the production of proteins and are copied for transmission of inherited traits
"oedema"	excessive amount of watery fluid accumulated in the intercellular spaces, most commonly present in subcutaneous tissue
"oesophageal cancer"	a malignancy that develops in tissues of the hollow, muscular canal (oesophagus) along which food and liquid travel from the throat to the stomach
"oncology"	the branch of medicine dealing with the physical, chemical, and biological properties of tumours, including study of their development, diagnosis, treatment, and prevention
"opiate analgesia"	a type of prescription drugs made from opium that are used for the medical purpose of relieving pain
"oral mucositis" or "stomatitis"	inflammation of oral mucosa resulting from chemotherapeutic agents or ionising and any inflammatory condition of oral tissue, including mucosa, dentition/periapices, and periodontium
"ovarian cancer"	a cancerous growth arising from the ovary

"paclitaxel"	an anticancer drug derived from the bark of the Pacific yew tree and used to treat ovarian and breast cancer that has not responded to prior therapy
"paracetamol"	an over-the-counter analgesic used for headaches, muscle or joint pain, and fever, which lacks anti-inflammatory activity
"Parkinson's disease"	a degenerative disorder of the central nervous system that often impairs the sufferer's motor skills, speech and other functions
"PCT"	acronym for "Patent Cooperation Treaty"
"peripheral neuropathy"	a wide range of disorders in which the nerves outside of the brain and spinal cord—peripheral nerves—have been damaged
"pharmacology"	the science that deals with the origin, nature, chemistry, effects, and uses of drugs; it includes pharmacognosy, pharmocokinetics, pharmacodynamics, pharmacotherapeutics, and toxicology
"phase I clinical trials"	phase I clinical trials aim to test the safety of a new medicine
"phase II clinical trials"	phase II clinical trials test the new medicine on a larger group of people who are ill, to get a better idea of whether it works and how well it works in the short-term
"phase III clinical trials"	phase III clinical trials are only for medicines that have already passed phases I and II which test medicines in larger groups of people who are ill, and compare a new medicine against an existing treatment or a placebo to see if it works better in practice and if it has important side effects
"phase IV clinical trials"	phase IV clinical trials take place once new medicines have passed all the previous stages and have been given marketing licences. A marketing licence means the medicine can be made available on prescription. It is not required for every medicine
"powders"	the dried product of an extraction process in which the herb is first mixed with a solvent such as alcohol or water and is distilled. Then, the solvent is removed completely. The dry solid that remains either is already in powder form or may be ground into it

"prescription drug"	a drug that can be dispensed to the public only with an order given by a properly authorised person
"radiation"	the use of a radioactive substance in the diagnosis or treatment of disease
"red yeast rice"	a bright reddish purple fermented rice, which acquires its colour from being cultivated with the mold Monascus purpureus
"reduced glutathione"	the form of glutathione that acts as a hydrogen donor during cellular oxidation-reduction reactions
"salicylate"	a salt or ester of salicylic acid
"schizophrenia"	a psychotic disorder (or a group of disorders) marked by severely impaired thinking, emotions, and behaviours
"selegiline hydrochloride"	a drug that is used to treat Parkinson's disease by increasing the levels and activity of dopamine in the brain
"sensitiser"	a substance that increases the sensitivity of tissue
"SNRIs"	serotonin-norepinephrine reuptake inhibitors is a class of antidepressant drugs used in the treatment of major depression and other mood disorders
"soft tissue sarcoma"	a general term for a malignant tumour derived from extraskeletal connective tissue, including fibrous, fat, smooth muscle, nerve, vascular, histiocytic, and synovial tissue, with almost all lesions arising from primitive mesoderm
"solid tumour"	an abnormal mass of tissue that usually does not contain cysts or liquid areas. Solid tumours may be benign (not cancer), or malignant (cancer)
"solvents"	a substance, usually a liquid, that dissolves or is capable of dissolving; the component of a solution present in greater amount
"SSRIs"	selective serotonin reuptake inhibitors, a class of medication used to treat depression
"St. John's Wort"	the most medicinally important species of the hypericum genus, commonly known as St. John's wort
"sulfenyl"	the radical of a sulfenic acid

"sulfonylureas"	a class of medications used in the treatment of diabetes. They cause the pancreas to release more insulin
"sustained release"	designed to slowly release a drug in the body over an extended period of time
"syrup"	a concentrated solution of a sugar, such as sucrose, in water or other aqueous liquid, sometimes with a medicinal agent added; usually used as a flavoured vehicle for drugs. It is commonly expanded to include any liquid dosage form (for example, oral suspension) in a sweet and viscid vehicle
"tablets"	a medicinal formulation made of a compressed powdered substance containing an active drug and excipients
"targeted drug delivery"	a method of delivering medication to a patient in a manner that increases the concentration of the medication in some parts of the body relative to others
"taxanes"	a family of antimitotic/antimicrotubule agents that inhibit cancer cell growth by stopping cell division
"thioctic acid"	a pyruvate oxidation factor found in liver and yeast, used in bacterial culture media
"toxicology"	the study of the nature, effects, and detection of poisons and the treatment of poisoning
"transdermal patches"	a medicated adhesive pad that is placed on the skin to deliver a timed-release dose of medication through the skin into the bloodstream
"trauma"	a hurt; a wound; an injury; damage; impairment; external violence producing bodily injury or degeneration
"traumatic ulcers"	traumatic injuries involving the oral cavity which may typically lead to the formation of surface ulcerations
"triglycerides"	fatty compounds synthesised from carbohydrates during the process of digestion and stored in the body's adipose (fat) tissues
"tripeptide"	a peptide that on hydrolysis yields three amino acids
"triptorelin acetate"	triptorelin is similar to a natural hormone made by the body. Its medical applications include helping slow or stop the growth of certain type of cancer cells and relieving symptions such as painful or difficult urination. It is sometimes used in the acetate pain

"tumours"	an abnormal growth of tissue resulting from uncontrolled, progressive multiplication of cells
"type 2 diabetes mellitus"	one of the two major types of diabetes mellitus, peaking in onset between 50 and 60 years of age, characterised by gradual onset with few symptoms of metabolic disturbance (glycosuria and its consequences) and control by diet, with or without oral hypoglycaemics but without exogenous insulin required
"unresectable or recurrent gastric cancer"	gastric cancer that has recurred (come back) after it has been treated. The cancer may come back in the stomach or in other parts of the body such as the liver or lymph nodes
"urokinase"	an enzyme that catalyses the conversion of plasminogen to plasmin and is produced in the kidney, excreted in the urine, and used to dissolve blood clots. Also called plasminogen activator
"valproate"	the sodium salt of valproic acid used orally in the treatment of epilepsy
"vascular endothelial cells"	a thin, flattened cell, a layer of them lines the inside surfaces of body cavities, blood vessels, and lymph vessels, making up the endothelium
"vasoprotective"	a medication which acts to alleviate certain conditions of the blood vessels
"venous reflux disorder"	a condition that develops when the valves that usually keep blood flowing out of your legs become damaged or diseased
"vesicle"	a membranous and usually fluid-filled pouch (as a cyst, vacuole, or cell) in a plant or animal or a small abnormal elevation of the outer layer of skin enclosing a watery liquid

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include all statements in this prospectus that are not historical fact, including, without limitation, statements relating to:

- the future demand for, and sales of, our pharmaceutical products and the growth of the medical conditions for which such products are indicated;
- our expectations with respect to our product candidates, including the dates we are targeting to launch such product candidates and our expectations for their respective clinical benefits, competitive advantages and indications, as well as our research and development activities;
- our future expansion of our sales and marketing network and our further penetration of our markets, including our plans to develop a sales force dedicated to our future central nervous system products;
- our capital expenditure plans, including our expansion and upgrade plan for our production facilities and the projects we intend to undertake thereunder;
- our future acquisitions, including the therapeutic areas we expect to pursue through our acquisition strategy;
- our expectations with respect to our international business;
- our future collaborations;
- our other strategies, business plans, objectives, prospects and goals;
- the future growth, developments, trends and conditions in our industry and our key therapeutic areas;
- the future competition in our industry and key therapeutic areas and the actions of our competitors;
- the future availability of suppliers, active pharmaceutical ingredients and raw materials;
- the future regulatory environment in the PRC and other jurisdictions in which we may operate and our ability to comply with applicable regulations in the future;
- our future dividends and our dividend policy;
- our future capital needs and our ability to obtain funding;
- prospective financial matters regarding our business; and
- the general political and economic environment in China.

When used in this prospectus, the words "aim," "anticipate," "believe," "could," "estimate," "expect," "going forward," "intend," "may," "plan," "seek," "will," "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

You should carefully read and consider all of the information in this prospectus including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We depend on a limited number of key products; if we are unable to maintain the sales volumes, pricing levels and profit margins of our key products, our revenues and profitability could be adversely affected.

Our revenue from the sales of our seven key products accounted for approximately 88.9%, 87.3% and 88.1% of our total revenue in 2011, 2012 and 2013, respectively. Our top three key products in terms of sales revenue, Lipusu, Xuezhikang and Maitongna, accounted for 65.1%, 60.0% and 60.4% of our total revenue for 2011, 2012 and 2013, respectively. Lipusu, our top product in terms of sales revenue, accounted for 32.9%, 32.8% and 33.7% of our total revenue for 2011, 2012 and 2013, respectively. Because our revenue is, and we expect will continue to be, concentrated in a limited number of key products, we may be particularly susceptible to factors adversely affecting the sales volumes, pricing levels or profitability of any of our key products. Many of the factors discussed below could adversely affect our key products, including exclusion from the Medical Insurance Catalogues, the impact of government price controls, lack of success in the centralised tender process necessary for sales to PRC public hospitals and other medical institutions, interruptions in the supply of raw materials, increases in the costs of raw materials, issues with product quality or side effects, sale of substitute products by competitors, intellectual property infringements, adverse changes in sales and distribution channels and unfavourable policy or regulatory changes. Many of these factors are outside our control. Any factor adversely affecting the sales volumes and pricing levels of our key products may cause our revenues and profitability to decline.

If our products are removed or excluded from the Medical Insurance Catalogues or the National List of Essential Drugs, our sales and profitability could be adversely affected.

Under the national medical insurance programme in the PRC, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products listed in the Medical Insurance Catalogues or the National List of Essential Drugs. According to the PRC National Bureau of Statistics, approximately 536.4 million and 473.4 million people in China were enrolled in the national medical insurance programme as of 31 December 2011 and 2012, respectively. Consequently, the inclusion or exclusion of a pharmaceutical product in the Medical Insurance Catalogues or the National List of Essential Drugs will significantly affect the demand for such product in the PRC.

As of the Latest Practicable Date, 19 of our pharmaceutical products were included in the national Medical Insurance Catalogue. These 19 products included five of our key products. For 2011, 2012 and 2013, our revenue from sales of these 19 products accounted for approximately 54.2%, 55.4% and 56.0% of our total revenue for the respective period. As of the Latest Practicable Date, an additional seven of our products were included in provincial Medical Insurance Catalogues. These seven products included two of our key products. For 2011, 2012 and 2013, our revenue from sales of these seven products accounted for approximately 44.3%, 43.4% and 43.0% of our total revenue for the respective period.

The selection of pharmaceutical products for listing in the Medical Insurance Catalogues or the National List of Essential Drugs is based on a variety of factors, including clinical needs, frequency of use, effectiveness and price, many of which are outside of our control. Moreover, the relevant PRC government authorities may also, from time to time, review and revise, or change the scope of reimbursement for, the products that are listed in the Medical Insurance Catalogues or the National List of Essential Drugs. There can be no assurance that any of our products currently listed in the Medical Insurance Catalogues or the National List of Essential Drugs will remain listed, or that changes on the scope of reimbursement will not negatively affect our products. If any of our products are removed from the Medical Insurance Catalogues or the National List of Essential Drugs, or if the scope of reimbursement is reduced, demand for our products may decrease and our revenues and profitability could be adversely affected.

The retail prices of certain of our products, including most of our key products, are subject to price controls, including periodic downward adjustments, by the PRC government authorities.

Our pharmaceutical products included in the Medical Insurance Catalogues or the National List of Essential Drugs are subject to price controls by the NDRC, either at the national level or the provincial level. In addition, our pharmaceutical products may be subject to PRC price controls on an exceptional basis whether or not they are included in the Medical Insurance Catalogues. Price controls are mainly in the form of fixed retail prices or maximum retail prices, which indirectly limit the wholesale prices at which we can sell the relevant products to distributors. Retail prices of pharmaceutical products under price controls are determined by the NDRC based on a variety of factors, including the profit margins that the relevant government authorities deem reasonable, the product's type, quality and production costs, as well as the prices of substitute pharmaceutical products. Over the Track Record Period, certain of our key products were subject to reductions in their maximum retail prices by the NDRC.

In August and September 2011, the NDRC lowered the maximum retail prices of two of our key products, Maitongna and Bei Xi by an average of approximately 15%. For 2011, 2012 and 2013, revenue from the sale of these products collectively accounted for 15.7%, 20.6% and 22.8% of our total revenue, respectively. Our average selling price for Maitongna decreased by approximately 3% in 2012 compared to 2011. The lowering of the maximum retail price on Bei Xi in 2011 did not have a discernible effect on our average selling price for Bei Xi in 2012.

In May 2012, the NDRC lowered the maximum retail prices of Lutingnuo by approximately 19%. For 2011, 2012 and 2013, revenue from the sale of Lutingnuo accounted for 10.8%, 9.9% and 9.1% of our total revenue, respectively. Our average selling price of Lutingnuo decreased by approximately 5% in 2012 compared to 2011.

In October 2012, the NDRC introduced a maximum retail price for CMNa. Prior to this, there was no maximum retail price set by the NDRC for CMNa. For 2011, 2012 and 2013, revenue from the sale of CMNa accounted for 1.9%, 1.7% and 1.7% of our total revenue, respectively. Our average selling price of CMNa decreased by approximately 3% in 2013 compared to 2012.

Our average selling prices to distributors may be impacted by a number of factors, including retail price adjustments on our products by the PRC government authorities. During the Track Record Period, our average selling prices of certain of our key products that were subject to price controls by the NDRC experienced downward adjustments with the exception of Bei Xi. Although our average selling prices for Bei Xi and other key products not subject

to NDRC price controls did not experience any material fluctuation during the Track Record Period, there is no assurance that our average selling prices for our key products will not decrease as a result of price controls or otherwise fluctuate significantly.

Further controls over and downward adjustments to retail prices of pharmaceutical products, if significant, could have a corresponding impact on the prices at which we sell such products to our distributors, and consequently our gross profits and gross profit margins. If PRC government authorities continue to make downward adjustments to the retail prices of our products, our revenues and profitability could be adversely affected.

If we are unable to win bids to sell our products to PRC public hospitals through the centralised tender processes, we will lose market share and our revenues and profitability could be adversely affected.

A substantial portion of the products we sell to our customers are then sold to public hospitals and other medical institutions owned or controlled by government authorities in China. Each public medical institution owned by the government at the county level or higher or owned by state-owned enterprises, including state-controlled enterprises, must make substantially all of their purchases of pharmaceutical products through a centralised tender process. We submit bids in a tender process to supply our products to these institutions at specified prices. Our bids are generally considered on the basis of price relative to substitute products and their clinical effectiveness, as well as the quality of our products and services, among other things. If we are successful in winning bids in a centralised tender process, the relevant products will be sold to the public hospitals and other medical institutions at the bid prices, which in part determine the prices at which we sell our products to our distributors. The centralised tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our sales volumes and profitability depends on our ability to successfully differentiate our products and price our bids in a manner that enables us to succeed in the centralised tender processes at profitable levels. If we are unable to differentiate our products or are otherwise not successful in winning bids in the centralised tender processes at profitable levels in the future, we will lose the revenue associated with the sale of the affected pharmaceutical products to the relevant PRC public hospitals and other medical institutions.

We may fail to win bids in a centralised tender process due to various factors, including reduced demand for the relevant product, uncompetitive bidding price, the relevant product is perceived to be less clinically effective than competing products or our services or other aspects of our operations are perceived to be less competitive. If our products are not selected in the centralised tender processes in one or more regions, we will be unable to sell the relevant products to the public hospitals and other medical institutions in those regions, and our market share, revenues and profitability could be adversely affected.

The pharmaceutical industry is highly regulated and we may be subject to increased costs of compliance; if we or parties on whom we rely fail to maintain the necessary licences for the development, production, promotion, sale and distribution of our products, our ability to conduct our business could be materially impaired.

The PRC pharmaceutical industry is highly regulated. We are governed by various local, regional and national regulatory regimes in various aspects of our operations, including licencing and certification requirements and procedures for manufacturers of pharmaceutical products, operating and safety standards, as well as environmental protection regulations. There can be no assurances that the legal framework, licencing and certification requirements or enforcement trends in our industry will not change in a manner that does not result in increased costs of compliance, or that we will be successful in responding to such changes. In addition, we are subject to the risk of adverse changes to favourable policies from which we currently benefit, and the introduction of unfavourable policies.

We are also required to obtain, maintain and renew various permits, licences and certificates in order to develop, produce, promote and sell our pharmaceutical products, and the third parties on whom we may rely to develop, produce, promote, sell and distribute our products may be subject to similar requirements. We and parties on whom we rely, such as distributors, third party promoters and sub-contract manufacturers may be subject to regular inspections, examinations, inquiries or audits by the regulatory authorities, and an adverse outcome of such inspections, examinations, inquiries or audits may result in the loss or non-renewal of the relevant permits, licences and certificates. Moreover, the criteria used in reviewing applications for, or renewals of permits, licences and certifications may change from time to time, and there can be no assurances we or the parties on whom we rely will be able to meet new criteria that may be imposed in order to obtain or renew the necessary permits, licences and certifications. Many of such permits, licences and certificates are material to the operation of our business, and if we or parties on whom we rely fail to maintain or renew material permits, licences and certifications, it could materially impair our ability to conduct our business. Furthermore, if the interpretation or implementation of existing laws and regulations change, or new regulations come into effect, so as to require us or parties upon whom we rely to obtain any additional permits, licences or certifications that were previously not required to operate our business, there can be no assurances that we or parties upon whom we rely will successfully obtain such permits, licences or certifications.

If our employees, distributors or third party promoters engage in corrupt practices, it could harm our reputation and expose us to regulatory investigations, costs and liabilities.

We do not fully control the interactions our employees, distributors and third party promoters have with hospitals, medical institutions and doctors, and the way in which they are compensated may incentivise them to increase sales volumes of our pharmaceutical products through corrupt or other improper means that constitute violations of the PRC anti-corruption and other related laws. In the pharmaceutical industry in the PRC and other markets, corrupt practices include, among other things, acceptance of kickbacks, bribes or other illegal gains or benefits by hospitals and other medical institutions or doctors from pharmaceutical manufacturers and distributors in connection with the procurement or prescription of certain pharmaceutical products. If our employees, distributors or third party promoters engage in corrupt or other improper conduct or violate applicable anti-corruption laws in the PRC or other jurisdictions, it could harm our reputation and expose us to regulatory investigations, costs and liabilities. In June 2008, Henan Provincial Health Bureau issued a notice (the "**Notice**"), which stated that 36 pharmaceutical companies in the PRC were involved in clinical promotion activities. Shandong Luye was included in the list as a result of alleged clinical promotion activities by one of its distributors in Henan Province. Pursuant to the Notice, Henan Provincial Health Bureau imposed price controls on the products of these pharmaceutical companies. Under the Notice, failure to comply with such price controls would allow the Henan Provincial Health Bureau to disqualify the relevant pharmaceutical companies from submitting tenders for two years in Henan Province. In addition, the sales practice of these pharmaceutical companies was to be supervised by the relevant government authorities for one year. In January 2009, Shandong Luye was removed from the list of companies set out in the Notice. As advised by our PRC legal adviser, the Notice was not a type of administrative penalty decision under the PRC laws. Although from the time of the issuance of the Notice in June 2008 to the time of the removal of Shandong Luye from the Notice in January 2009, Shandong Luye's participation in the centralised tender process and its successful bidding prices were not affected, there can be no assurance that there will be no similar incidents in the future, or that similar incidents will not expose us to regulatory investigations, costs and liabilities.

Furthermore, we could be held liable for actions taken by our employees, third party promoters or distributors, including any violations of applicable law in connection with the marketing or sale of our products, or anti-corruption laws and regulations of China or other jurisdictions. Moreover, the PRC government authorities have recently increased their efforts

to combat corrupt, illegal or improper business practices in the PRC pharmaceutical industry, which could subject our employees, distributors and third party promoters to heightened scrutiny. If our employees, distributors or third party promoters, either knowingly or unknowingly, engage in corrupt or improper conduct in connection with the marketing, promotion or sales of our products, it could harm our reputation and expose us to regulatory investigations, costs and liabilities.

If we are involved in criminal, investigational or administrative procedure for commercial bribery, we will be listed in the Adverse Records of Commercial Briberies by provincial health and family planning administrative department, as a result of which our products cannot be purchased by public medical institutions as well as medical and health institutions receiving financial subsidies of specific territorial scope in two years pursuant to the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry. Please refer to "Regulations—PRC Laws and Regulations Relating to Commercial Briberies with Respect to Pharmaceutical Industry" for further details of relevant PRC regulations on commercial briberies.

If our products cause, or are perceived to cause, severe side effects, our revenues and profitability could be adversely affected.

Our pharmaceutical products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by end-users. Our products may also be perceived to cause severe side effects when a conclusive determination as to the cause of the severe side effects is not obtained or is unobtainable.

In addition, our products may be perceived to cause severe side effects if other pharmaceutical companies' products containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects, or if one or more regulators, such as the CFDA, FDA or the European Medicines Agency, or an international institution, such as the WHO, determines that products containing the same or similar pharmaceutical ingredients as our products could cause or lead to severe side effects.

If our products cause, or are perceived to cause, severe side effects, we may face a number of consequences, including:

- injury or death of patients;
- a severe decrease in the demand for, and sales of, the relevant products;
- the recall or withdrawal of the relevant products;
- removal of regulatory approvals for the relevant products or the relevant production facilities;
- damage to the brand name of our products and the reputation of the Company;
- removal of relevant products from the national Medical Insurance Catalogues; and
- exposure to lawsuits and regulatory investigation relating to the relevant products that result in liabilities, fines or penalties.

As a result of these consequences, our sales and profitability could be adversely affected.

If our products are not produced to the necessary quality standards, it could harm our business and reputation, and our revenues and profitability could be adversely affected.

Our products and manufacturing processes are required to meet certain quality standards. We have established a quality control management system and standard operating procedures to help prevent quality issues in respect of our products. Please refer to "Business—Quality Management" for further details of our quality control management system and standard operating procedures. Despite our quality control system and procedures, we cannot eliminate the risk of errors, defects or failure. Quality defects may fail to be detected or cured as a result of a number of factors, many of which are outside our control, including:

- manufacturing errors;
- technical or mechanical malfunctions in the manufacture process;
- human error or malfeasance by our quality control personnel;
- tampering by third parties; and
- quality issues with the raw materials we purchase or produce.

Moreover, we currently subcontract a portion of the production of two of our key products, Maitongna and Lutingnuo, and may in the future subcontract a greater portion of our production to meet market demands. Despite our guidelines and agreements with subcontracting manufacturers, they may fail to meet the necessary quality standards and we may fail to prevent the products from being delivered to end-users. In addition, if our subcontracting manufacturers fail to produce any of their other products in accordance with the necessary quality standards, it could harm their reputation and adversely affect our sales of products produced by these subcontracting manufacturers.

Failure to detect quality defects in our pharmaceutical products or to prevent such defective products from being delivered to end-users could result in patient injury or death, product recalls or withdrawals, licence revocation or regulatory fines, or other problems that could seriously harm our reputation and business, expose us to liability, and adversely affect our revenues and profitability.

If we are subject to product liability claims, it could expose us to costs and liabilities and adversely affect our reputation, revenues and profitability.

We are exposed to risks associated with product liability claims as a result of developing, producing, marketing, promoting and selling pharmaceutical products in the PRC and other jurisdictions in which our pharmaceutical products are marketed and sold. Such claims may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated or if we are alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. There can be no assurances that we will not become subject to product liabilities claims or that we will be able to successful defend ourselves against any such claims. If we are unable to defend ourselves against such claims in the PRC, among other things, we may be subject to civil liability for physical injury, death or other losses caused by our products and to criminal liability and the revocation of our business licences if our pharmaceutical products are found to be defective. In addition, we may be required to recall the relevant pharmaceutical products, suspend sales or cease sales. Other jurisdictions in which our products are, or may in the future be, sold, in particular in more

developed markets including the United States, may have similar or more onerous product liability and pharmaceutical product regulatory regimes, as well as more litigious environments that may further expose us to the risk of product liability claims. We do not maintain any product liability insurance to cover damages that may arise from product liability claims. Even if we are able to successfully defend ourselves against any such product liability claims, doing so may require significant financial resources and the time and attention of our management. Moreover, even the allegation that our pharmaceutical products are harmful, whether or not ultimately proven, may adversely affect our reputation and sales volumes.

We have five production facilities; if we suffer substantial disruption to any of our production facilities, our business could be adversely affected.

Substantially all of our revenue was generated by sales of products produced at our five production facilities. Lipusu and Xuezhikang, which accounted for 33.7% and 13.5% of our total revenue in 2013, respectively, currently can only be produced at our facilities in Nanjing and Beijing, respectively. The continued operation of our production facilities can be substantially interrupted due to a number of factors, many of which are outside of our control, including fire, flood, earthquakes, power outages, fuel shortages, mechanical breakdowns, terrorist attacks and wars, or other natural disasters, as well as loss of licences, certifications and permits, changes in governmental planning for the land underlying these facilities and regulatory changes.

If the operation of any of our five facilities is substantially disrupted, we may not be able to replace the equipment or inventories at such facility, or use a different facility or a third party contractor to continue our production in a legal, timely and cost-effective manner or at all. Although we maintain property insurance for our production facilities and equipment, we do not maintain business interruption insurance and the amount of our insurance coverage may not be sufficient to cover our losses in the event of a significant disruption to any of our production facilities. As a result of disruption to any of our facilities, we may all fail to fulfil contract obligations or meet market demand for our products, and our business, revenues and profitability could be adversely affected.

We are limited in our current production capacity for certain key products; if we fail to increase our production capacity, our business prospects could be adversely affected.

As of 31 December 2013, the utilisation rates of our injections and capsules production lines were 90.3% and 96.7%, respectively. We rely on these two types of production lines for the manufacture of all of our key products. If demands for these products continue to increase, our ability to further increase our production volumes is limited. We plan to increase our production capacities by constructing new production lines, as well as to upgrade existing production lines and production facilities, to meet demand for our products. Our current expansion plan involves all five of our production facilities and centres on increasing production capacities for injection and capsules. Please refer to "Business—Production—Future Expansion and Upgrade Plan" for further details of our plans to increase our production capabilities.

However, our ability to successfully implement our expansion plan for increasing production capacities is subject to a number of risks and uncertainties, including our ability to obtain the requisite permits, licences and approvals for the construction and operation of the new production facilities and production lines, the risk of construction delays and delays in equipment procurement, as well as our ability to timely recruit sufficient qualified staff to support the increase in our production capacity. Consequently, there can be no assurance that we will be able to increase our production capacities in the manner we contemplate, or at all. In the event we fail to increase our production capacities, we may not be able to capture the

expected growth in demand for Lutingnuo and Maitongna, to fulfil overseas demand for Xuezhikang, or to successfully commercialise additional injection or capsule products, each of which could adversely affect our business prospects. Moreover, our plans to increase our production capacities require significant capital investment, and the actual costs of our expansion plan may exceed our original estimates, which could adversely affect the return on our expenditure.

If our competitors successfully market effective substitutes for any of our pharmaceutical products, or we experience increased competition in the PRC pharmaceutical market generally, it could adversely affect our revenue and profitability.

Our products primarily compete with products that are indicated for similar conditions as our products on the basis of efficacy, price and general market acceptance by doctors, hospitals and patients. Our competitors may be able to successfully develop or market effective substitutes for our products for a number of reasons, including:

- the patents for our current products, as well as a substantial portion of the product candidates we intend to develop, generally relate to the products' delivery systems, compositions, preparation methods or production processes, and do not cover the underlying active pharmaceutical ingredients. Therefore, our competitors may formulate substitute products utilising the same active pharmaceutical ingredients;

- all of our key products have been sold in the PRC market for more than 10 years, which makes these products susceptible to substitute products that are more clinically or cost effective as a result of technological developments, changes in treatment protocols and other medical advances that have occurred subsequent to the initial development of our products;

- our products typically target conditions that are in high demand for medical treatment in China, and, as a result, our domestic and overseas competitors, some of whom may have greater financial and R&D resources than us, may elect to focus these resources on developing, importing or in-licencing and marketing products in the PRC that are substitutes for our products and may have broader sales and marketing infrastructures with which to do so; and

- many of our competitors have more extensive sales and marketing resources than us, which enables them to have better access to hospitals and medical institutions in order to gain market acceptance for their substitute products.

Our products may also face increased competition from substitute products manufactured by overseas pharmaceutical companies that are seeking to initially access or further penetrate the PRC market. To the extent that our competitors' substitute products are, or are perceived to be, more clinically or cost effective, or otherwise gain wider market acceptance than any of our pharmaceutical products, it could adversely affect our sales volumes and pricing levels for the relevant products. Moreover, we may be adversely affected by increased competition in the pharmaceutical industry generally. If pharmaceutical products manufactured overseas are perceived more favourably than products manufactured domestically in the PRC, it could erode our market share. In the event that we experience adverse effects on our sales volumes or pricing levels as a result of competition from substitute products, or loss of market share due to increased competition from domestic or overseas pharmaceutical companies, it could adversely affect our revenue and profitability.

We rely on a limited number of suppliers for our raw materials and active pharmaceutical ingredients; if any of such suppliers fails to continue to supply us with raw materials at commercially acceptable prices, our sales volumes and margins for the relevant product could be adversely affected.

We rely on a limited number of suppliers for the raw materials and active pharmaceutical ingredients necessary for the production of our pharmaceutical products. In general, our agreements with our suppliers are for a term of one year. We cannot assure you that our suppliers will continue to sell products to us on commercially acceptable terms, or at all. We also cannot assure you that we will be able to establish new supplier relationships, or renew our agreements with our existing suppliers when they expire.

Moreover, we are exposed to the risk of inadequate supplies of raw materials and active pharmaceutical ingredients, as well as price increases. The availability and prices of raw materials and active pharmaceutical ingredients required for our production of pharmaceutical products may be impacted by factors such as general market conditions, including increased demand for such materials and ingredients from producers of substitute products or from alternative uses, weather conditions and the occurrence of natural disasters, many of which are outside of our control. In the event that any of our suppliers fails to continue to supply us with adequate quantities of raw materials at commercially reasonable prices, we may not be able to procure raw materials and active pharmaceutical ingredients from other sources on similar commercial terms. In particular, certain of our pharmaceutical products such as Lutingnuo, require raw materials that are only manufactured by a limited number of qualified suppliers in China and there may be intense competition among pharmaceutical companies to procure raw materials and active pharmaceutical ingredients from these suppliers.

In addition, certain of our raw materials, including glutathione for Lutingnuo, are imported from overseas, and we may fail to obtain the permits and licences required for the importation of these raw materials. We may also be unable to respond to increases in the prices for raw materials and active pharmaceutical ingredients due to our reliance on a limited number of suppliers or for other reasons, and unable to pass on such price increases to our customers due to governmental price controls for pharmaceutical products in China or competitive conditions for our products. In the event of any disruption to our supply of the raw materials and active pharmaceutical ingredients necessary for the production of our pharmaceutical products at commercially acceptable prices, we may be forced to reduce, suspend or cease production or sale of certain of our pharmaceutical products, and our sales volumes for the relevant product could be adversely affected. Increases in the prices to the raw materials and active pharmaceutical ingredients necessary for the production of our pharmaceutical products could also adversely affect our margins for the relevant product.

If we fail to maintain an effective distribution network for our pharmaceutical products, our business could be adversely affected.

As of 31 December 2013, we had a network of over 800 distributors across China on which we rely to distribute our pharmaceutical products in order to meet market demand and maintain our market share in the PRC. Our ability to maintain and grow our business will depend on us continuing to maintain and manage a distribution network that timely delivers our products in all of the provinces, municipalities and autonomous regions in China where we generate market demand through our sales and marketing activity, or otherwise. However, our distributors are third parties over whom we have limited control. Our distributors may not distribute our pharmaceutical products in the manner we contemplate, and impair the effectiveness of our distribution network.

Moreover, we typically enter into agreements with our distributors for a term of one year, which requires us to continually renew distribution agreements across our distribution network in order to maintain it. Our distributors might elect not to renew their agreements with us or

otherwise terminate their business relationships with us for various reasons, including if PRC price controls or other factors limit the margins they can obtain through the resale of our pharmaceutical product to hospitals, medical institutions and sub-distributors. Our strategies also contemplate that we will seek to expand our distribution network, including to broaden our coverage of county-level hospitals and hospitals in smaller cities, which will require us to establish relationships with new distributors on commercially acceptable terms, and there can be no assurances that we will be able to do so. In the event that a significant number of our distributors terminate their relationships, or we otherwise unable to maintain and expand our distribution network effectively, our sales volumes and business prospects could be adversely effected.

If our third party promoters fail to effectively market and promote our products, it could adversely affect our sales for the relevant products.

As significant portion of the marketing and promotion of our products is conducted through third party promoters. Our ability to continue to generate and increase demand for our products depends on our ability to continue to maintain and manage an effective third party promotion network. However, we have limited control over third party promoters, which may expose us to a greater risk that such products may not be effectively promoted in the manner contemplated by our centralised sales and marketing strategies than if we conducted the marketing and promotion activity using our internal sales force. The failure of our third party promoters to effectively promote our products could have an adverse effect on our sales volumes for the relevant products, as well as our brand value. Moreover, we typically enter into agreements with our third party promoters for a term of one year. Our third party promoters may elect not to renew their promotion agreements with us or otherwise to terminate their business relationships with us for a number of reasons, many of which are outside our control, including to promote competing products. In the event that our third party promoters were to fail to effectively promote our pharmaceutical products or terminate their business relationship with us, there can be no assurances that we will be able to enter into similar relationships with other third party promoters in time, or at all, which could adversely affect our sales volumes for the relevant products. In addition, if we fail to effectively manage our third party promotion network, we may be unable to extend our coverage and deepen our market penetration in the manner contemplated by our strategies, and such network may not provide us with the benefits of operational flexibility and resource allocation we contemplate.

If we are unable to attract, motivate and retain a sufficient number of qualified marketing, promotion and sales personnel, it could adversely affect the sales volumes of our products and our business prospects.

We intend to deepen the market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts and to conduct our marketing and promotion activities for our new products. The success of our strategies depends on our ability to attract, motivate and retain qualified and professional employees in our marketing, promotion and sales teams that are, among other things, sufficiently expert in the relevant therapeutic area and able to communicate effectively with doctors and other medical professionals. Competition for experienced marketing, promotion and sales personnel products is intense. If we are unable to attract, motivate and retain a sufficient number of qualified and professional marketing, promotion and sales personnel, it could adversely affect the sales volumes of our products and our ability to continue to extend our hospital coverage and deepen our market penetration in the manner we contemplate.

If we are unable to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly, which may have a material adverse impact on our business and results of operations.

As of 31 December 2013, we had been granted 230 patents and had 84 pending patent applications in the PRC, and had been granted 75 patents and had 77 pending patent applications overseas. We also had 312 registered trademarks, nine registered domain names and 78 registered copyrights. Our commercial success depends in part on our ability to protect our existing intellectual property and to obtain additional patents or other intellectual property, in particular to product from direct substitute products. Please refer to "Business—Our Products" and Appendix VI to this prospectus for further details of our material intellectual property.

If we do not adequately protect our intellectual property, competitors may be able to imitate our products, use our technologies and erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. Furthermore, we cannot assure you that any of our pending patent applications will mature into issued patents, or that such patents, if issued, will provide us with adequate proprietary protection or competitive advantages. The PRC adopts a first to file system for patent application, under which whoever files the same application first will be awarded the patent. As a result, a third party may be granted a patent relating to a technology we believe we invented.

There are a number of factors that could cause our existing patents or other intellectual property to become invalid or unenforceable, including known or unknown prior art, deficiencies in patent applications and lack of originality in the underlying technologies. Certain of our patented technologies, including our liposome technology and the microsphere technology, are utilised in a number of our products and product candidates and if the patents relevant to these technologies were to be declared invalid or unenforceable, it could have an adverse impact on the sales volumes and pricing levels for such products and our ability to successfully commercialise such product candidates.

In addition, the patents and patent applications for our current products, as well as a substantial portion of the product candidates we intend to develop, generally relate to the delivery systems, compositions, preparation methods or production processes of the relevant products and do not cover the active pharmaceutical ingredients. Therefore, such patents may be insufficient to protect us from the development of substitute products by competitors. Competitors may be able to develop substitute products by designing around our products using the same active pharmaceutical ingredients.

Furthermore, the patents that we hold, including the patents for each of our key products, are for a finite duration. Following the expiration of the relevant patents, our existing or future competitors may be able to develop and introduce direct substitute products to our key products which may be identical in formulation. In particular, certain patents we hold with respect to Maitongna will expire in 2019, certain patents we hold with respect to CMNa will expire in 2020, and the patents we hold with respect to Lipusu and Tiandixin will expire in 2021. Sales of these products accounted for 57.8%, 56.4% and 56.1% of our total revenue for 2011, 2012 and 2013, respectively. In the event that our competitors introduce direct substitutes for these products, it could have an adverse impact on the sales volumes and pricing levels for such products.

Moreover, intellectual property rights protection in China may not be as effective as in developed countries. Detecting and policing unauthorised use of proprietary technology are difficult and expensive. We may need to resort to litigation to enforce or defend patents issued

to us or determine the enforceability, scope and validity of our proprietary rights or those of others. An adverse determination in any such litigation could materially impair our intellectual property rights. If our intellectual property rights are inadequate as a result of the narrow scope of the patents granted or third parties' infringement, or we otherwise fail to sufficiently protect our intellectual property, our business, financial condition and results of operations could be adversely affected.

If we become subject to intellectual property infringement claims, it could divert our management's attention, impair our ability to sell our products and expose us to costs and liabilities.

We may be subject to intellectual property infringement claims from third parties, including our competitors, who seek to establish their patent, trademark, copyright and other intellectual property rights in respect of products, technologies, trade names and company names relevant to our business. The risk of being subject to intellectual property infringement claims will increase as we continue to expand our operations and product offerings. We may be unable to determine whether any of our products, processes and other related matters infringe upon the intellectual property rights of others. Regardless of their merit, any such claims would divert our management's attention and result in possibly significant legal costs. If such claims are successful, we may be required to obtain licences from, or pay compensation to, the claimants to continue producing or selling relevant products or using such trademarks, trade names or company names or incur additional costs in reformulating the product to bypass the patent. Such licences, however, may not be available on commercially reasonable terms or at all. In addition, we may be forced to discontinue production and selling of the affected products and may be required to compensate the claimant for any infringement.

If we or our brand names fail to maintain a positive reputation, many aspects of our business and our business prospects could be adversely affected.

We depend on our reputation and the brand names of our products in many aspects of our business, including:

- to gain access to, and for our products to be perceived favourably by, the hospitals and doctors that drive demand for pharmaceutical products in the PRC;
- to effectively work with the authorities that regulate various aspects of our business;
- to gain the trust of consumers of our products;
- to competitively position ourselves in the centralised tender processes required for our pharmaceutical products to be sold to public hospitals and medical institutions in the PRC;
- to attract employees, distributors, third party promoters, KOLs and co-development partners to work with us; and
- to increase market share of our products through brand recognition.

However, there can be no assurances that we will be able to maintain a positive reputation or brand names. Our reputation and brand names may be adversely affected by a number of factors, many of which are outside our control, including:

- adverse associations with our products, including with respect to their efficacy or side effects;
- the effects of counterfeit products purporting to be our products;
- lawsuits and regulatory investigations against us or otherwise relating to our products or industry;
- improper or illegal conduct by our employees, distributors and third party promoters, whether or not authorised by us; and
- adverse publicity that is associated with us, our products or our industry, whether founded or unfounded.

If we or our brand names fail to maintain a positive reputation as a result of these or other factors, our products may perceived unfavourably by hospitals, doctors, regulators and patients, and exist and potential employees, distributors, third party promoters, KOLs and co-development partners, and our business and business prospects could be adversely affected.

If counterfeit versions of our products become available in the market, it could affect our sales, damage our reputation and the brand names for the relevant products and expose us to liability claims.

Certain products distributed or sold in the pharmaceutical market may be manufactured without proper licences or approvals or fraudulently mislabelled with respect to their content or manufacturer. These products are generally referred to as counterfeit pharmaceutical products. The counterfeit pharmaceutical product control and enforcement system, particularly in developing markets such as the PRC, may be inadequate to discourage or eliminate the manufacturing and sale of counterfeit pharmaceutical products imitating our products. Consequently, certain pharmaceutical products sold in the PRC and other markets may be counterfeit products. Since counterfeit pharmaceutical products are generally sold at lower prices than authentic pharmaceutical products, and are in some cases are very similar in appearance to the authentic pharmaceutical products, counterfeit products imitating our own pharmaceutical products can quickly erode our sales volume of the relevant product. Moreover, counterfeit products may or may not have the same chemical composition as our products, which may make them less effective than our products, entirely ineffective or more likely to cause severe adverse side effects. This could expose us to negative publicity, reputational damage, fines and other administrative penalties, and may even result in litigation against us. The appearance of counterfeit pharmaceutical products, products of inferior quality and other unqualified products in the healthcare markets in recent years from time to time may reinforce the negative image in general of all pharmaceutical products manufactured in the PRC or other relevant markets among consumers, and may harm the reputation and brand names of companies like us, particularly in overseas markets. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in the market could affect our sales, damage our reputation and the brand names for the relevant products and expose us to liability claims. We have in the past become aware of a limited instance of a counterfeit version of one of our key products being sold in a developing market outside the PRC, and there can be no assurances that we will be able to prevent future occurrences in the PRC or any other markets.

We intend to grow our business in part through acquisitions; if we fail to successfully complete acquisitions or enhance post-acquisition performances in the future, it could have an adverse effect on our business prospects.

Our acquisition strategy has significantly contributed to our historical growth and expansion into new therapeutic areas. We hold the rights to five of our seven key products as a result of acquisitions after they were first approved for manufacture and sale in the PRC, and acquisitions have formed the basis of our entry into three of our four key therapeutic areas.

We intend to continue to accelerate our business growth through selective acquisitions of suitable pharmaceutical companies. However, our ability to consummate acquisitions is subject to a number of risks and uncertainties, including that:

- we are unable to identify suitable acquisition targets and reach agreement on acceptable terms;
- we do not have access to financing for acquisitions on acceptable terms;
- we fail to obtain the governmental approvals and third party consents necessary to consummate any proposed acquisition; and
- increasingly intense competition for attractive acquisition targets makes the consummation of acquisitions on commercially acceptable terms increasingly difficult.

Even if we are able to consummate acquisitions, our ability to successfully grow our business through such acquisitions remains subject to further risks and uncertainties, including that:

- the acquired businesses do not provide us with the intellectual property rights, technology, R&D capability, production capacity or sales and marketing infrastructure we had anticipated;
- the acquired businesses are subject to unforeseen liabilities;
- we are unable to successfully integrate the acquired businesses in order to achieve the expected synergies with our own business or to increase the efficiencies of the acquired businesses in the manner we contemplated;
- we are unable to effective manage our enlarged business operations, or manage acquired businesses that may operate in new therapeutic areas, markets, regulatory environments or geographic regions; and
- the acquired businesses do not generate the revenue and profitability we had anticipated.

Not all of our historical acquisitions have achieved the success we had anticipated. To the extent we are unable to consummate acquisitions and successfully grow our business through such acquisitions, our ability to achieve future growth of our business consistent with our historical growth rate will more heavily depend on the organic growth of our business, including new product development through internal R&D and in-licencing of products, than it has in the past, and there can be no assurances we will be able to achieve similar growth rates organically. Consequently, if we fail to successfully complete acquisitions in the future, it could have an adverse effect on our business prospects.

Moreover, the process of seeking and consummating acquisitions and integrating and managing acquired businesses, whether or not they are successful, may divert our resources and management attention from our existing businesses and impair our ability to successfully manage and grow our business organically.

As part of our acquisition strategy, we may seek to acquire overseas pharmaceutical companies. We have limited experience in evaluating and completing acquisitions of overseas pharmaceutical companies, or in integrating such targets into our own operations. Consequently, any acquisitions we seek to consummate overseas may expose us to greater execution and integration risks, as well as higher transaction costs, than the domestic PRC acquisitions we have consummated historically.

New product development is time-consuming and costly, and the outcome is uncertain; if we fail to develop and commercialise new pharmaceutical products, our business prospects could be adversely affected.

Our long-term competitiveness depends on our ability to develop and commercialise new pharmaceutical products for both the PRC and overseas markets through our R&D activities. For 2011, 2012 and 2013, our R&D costs were equal to 7.6%, 6.3% and 7.7% of our total revenue for the respective period. Although we devote substantial expenditure to R&D, we have not launched or commercialised any new pharmaceutical products over the Track Record Period. The pharmaceutical product development process is time-consuming and costly, and there can be no assurance that our R&D activities will enable us to successfully develop new pharmaceutical products. We may fail to obtain the necessary approvals, including CFDA approvals, for the development and commercialisation of our product candidates on time or at all. Please refer to "Regulations—PRC Laws and Regulations Relating to the Registration of Pharmaceutical Products" for further details of regulatory requirements for the development and commercialisation of pharmaceutical products under PRC laws. In addition, the R&D process for pharmaceutical products, especially clinical trials, are lengthy and expensive, and the outcome can be highly unpredictable. In particular, the product candidates we seek to develop may fail to meet the safety, efficacy or other standards during the R&D process.

Moreover, there can be no assurance that we will be able to successfully commercialise the pharmaceutical products we develop. In general, relatively few drug development programmes end up producing a commercial product. Since the product development process is lengthy, the competitive landscape for the pharmaceutical products we develop may differ significantly from what we had anticipated, particularly because the approval process for new pharmaceutical products is increasingly lengthy, and our products may not hold the competitive advantages in pricing or efficacy that we had anticipated during their development. In addition, the products we develop may be approved for more limited indications than we had anticipated, which may make the commercialisation of the product less successful or profitable. We could also fail to develop and implement an effective marketing strategy with respect to those products we are able to successfully develop. Consequently, our new pharmaceutical products may not yield an appropriate return on our related R&D costs. In the event we fail to successfully develop and commercialise new pharmaceutical products, our business prospects could be adversely affected.

We may be particularly exposed to risks with respect to our overseas product development programmes. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four products being developed for approval in the U.S. market. We have limited experience in developing and commercialising new pharmaceutical products for overseas markets, including the United States, which can be significantly more costly and time-consuming than for the PRC market. Our limited experience in overseas product development and commercialisation may make it less likely that we will successfully develop our overseas product candidates, and even if we are able to successfully develop new pharmaceutical products, we may be disadvantaged in our ability to successfully commercialise such products due to our lack of sales and marketing capabilities and expertise in the relevant overseas market.

We plan to expand our international business; if we are unsuccessful in our plans, it could have an adverse effect on our business prospects.

We sell pharmaceutical products to eight countries or regions outside of mainland China and active pharmaceutical ingredients to four countries or regions outside of mainland China through our international business department. Our objective over the longer term is to become a leading pharmaceutical company globally. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four products being developed for approval in the U.S. market. However, our limited experience in overseas markets may expose us to risks and uncertainties, including:

- the risks associated with dealing with regulatory regimes, regulatory bodies and government policies with which we may be unfamiliar, which may differ materially from those in the PRC, in order to obtain the overseas permits, licences and approvals necessary to manufacture or import, market and sell our products in or to overseas jurisdictions;

- the risks associated with commercialising our products in new markets where we have limited experience with the dynamics and no sales and marketing infrastructure;

- the risks associated with higher costs for new product development and relying on overseas partners for the development, commercialisation and marketing of our products; and

- the increased risk of product liability litigation and regulatory scrutiny arising from the marketing and sale of pharmaceutical products in overseas markets and the costs incurred dealing with such procedures, as well as our ability to obtain insurance to adequately protect us from any resulting liabilities.

Our plans may require significant investment but may fail to generate the level of returns we expected. If we are unable to expand our international business effectively or at all, our business prospects may be adversely affected.

We may rely on third parties for aspects of the development and marketing of new pharmaceutical products overseas; if we are unable to establish or maintain such relationship with an appropriate partner, or if our partner is unable to deliver effectively or at all, our business prospects could be adversely affected.

As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market.

We have limited experience in developing new pharmaceutical products for overseas markets, including the United States, which can be significantly more costly and time-consuming than for the PRC market. As a result, we may seek co-development partners to assist us with regulatory requirements and to share costs associated with clinical trials or other aspects of product development. Moreover, we have limited experience in marketing new products in certain overseas markets and may seek assistance from third parties that have the expertise in the relevant market.

Although we have historically maintained on-going relationships with a number of overseas pharmaceutical companies in the development of new product candidates, and have used third party promoters to market our products overseas, there can be no assurance that we will be able to establish or maintain collaborative relationships effectively or at all in the future. Many factors can affect our ability to establish or maintain such relationships, including that we may fail to find an appropriate partner for a desired overseas market, the costs of doing so are prohibitively high or legal or administrative procedures are overly complex and time consuming.

Even if we were able to establish a collaborative relationship, it may fail to yield the results we intended or expose us to additional risks. The parties collaborating with us may fail to perform pursuant to agreements or meet regulatory standards, or cause clinical trials to be delayed, prematurely terminated or otherwise unsuccessful. In addition, the parties with whom we collaborate may misuse, infringe or violate our intellectual properties to their advantage, pursue alternative technologies as a means of developing or marketing products for the diseases targeted by our collaborative programmes, adopt or implement unsuccessful marketing strategies for products that we successfully develop or fail to devote the necessary resources to successfully commercialise such products.

Consequently, any co-development strategies we employ for overseas markets may not enable us to successfully develop or market new pharmaceutical products for overseas markets as planned.

If we fail to achieve the product development milestones as disclosed in this prospectus, it could adversely affect the price of our Shares and our business prospects.

We disclose in this prospectus our expectations or targets for the timing of certain milestones associated with our drug development programmes, including the commencement and completion of clinical trials and anticipated regulatory approval for the manufacture and sale of a product. After Listing, as a publicly listed company we may continue to make such disclosures of our expectations. However, the successful implementation of our product development programmes is subject to significant business, economic and competitive uncertainties and contingencies, including, product development risk, the availability of funds, competition, regulation and will be re-evaluated every three years thereafter based on current regulation, government policies and the continued growth of the pharmaceutical market. The actual timing of our achievement of product development milestones could vary significantly from our expectations due to a number of factors, many of which are outside our control,

including delays or failures in our pre-clinical studies or clinical trials, failure to maintain, renew or establish new relationships with our research collaborators or co-development partners, the increasingly lengthy approval process for new pharmaceutical products in the PRC and the uncertainties inherent in that regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialise our pharmaceutical products. There can be no assurances that our pre-clinical studies or clinical trials will be completed as planned or at all, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to adhere to our current schedule for the launch of any of our products candidates. If we fail to achieve one or more of these milestones as planned, it could adversely affect the price of our Shares and our business prospects.

If our preferential tax treatments, tax concessions and tax allowances are not received, become unavailable or otherwise change or terminate, it could adversely affect our profitability.

We currently benefit from a number of preferential tax treatments, as well as tax concessions and tax allowances. In particular, four out of our five principal PRC operating subsidiaries qualified as High and New Technology Enterprises over the Track Record Period. As a result of these or other qualifications, these four subsidiaries have benefited from a preferential PRC income tax rate of 15%, rather than the 25% income tax rate generally applicable to PRC tax resident enterprises under the EIT Law. For 2011, 2012 and 2013, our tax liabilities were reduced by RMB25.0 million, RMB29.5 million and RMB37.7 million, respectively, as a result of such preferential tax treatments. For 2011, 2012 and 2013, our tax liabilities were reduced by RMB30.4 million, RMB38.4 million and RMB49.5 million, respectively, as the accumulative effect of the preferential tax treatments, tax concessions and tax allowances we received.

The qualification of these four operating subsidiaries as High and New Technology Enterprises will expire during 2014. Unless eligible for other preferential tax treatments, each of these operating subsidiaries will only continue to receive preferential tax treatment if the relevant authorities determine that these subsidiaries continue to qualify, which depends on a number of factors, including, whether the subsidiary has its own independent, core intellectual property rights, whether the subsidiary's products fall within the scope of supported high and new technology, whether the subsidiary's R&D expenses as a percentage of revenue reaches certain threshold percentages and whether the subsidiary's R&D staff as a percentage of total number of staff reaches certain threshold percentages. If the qualifications are not renewed due to one or more of these or other factors, our subsidiaries will no longer enjoy the 15% preferential income tax rate currently applicable to them and will be subject to the 25% income tax rate. As a result, our post-tax profitability may be adversely affected.

In addition, the current or future preferential tax treatments, tax concessions and tax allowances applicable to our company and our subsidiaries may be changed, terminated, or otherwise become unavailable due to many factors, including changes in government policy or administrative decisions by relevant government authorities. Our post-tax profitability may be adversely affected as a result of one or more of these or other factors.

We have historically received government grants for our R&D activities and there can be no assurances that we will continue to receive such grants, which could increase our R&D costs.

We have historically received government grants in the form of subsidies for the purpose of compensating us for expenses arising from research expenses and our improvement of our manufacturing facilities on special projects. For 2011, 2012 and 2013, our government grants recognised as income were RMB17.5 million, RMB5.5 million and RMB30.8 million,

respectively. Please refer to "Financial Information—Critical Accounting Policies, Estimates And Judgements—Government Grants" for further details of our accounting policy for government grants. Our eligibility for government grants are dependent on a variety of factors, including the assessment with respect to our improvement on existing technologies, relevant government policies, the availability of funding at different granting authorities and the R&D progress made by other pharmaceutical companies. There can be no assurances that we will continue to receive similar levels of government grants, or at all. If we no longer receive government grants or the amount of government grants we receive decreases significantly, our R&D costs may increase, which will affect our profit level.

Goodwill comprises a substantial portion of our total assets; if we determine our goodwill to be impaired, it would adversely affect our results of operations.

As of 31 December 2013, RMB347.4 million, or 10.3%, of our total assets consisted of goodwill relating to our historical acquisitions. Our acquired goodwill primarily consisted of goodwill relating to four acquisitions: RMB38.4 million of goodwill arising from our acquisition of CMNa and its distribution network in 2006; RMB114.2 million of goodwill arising from our acquisition of Nanjing Luye Sike, whose assets primarily relate to key products Lipusu and Tiandixin, in 2007; RMB22.3 million of goodwill arising from our acquisition of a controlling equity interest in Beijing WPU, whose assets primarily relate to key product Xuezhikang, in 2009; and RMB159.1 million of goodwill arising from our acquisition of Sichuan Luye, whose assets primarily relate to key product Bei Xi, in 2011. In order to determine whether our goodwill is impaired, we are required to estimate, among other things, the expected future cash flows that we will derive from the relevant group of assets, which includes an estimation of the expected growth rate in sales of the relevant products, as well as their future gross margins and related operating expenses. In the event that our estimate of our future cash flows from any of these groups of assets decreases from our estimate in prior periods, we could be required to recognise an impairment loss in our consolidated statement of comprehensive income for the relevant period in an amount equal to our estimate of the reduction in value of the relevant group of assets. Please refer to Note 3 "Significant Accounting Judgements, Estimates and Assumptions—Estimation and Assumptions—Impairment of Goodwill", and Note 2.3 "Summary of Significant Accounting Policies—Business Combination and Goodwill" to the Accountants' Report included in Appendix I to this prospectus for further details of our accounting policies for goodwill and goodwill impairment, the estimations and assumptions involved therein, and the components of our acquired goodwill during the Track Record Period.

We did not recognise impairment losses in respect of goodwill during the Track Record Period. However, our estimates of the future cash flows from the relevant assets may be susceptible to downward revision as result of factors adversely affecting the PRC pharmaceutical industry generally, including general decreases in growth rates and margins, as well as factors specific to our business' growth rates, margins and operating expenses. Moreover, since each of the primary acquisitions for which we are carrying goodwill as of 31 December 2013 related primarily to a single or limited number of key products, we are particularly susceptible to goodwill impairment resulting from adverse changes affecting each of these key products, many of which are discussed elsewhere in the "Risk Factors," including changes adversely affecting their respective growth rates, sales or margins. Such adverse changes could require us to record an impairment loss for all or a substantial portion of the goodwill we are carrying in respect of the group of assets relating to each of these key products. If we record an impairment loss as a result of these or other factors, it would adversely affect our results of operations for the relevant period.

If subcontracting manufacturers do not produce pharmaceutical products meeting our specifications in sufficient volumes at commercially acceptable prices, our sales volumes and margins for the relevant products could be adversely affected.

We currently subcontract a portion of the production of two of our key products, Maitongna and Lutingnuo, and may in the future subcontract a greater portion of our production of pharmaceutical products to meet increased demand for our existing products or

our newly introduced products, particularly if we are unable to successfully increase our production capacity. We have less control over our subcontractor's production process than our own, and the risks of such products not being produced in the necessary volumes or at the appropriate quality levels are higher than if we manufacture in-house. Subcontracting manufacturers may fail to maintain the necessary licences, permits and certificates to carry out production of our products, breach their obligations to produce our products on a timely basis, otherwise cease to conduct subcontracting business or fail to abide by our quality control requirements. Quality issues related to products our subcontracting manufacturers produce for third parties may also be imputed to the products they manufacture for us and adversely affect our reputation.

We currently appoint our subcontracting manufacturers on an annual basis and expect to continue to do so with any subcontracting manufacturers we appoint in the future in order to comply with applicable PRC regulations. Consequently, we are exposed to the risks of increased pricing for our subcontracted production and that we may be unable to appoint or re-appoint subcontracting manufacturers at commercial acceptable prices each year. If the subcontracting manufacturers we appoint do not produce pharmaceutical products meeting our specifications in sufficient volumes at commercially acceptable prices, or we are unable to appoint subcontracting manufacturers to do so, we may have insufficient quantities of our products to meet demand for the relevant products and our sales volumes and margins for the relevant products could be adversely affected.

If our employees, distributors or third party promoters engage in inappropriate promotion of our products, it could adversely affect our business and reputation.

Despite our guidelines and supervision efforts, our employees, distributors and third party promoters may fail to provide accurate and complete information about our products, as a result of which hospitals, medical institutions, doctors and patients may misunderstand or misuse our products. Such misunderstanding or misuse could result in our products being less effective, or cause severe adverse effects that could otherwise be avoided. Consequently, sales and reputation of our products could be adversely affected, and we could be exposed to product liability lawsuits or regulatory investigations, resulting in penalties, fines or disruption to our operations.

Many of our key products have been sold in the PRC for a long period of time; our margins and profitability could be adversely affected due to the decline of selling prices of these products.

It is typical in the Chinese pharmaceutical industry for the selling prices of pharmaceutical products to decline over the life of the product as a result of, among other things, increased competition from substitute products or price controls by the PRC government. All of our key products have been sold in the PRC market for more than 10 years, which may make these products more susceptible to downward pricing pressure. Please refer to "Business—Our Products" for further details of the year of launch for each of our key products. Although the selling prices of certain of our key products have declined over the Track Record Period, our margins and profitability have not been materially adversely affected as a result of such decline. However, if the selling prices of some or all of our key products decline or continue to decline due to maturity, government price controls or otherwise, we may be unable to mitigate the negative effects of such price reduction, and our margins and profitability could be adversely effected.

Our business depends on our key senior management members; if we lose and are unable to replace their services, our business prospects could be adversely affected.

Our business and growth depend on the continued service of our senior management team. In particular, the industry experience, management expertise and contributions of our Executive Directors and other members of our senior management are crucial to our success. If we lose the services of any member of our senior management, we may be unable to recruit a suitable or qualified replacement and may incur additional expense to recruit and train new personnel, which could disrupt our business and growth. Furthermore, as we expect to continue expanding our operations and product portfolio, we will need to continue attracting and retaining experienced management personnel with extensive managerial, technical, R&D or sales and marketing experience. Competition for experienced management personnel in the pharmaceutical industry is intense, and the availability of suitable and qualified candidates in China is limited. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, and consequently increase our operating costs. We may be unable to retain the senior management members required to achieve our business objectives, and failure to do so could adversely affect our business prospects.

Increased staff costs could negatively affect our ability to operate efficiently and adversely affect our revenues and profitability.

The cost of labour in the PRC has been steadily increasing over the past years as a result of government-mandated wage increases and other changes in PRC labour laws, as well as competition for quality employees among pharmaceutical companies. Many aspects of our strategies and business growth may require us to have additional employees. We may also have additional employees as a result of acquisitions or organic growth of our business. If we implement such strategies but fail to realise the benefits and efficiencies we anticipate, we may be unable to offset the corresponding increases in our staff costs, which adversely affect our revenues and profitability.

The implementation of our strategies and other aspects of our business will require significant funding; if we do not have access to sufficient funding, it could adversely affect our business prospects.

The implementation of many aspects of our strategies will require significant funding, including:

- the expenses associated with expanding our sales and distribution network;
- the costs of drug development programmes for the expansion of our portfolio in key therapeutic areas;
- the funding required to consummate acquisitions and integrate acquired businesses;
- the costs and expenditures required to grow our business internationally through drug development programmes for overseas markets; and
- the capital expenditure required to increase our production capacity and to make upgrades and enhancements.

In addition, many aspects of our general business operations have on-going funding requirements that may increase over time.

Over the longer term, we expect that the implementation of our strategy and business plans will require us to rely in part on external financing sources. However, our ability to continue to obtain external financing on commercially reasonable terms will depend on a

number of factors, many of which are outside of our control, including our financial condition, results of operations and cash flows, China's economic condition, industry and competitive conditions, interest rates, prevailing conditions in the credit markets and government policies on lending. If we cannot obtain sufficient external funding on commercially acceptable terms to implement our strategies and business plans as currently contemplated, we could be required to revise our strategies and business plans, which could adversely affect our business prospects.

Our loan agreements contain restrictive covenants that may adversely affect our ability to conduct our business.

As of 31 December 2013, we had aggregate bank loans of RMB745.3 million, consisting of RMB724.4 million of secured loans and RMB20.0 million of unsecured loans. Covenants in these loan agreements, among other things, require our borrowing subsidiaries to obtain prior written consent from the lenders before incurring additional debt, or engaging in certain transactions such mergers and acquisitions, investments and asset sales. Certain loan agreement also contains covenant that requires the respective borrowing subsidiary to obtain lender's prior written consent before paying out dividends. In addition, some loans are guaranteed by our other subsidiaries or secured by pledges of short-term deposits or notes receivables, which limits our ability to provide guaranty or collateral for additional financing. These restrictions may limit our flexibility in responding to business opportunities, competitive developments and adverse economic or industry conditions. A breach of any of these covenants, or a failure to pay interest or indebtedness when due under any of our credit facilities, could result in a variety of adverse consequences, including the acceleration of our indebtedness, and could adversely affect our ability to conduct our business.

If we experience delays in collecting payment from distributors, it could adversely affect our cash flow.

We generally grant our distributors credit terms between 30 and 90 days, with longer terms granted to selected distributors. As of 31 December 2011, 2012, 2013, our trade receivables were RMB313.8 million, RMB339.5 million, and 393.5 million, respectively. The average turnover days of our trade receivables for the same periods were 57.9 days, 55.8 days and 53.2 days, respectively. If our distributors' cash flow, working capital, financial condition or results of operations deteriorate, they may be unable, or they may otherwise be unwilling, to pay trade receivables owed to us promptly or at all. Any substantial defaults or delays could materially and adversely affect our cash flow, and we could be required to terminate our relationships with distributors in a manner that impairs the effective distribution of our pharmaceutical products.

If we become a party to litigation, legal disputes, claims or administrative proceedings, it may divert our management's attention and result in costs and liabilities.

We may from time to time become a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. On-going litigation, legal disputes, claims or administrative proceedings may distract our management's attention and consume our time and other resources. Furthermore, any litigation, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate due to the various factors involved, such as the facts and circumstances of the cases, the likelihood of winning or losing, the monetary amount at stake and the parties concerned, and such factors may result in these cases becoming of material importance to us.

Negative publicity arising from litigation, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and products. In addition, if any verdict or award is rendered against us, we could be required to

pay significant monetary damages, assume other liabilities, and suspend or terminate the related business ventures or projects. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

Our insurance coverage is limited; if we experience uninsured losses it could adversely affect our financial condition and results of operations.

Our insurance coverage is limited, and we do not maintain product liability insurance or business interruption insurance. Please refer to "Business—Insurance" for further details of our insurance coverage. If we experience product liability claims or disruptions to our business, we might incur substantial costs and diversion of resources, which may not be fully covered by insurance. In addition, there are certain types of losses, such as losses from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which we cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, we could suffer financial losses, lose all or a portion of our production capacity, as well as future revenue anticipated to be derived from the manufacturing activities conducted at that property. If we experience uninsured losses or losses in excess of our insurance coverage, it could adversely affect our financial condition and results of operations.

We are subject to environmental regulations; if we fail to comply with such regulations or such regulations change, it may impair our ability to conduct our business and we may be exposed to liability and potential costs for environmental compliance.

We are subject to PRC laws, rules and regulations concerning environmental protection, including the discharge of effluent water and solid waste as well as the disposal of hazardous substance during our manufacturing processes, and may become subject to similar laws, rules and regulations in other jurisdictions in the future. In addition, we are required to obtain clearances and authorisations from government authorities for the treatment and disposal of such discharge. The costs we incurred for environmental protection may materially increase our total costs and decrease our profit. There can be no assurances that we will be able to comply fully at all times with applicable environmental laws, rules and regulations. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures.

Furthermore, the PRC government may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to install, replace, upgrade or supplement our pollution control equipment, take additional protective and other measures against potential contamination or injury caused by hazardous materials, or make operational changes to limit any adverse impact or potential adverse impact on the environment. If these costs become prohibitively expensive, we may be forced to curtail or cease certain of our pharmaceutical manufacturing business. In addition, if we become subject to any significant environmental-related liabilities, it could adversely affect our financial condition and results of operations.

Wuhu Luye, which is not a part of our Group, uses our trademark under a licence from us; we are therefore exposed to the risk that Wuhu Luye's products and actions are attributed to our Group.

Our Executive Chairman and Chief Executive Officer and two of our Executive Directors hold equity interests in Wuhu Luye. Wuhu Luye is primarily engaged in the development, production, marketing and sale of Chinese medicines covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology.

The businesses of our Group and Wuhu Luye have been operated separately since their establishment in 1994 and 2001, respectively, and we believe there is clear delineation between our Group and Wuhu Luye. However, Wuhu Luye currently uses our trademark and we have granted a licence to Wuhu Luye to use our trademark for a period of three years starting from 24 March 2014. As a result of Wuhu Luye operating its business using our trademark, we may be exposed to the risk that the products of Wuhu Luye, as well as the actions of Wuhu Luye, its employees and its agents, may be attributed to our Group and expose us to liability or damage our reputation and our brand. Although Wuhu Luye has undertaken to indemnify us for any losses or damages we may suffer as a result of Wuhu Luye's use of the trademark, there can be no assurances that such indemnification will be adequate to protect our Group against all losses we may suffer as a result of Wuhu Luye's use of our trademark. Please refer to "Relationship with Controlling Shareholder—Controlling Shareholder—Wuhu Luye" for further details of Wuhu Luye.

We have not obtained the building ownership certificate in respect of a boiler room of our Beijing facility and we have not obtained title certificates for the employee quarters at our Nanjing facility.

In China, prior to construction of a building, we are required to obtain various permits, certificates and other approvals, including land use right certificates (國有土地使用權證), planning permits for land use (建設用地規劃許可證), planning permits for construction work (建設工程規劃許可證) and permits for commencement of construction work (建設工程施工許可證) in relation to the properties. After completion of a building, the local government authorities conduct an inspection and issue a completion certificate for the construction work (建設工程竣工驗收證明), if the construction process and property comply with the relevant laws, rules and regulations. The relevant government authorities issue building ownership certificates (房屋所有權證) after reviewing the completion certificates for construction work together with other required documents and receiving the required fees.

We have not obtained the building ownership certificate in respect of a boiler room of our Beijing facility with a gross floor area of approximately 262 square metres. It is primarily used in relation to the air circulation and steam supply of our Beijing facility. Please refer to "Business—Production—Our Production Facilities" for further details of the size, use and location of our Beijing facility. Our application for the building ownership certificate in respect of this property is still being processed by the relevant government authority. Please refer to "Business—Land and Properties" for further details of the relevant certificates we have obtained in respect of this property as well as the status of our application.

We have not received any notice from the government authorities raising any issues with respect to our application for the building ownership certificate and our PRC legal adviser confirmed that it is not aware of any material legal impediment for us to obtain the building ownership certificate once we conclude the completion inspection of construction work and pay the requisite fees. However, we cannot assure you that we will be able to obtain the building ownership certificate in a timely manner or at all. In the absence of the building ownership certificate for a property we use to operate our business, the relevant property is not permitted to be used as collateral for borrowings nor can it be bought or sold. Further, as this property was put to use without obtaining the completion certificate for construction work, we are subject to a fine in the maximum amount of approximately RMB21,440 , representing 4% of the construction cost for such property.

In addition, we do not have the land use right certificate and the building ownership certificate for the employee quarters of our Nanjing facility with a gross floor area of approximately 2,779 square metres. As of 31 December 2013, the employee quarters was used as the dormitory for approximately 30 employees. Our application for the land use right

certificate and the building ownership certificate is currently being processed by the relevant government authority. In the event that we are ordered to demolish the employee quarters building, we intend to relocate the relevant employees to an alternative dormitory at a cost of approximately RMB100,000.

If we suffer failures in our information systems, it could adversely affect our ability to effectively manage our business operations.

We make use of information systems to obtain, process, analyse and manage data. We use these systems to, among other things, monitor the daily operations of our business, maintain operating and financial data, manage our distribution network and third party promoters as well as manage our production operations and quality control systems. Any system damage or failure that interrupts data input, retrieval or transmission or increases service time could disrupt our normal operations. There can be no assurances that we will be able to effectively handle a failure of our information systems, or that we will be able to restore our operational capacity in a timely manner to avoid disrupting our business. The occurrence of any of these events could adversely affect our ability to effectively manage our business operations. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

Our business may be affected by adverse news, scandals or other incidents that have a negative impact on the reputation and public perception of the PRC pharmaceutical industry.

Incidents that reflect doubt as to the quality or safety of pharmaceutical products manufactured, distributed or sold by other participants in the pharmaceutical industry, particularly the PRC pharmaceutical industry, including our competitors, have been, and may continue to be, subject to widespread media attention. Such incidents may damage the reputation of not only the parties involved, but also the pharmaceutical industry in general, even if such parties or incidents have no relation to us, our suppliers, our distributors or our third party promoters.

Similarly, incidents not related to product quality or safety may also have a negative impact on the pharmaceutical industry. For example, in July 2013, GlaxoSmithKline was alleged to have funnelled a substantial amount of money to individual government officials, doctors, hospitals and others in connection with the promotion and sales of its drugs. The ongoing investigation has resulted in multiple arrests, including some of GlaxoSmithKline's executives in China. The incident has received widespread negative media coverage which has, and may continue to lead to public distrust of the pharmaceutical industry as a whole in the near future. As a result of the GlaxoSmithKline scandal, or any other past or future incident involving any pharmaceutical industry participant, our reputation may be adversely affected.

RISKS RELATING TO THE PRC

Political, economic and social developments as well as the laws, rules, regulations and licencing requirements in China could have an adverse effect on our business.

Since our operating assets are generally located in, and our revenue is predominantly derived from our operations in China, our business, financial condition, results of operations and prospects are subject to the risks of future economic, political and legal developments in China. The PRC economy differs from the economies of other developed countries in terms of structure, government intervention, development, growth rate, control of foreign exchange, and resource allocation. Since the late 1970s, the PRC government has been implementing

economic reform measures and using market forces to develop the PRC economy and has since transitioned from a planned economy to a more market-oriented economy. However, the PRC government continues to play a significant role in regulating industries by promulgating economic policies, and a significant portion of productive assets in China is still government-owned. The PRC government also exercises significant control over the economy through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Uncertainties in respect of the PRC legal system could have an adverse effect on our business.

Substantially all of our business and operations are conducted in China and governed by the PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes where, unlike common law systems, decided legal cases have limited value as precedent. Since 1979, the PRC government has been promulgating a comprehensive system of laws and regulations governing economic matters in general. However, China has not developed a fully integrated legal system and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activity in China. These laws, rules and regulations are relatively new and are often changing, and published cases concerning these laws, rules and regulations are limited. Consequently, their interpretation and enforcement involve a fair amount of uncertainties compared to other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect, and we may be subject to retroactive regulatory actions as a result. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in significant costs to us and a diversion of our resources and management attention. We cannot predict future developments in the PRC legal system or the effects of such developments.

It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgements against them in China.

Substantially all of our assets are situated in China and most of our Directors and senior management members reside and substantially all of their respective assets are located in China. As a result, it may be difficult to effect service of process outside the PRC upon most of our Directors and officers, including in respect of matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom and most other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in China any judgements obtained from non-PRC courts.

Restrictions on foreign exchange and fluctuations in Renminbi exchange rates may limit the ability of our operating subsidiaries to remit payments to us and may expose us to exchange rate volatility.

Substantially all of our revenue is denominated in Renminbi, which is not readily convertible into other currencies. Under the existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions without prior approval from SAFE by complying with certain procedural requirements. The PRC government may, however, decide to restrict access to foreign currencies for current account transactions in the future.

Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy any foreign currency dominated obligations we may incur. In addition, since our future cash flow from operations will continue to be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to receive dividends and distributions from our subsidiaries in China, purchase goods and services outside of China or otherwise fund any future business activities that may be conducted in foreign currencies.

Any change in foreign exchange regulations may severely restrict our ability to pay dividends or satisfy other foreign exchange requirements. The convertibility of the Renminbi into other currencies is subject to changes in the PRC policies and international economic and political developments. In 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the current policy, the RMB is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall within stipulated ranges against different currencies each day. This change in policy has resulted in an appreciation of the value of the Renminbi against the U.S. dollar of approximately 30% from July 2005 to June 2013. We cannot predict whether the PRC government may change its policies that have effect on the exchange rate of the Renminbi, as well as when and how Renminbi exchange rates may change going forward.

Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings or any declared dividends. Also, there are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any agreements to hedge our exchange rate exposure. In any event, to the extent such hedges are available, their effectiveness may be limited and we may be unable to hedge our exposure successfully, or at all.

We rely on dividends paid by our subsidiaries for our cash needs, and limitations under the PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could adversely affect our ability to utilise such funds.

As a holding company, we conduct substantially all of our business through our consolidated subsidiaries incorporated in China. We rely on dividends paid by these PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any foreign currency debt we may incur and to make any offshore acquisitions. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. In addition, certain loan agreements signed by our PRC subsidiaries may contain covenants that restrict their ability to pay out dividends. These limitations on the ability of our PRC subsidiaries to transfer funds to us limit our ability to receive and utilise such funds.

We may be treated as a PRC tax resident enterprise under the EIT Law, which may subject us to PRC income taxes on our worldwide income.

We are a holding company incorporated under the laws of Bermuda. Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法), which came into effect 1 January 2008 (the "**EIT Law**"), and its implementation rules, enterprises organised under the laws of

jurisdictions outside the PRC with their "de facto management bodies" located within the PRC may be considered "PRC tax resident enterprises" and subject to a uniform 25% PRC income tax on their worldwide income. The implementation rules to the EIT Law define the term "de facto management body" as "body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. "The Notice on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) and the Administrative Measures on the Corporate Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (境外註冊中資控股居民企業所得稅管理辦法(試行)) issued in April 2009 and July 2011 set out certain criteria for specifying what constitutes a "de facto management body" in respect of enterprises that are established offshore by PRC enterprises. However, no such criteria are provided in these or other publications by the PRC State Administration of Taxation in respect of enterprises established offshore by private individuals or foreign enterprises like us.

As a result, it is unclear whether we will be deemed to be a "PRC tax resident enterprise" for the purpose of the EIT Law even though substantially all of the operational management of our Company is currently based in the PRC. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. Nonetheless, there can be no assurances that we will not be treated as a PRC resident enterprise under the EIT Law and not be subject to the enterprise income tax rate of 25% on our global income in the future. If we were treated as "PRC tax resident enterprise", we would be subject to PRC income taxes on our worldwide income, which may adversely affect our profitability and distributable profit to our Shareholders.

Gains on the sales of Shares and dividends on the Shares may be subject to PRC income taxes.

Under the EIT Law and its implementation rules, unless otherwise provided in a treaty, PRC withholding tax at the rate of 10% is applicable to dividends payable by "PRC tax resident enterprises" to investors that are "non-PRC residents", that is, investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares of "PRC tax resident enterprises" by such investors is also subject to PRC income tax, usually at rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC.

We are a holding company incorporated in Bermuda and substantially all of our operations are in the PRC. There is uncertainty whether we will be considered a "PRC tax resident enterprise" for the purpose of the EIT Law. As a result, it is unclear whether dividends paid on our Shares, or any gain realised from the transfer of our Shares, would be treated as income derived from sources within China and would as a result be subject to PRC income tax. If we are considered a "PRC tax resident enterprise", then any dividends paid to our Shareholders that are "non-PRC residents" and any gains realised by them from the transfer of our Shares may be regarded as income derived from PRC sources and, as a result, would be subject to a 10% PRC income tax, unless otherwise reduced or exempted. It is unclear whether, if we are considered a "PRC tax resident enterprise", our Shareholders would be able to claim the benefit of income tax treaties or agreements entered into between PRC and other countries or regions. If dividends payable to our non-PRC Shareholders that are "non-PRC residents", or gains from the transfer of our Shares are subject to PRC tax, the value of such non-PRC Shareholders' investment in our Shares may be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or capital contributions to our PRC subsidiaries.

In utilising the proceeds from the Global Offering or any future offerings, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in China to finance their activities may not exceed statutory limits and must be registered with SAFE or its local counterpart. Any capital contributions to our PRC subsidiaries must be approved by the MOFCOM or its local counterpart. In addition, on 29 August 2008, SAFE promulgated Circular 142 which requires that Renminbi obtained from the settlement of capital of a foreign-invested enterprise be used for purposes within the business scope approved by the applicable government authority. Unless otherwise specified, the Renminbi obtained from the settlement of capital may not be used for domestic equity investment. Furthermore, SAFE has been strengthening its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the foreign-invested enterprise's approved business scope. There can be no assurances that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, in respect of future loans by us to our PRC subsidiaries or in respect of future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from the Global Offering and to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

RISKS RELATING TO THE GLOBAL OFFERING

No public market currently exists for our Shares; the market price for our Shares may be volatile and an active trading market for our Shares may not develop.

No public market currently exists for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between Our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments in China affecting us, our customers or our competitors;

- investors' perception of us and of the investment environment in Asia, including Hong Kong and China;
- developments in China healthcare market;
- changes in pricing made by us or our competitors;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for our Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

You will incur immediate and significant dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value to HK$1.56 per Share, based on the mid-point of the Offer Price range of HK$5.65. There can be no assurances that if we were to immediately liquidate after the Global Offering, any assets will be distributed to Shareholders after the creditors' claims. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

You may face difficulties in protecting your interests as a minority shareholder because we are incorporated under Bermuda law.

Our corporate affairs are governed by our constitutional documents, the Bermuda Companies Act and common law of Bermuda. The laws of Bermuda relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in other jurisdictions. Such differences may mean that our minority Shareholders may have less protection than they would have under the laws of certain other jurisdictions. Please refer to "Summary of the Constitution of our Company and Bermuda Companies Act" included in Appendix III to this prospectus for further details of Bermuda law.

Future sales or perceived sales of our Shares in the public market by major Shareholders following the Global Offering could materially and adversely affect the price of our Shares.

Prior to the Global Offering, there has not been a public market for our Shares. Future sales or perceived sales by our existing Shareholders, or issuance by us of significant amounts of our Shares after the Global Offering, could result in a significant decrease in the prevailing market prices of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the Global Offering due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price for our Shares and our ability to raise equity capital in the future.

Our controlling shareholders have significant influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Immediately following the Global Offering, our controlling shareholders will hold in aggregate approximately 45.4% of our Shares, assuming the Over-allotment Option is not exercised. Our controlling shareholders will, through their voting power at the Shareholders' meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional shares or other equity securities, timing and amount of dividend payments, and our management. Our controlling shareholders may not act in the best interests of our minority Shareholders. In addition, without the consent of our controlling shareholders, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our Shares.

There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price.

The initial price to the public of our Shares sold in the Global Offering is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be not more than five Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

There can be no assurances that we will declare and distribute any amount of dividends in the future.

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits, which refers to after tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory capital reserve funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. The calculation of our distributable

profits under PRC GAAP differs in many aspects from the calculation under IFRS. As a result, our PRC operating subsidiaries may not be able to pay a dividend in a given year if they do not have distributable profits as determined under PRC GAAP even if they have profits as determined under IFRS. Accordingly, since our Company derives substantially all of our earnings and cash flows from dividends paid to us by our PRC operating subsidiaries in China, we may not have sufficient distributable profits to pay dividends to our Shareholders.

We had not paid or declared dividends during the Track Record Period. Please refer to "Financial Information—Dividend Policy" for further details of our dividend policy. There can be no assurances that future dividends will be declared or paid. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other considerations, our operations, earnings, financial condition, cash requirements and availability, our constitutional documents and applicable law.

Facts, forecasts and statistics in this prospectus relating to the PRC economy and healthcare industry may not be fully reliable.

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and healthcare industry in China are obtained from various sources including official government publications that we believe are reliable. However, we cannot guarantee the quality or reliability of these sources. Neither we, the Selling Shareholders, the Joint Global Coordinators nor our or their respective affiliates or advisers have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this prospectus relating to the PRC economy and the healthcare industry in China may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources is made. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Further, there can be no assurances that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries.

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily resident in Hong Kong. Our business operations are located in China. Due to the business requirements of our Group, none of our Executive Directors has been, is or will intend in the near future to be based in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we have or will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

(a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Yang Rong Bing and Ms. Zhu Yuan Yuan, each being an Executive Director. The authorised representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by telephone, facsimile and email by the Stock Exchange, if necessary, to deal with enquiries from the Stock Exchange from time to time;

(b) each of the authorised representatives has the means to contact all the Directors (including the Independent Non-Executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;

(c) all the Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will make themselves available to meet with the Stock Exchange within a reasonable period of time;

(d) Guotai Junan Capital Limited, our compliance adviser, will act as an additional channel of communication with the Stock Exchange from the Listing Date to the date when our Company distributes the annual report to the shareholders for the first full financial year immediately after Listing; and

(e) each Director will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the Stock Exchange.

DEALINGS IN SHARES PRIOR TO LISTING

Pursuant to Rule 9.09(b) of the Listing Rules, there must be no dealings in the Shares by any connected person of our Company during the period from the date which falls on four clear business days before the expected hearing date of the Company's application for listing until the listing is granted.

Pursuant to the Consortium Agreement dated 28 January 2012 and entered into between AsiaPharm Holdings, Luye Holdings, the Founding Shareholders and the Existing Investors (as amended from time to time), the Existing Investors subscribed for the Exchangeable Bonds issued by Luye Holdings. Pursuant to the terms of the Consortium Agreement and the Exchangeable Bonds, the Exchangeable Bonds are exchangeable into Shares in our Company

held by Luye Investment (the "**Exchange Right**"). Upon full exchange of the Exchangeable Bonds, the Existing Investors are expected to hold approximately 41.9% of the issued share capital of our Company immediately prior to the completion of the Global Offering.

The Existing Investors have served notices to Luye Investment to exercise their Exchange Right in respect of their entire holding of the Exchangeable Bonds and exchange all the outstanding Exchangeable Bonds into the Shares of our Company, conditional and immediately upon each of the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into, becoming unconditional and not having been terminated, and the Capitalisation Issue being completed. Further, CPE Greenery will make a distribution in specie of Shares representing 10.1% of the issued share capital of the Company immediately prior to the completion of the Global Offering to one of its shareholders, CPE Palm Beach L.P., whose general partner is CPE Coinvest Management Limited. CPE Coinvest Management Limited will in turn distribute such Shares to Tropical Excellence, who is the sole limited partner of CPE Palm Beach L.P.

Please refer to "History and Development—Existing Investors" for further details of the Consortium Agreement and the Exchangeable Bonds.

For the reasons set forth below, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the strict application of Rule 9.09(b) in respect of (i) any dealings in the Shares by Luye Investment as a result of the exercise of the Exchange Right by the Existing Investors and (ii) the distribution in specie of the Shares by CPE Greency to Tropical Excellence (the "**Proposed Dealings**"):

(a) The Exchange Right and the mechanism for the exercise of the Exchange Right are set out in the Consortium Agreement, which is a pre-existing shareholder agreement.

(b) CPE Greenery is an investment holding company owned by CPEChina Fund, L.P. and CPE Palm Beach L.P. Tropical Excellence has been the sole limited partner of CPE Palm Beach L.P. throughout the period during which CPE Greenery subscribed for and holds the Exchangeable Bonds. The purpose of the distribution in specie is to effectively unwind the joint holding structure so that each investor behind CPE Greenery, including Tropical Excellence, will be holding its own proportional entitlement of the Shares following the listing. The distribution in specie will not result in a change in the ultimate ownership of the Exchangeable Bonds (or any shares derived from the exercise of the Exchange Right).

(c) The transfer of the Exchangeable Bonds (or any shares derived from the exercise of the Exchange Right) by an Existing Investor to any of its affiliates is contemplated and permitted under the terms of the Consortium Agreement.

(d) The Proposed Dealings are not expected to have any effect on our Company's shareholding structure on a fully-diluted and as converted basis both before and after the exchange.

In support of our waiver application, we confirmed to the Stock Exchange that:

(i) our Directors and the chief executive and their respective associates have not dealt in and will not deal in the Shares during the Prescribed Period except for the Proposed Dealings; and

(ii) we will notify the Stock Exchange of any dealing or suspected dealing by any connected persons of our Company, other than the Proposed Dealings, during the Prescribed Period of which we become aware.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

INFORMATION ABOUT THIS PROSPECTUS

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

SELLING RESTRICTIONS

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares.

Save as disclosed in this prospectus, no part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Purchase Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. For further details of the Underwriters and the underwriting arrangements, please refer to "Underwriting".

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Please refer to "Structure of the Global Offering" for details of the structure of the Global Offering, including its conditions.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

Please refer to "How to Apply for Hong Kong Offer Shares" and the relevant Application Forms for details of the application procedures for the Hong Kong Offer Shares.

SELLING SHAREHOLDERS

Please refer to "Statutory and general information—D. Other information—10. Selling Shareholders" in Appendix IV to this prospectus for details of the Selling Shareholders, including the number of Shares to be sold by the Selling Shareholders.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence on Wednesday, 9 July 2014. The Shares will be traded on the Main Board of the Stock Exchange in board lots of 500 Shares each. The stock code of the Shares will be 2186.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

REGISTERS AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar, Codan Services Limited, in Bermuda and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

We have instructed our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Bermuda Companies Act and our Bye-laws;

- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and

- authorises us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Bye-laws.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in the Offer Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains certain translations for the convenience of the reader at the following rates:

HK$1.00 to RMB0.8010
US$1.00 to RMB6.2090
US$1.00 to HK$7.7515

Additionally, for the convenience of the reader, the S$ to HK$ exchange rate as of 13 June 2014 according to the H.10 weekly statistical release of the Federal Reserve Board of the United States was S$1.00 to HK$6.1977.

These translations and exchange rates are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB, US$, HK$ or S$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

TRANSLATION

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation for reference only.

Please refer to "Directors and Senior Management" for further details of our Directors.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. LIU Dian Bo (劉殿波先生)	Room 98 198 Middle Binghai Road Laishan District Yantai, Shandong PRC	Chinese
Mr. YUAN Hui Xian (袁會先先生)	#09-08, 5 Guanhai Road Laishan District Yantai, Shandong PRC	Chinese
Mr. YANG Rong Bing (楊榮兵先生)	Block W39 1 Longdong Road Pudong New District Shanghai PRC	Chinese
Ms. ZHU Yuan Yuan (祝媛媛女士)	Room 401, Block 12 45 Chunquan Road Shanghai PRC	Chinese
Non-Executive Directors		
Mr. PAN Jian (潘健先生)	Flat E, 46th Floor, Block 8 The Belcher's 89 Pokfulam Road Pokfulam Hong Kong	Chinese
Mr. LIU Dong (劉東先生)	Flat 801, Unit 1 7/F, Building 505 Furong Garden Tongzhou District Beijing, PRC	Chinese
Ms. WANG Xin (王欣女士)	Flat 1014, 9/F Building 2 No. Jia 16 Baiziwan Road Chaoyang District Beijing, PRC	Chinese

Name	Address	Nationality
Independent Non-Executive Directors		
Mr. ZHANG Hua Qiao (張化橋先生)	House 2 Le Bleu Coastal Skyline 12 Waterfront Road Tung Chung Hong Kong	Chinese
Professor LO Yuk Lam (盧毓琳教授)	Flat C, 16/F Glory Heights 52 Lyttelton Road Mid Levels, Central Hong Kong	Canadian
Mr. LEUNG Man Kit (梁民傑先生)	Flat A, 16/F Ho King View 2 Braemar Hill Road Hong Kong	Chinese
Mr. CHOY Sze Chung Jojo (蔡思聰先生)	Flat B, 15/F Evelyn Tower 38 Cloud View Road North Point Hong Kong	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	UBS AG, Hong Kong Branch 52/F, Two IFC 8 Finance Street Central Hong Kong
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower 3 Garden Road Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
Joint Sponsors	UBS Securities Hong Kong Limited 42/F, One Exchange Square 8 Connaught Place Central Hong Kong

	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road Central Hong Kong
	CITIC Securities Corporate Finance (HK) Limited 26/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Hong Kong Underwriters	UBS AG, Hong Kong Branch 52/F, Two IFC 8 Finance Street Central Hong Kong
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower 3 Garden Road Central Hong Kong
	CITIC Securities Corporate Finance (HK) Limited 26/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Reporting Accountants	Ernst & Young Certified Public Accountants 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Legal Advisers to the Company	*as to Hong Kong and United States laws:* Ashurst Hong Kong 11/F Jardine House One Connaught Place Central Hong Kong

	as to PRC law: King & Wood Mallesons 40/F, Office Tower A Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing PRC
	as to Bermuda law: Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Legal Advisers to the Underwriters	*as to Hong Kong and United States laws:* Herbert Smith Freehills 23/F, Gloucester Tower 15 Queen's Road Central Hong Kong
	as to PRC law: Grandall Law Firm (Shanghai) 45-46/F Nanzheng Building 580 Nanjing West Road Shanghai PRC
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in China	No. 9 Baoyuan Road Laishan District Yantai 264003 Shandong PRC Unit D, 3rd Floor Hongqiao Business Centre No. 2272 Hongqiao Road Shanghai 200336 PRC
Principal Place of Business in Hong Kong	8/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's Website	www.luye.cn *(The information on the website does not form part of this prospectus)*
Company Secretary	Ms. Lai Siu Kuen (*FCIS, FCS*) 8/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong Please refer to "Directors and Senior Management—Company Secretary" for Ms. Lai's professional qualifications and biography.
Authorised Representatives	Mr. Yang Rong Bing Block W39 1 Longdong Road Pudong New District Shanghai PRC Ms. Zhu Yuan Yuan Room 401, Block 12 45 Chunquan Road Shanghai PRC

Audit Committee	Mr. Leung Man Kit *(Chairman)* Mr. Zhang Hua Qiao Professor Lo Yuk Lam
Remuneration Committee	Mr. Choy Sze Chung Jojo *(Chairman)* Mr. Zhang Hua Qiao Professor Lo Yuk Lam
Nomination Committee	Professor Lo Yuk Lam *(Chairman)* Mr. Zhang Hua Qiao Mr. Choy Sze Chung Jojo
Compliance Adviser	Guotai Junan Capital Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Share Registrar and Transfer Office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM11 Bermuda
Principal Bankers	Bank of China Limited Laishan Branch No. 139 Yingchun Avenue Laishan District Yantai, Shandong, PRC China Everbright Bank Yantai Laishan Branch No. 125 Yingchun Avenue Laishan District Yantai, Shandong, PRC Industrial and Commercial Bank of China Limited Yantai Laishan Branch No. 128 Guanhai Road Laishan District Yantai, Shandong, PRC Citibank (China) Limited Nanjing Branch 1st and 2nd Floor, World Trade Centre No. 2 Hanzhong Road Nanjing, Jiangsu, PRC

We believe that the sources of the information in this section are appropriate sources for such information, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. The information from official government and non-official sources has not been independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

OVERVIEW OF THE PRC HEALTHCARE MARKET

Our business operates in the large and rapidly growing healthcare industry in China. The healthcare industry in China is supported by a number of favourable socioeconomic factors such as China's economic growth and increasing disposable income, population growth and increased life expectancy, rising health consciousness and spending on healthcare, and PRC government support and healthcare reform plans.

PRIMARY GROWTH DRIVERS OF THE HEALTHCARE INDUSTRY IN CHINA

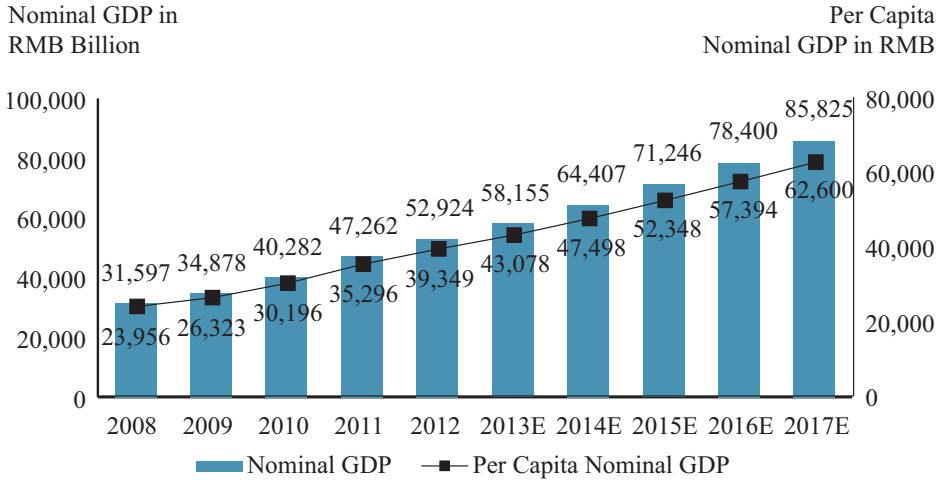
Economic Growth and Increasing Disposable Income

The PRC economy is one of the world's fastest growing economies. According to data from the National Bureau of Statistics, the nominal GDP of China increased from RMB31,597 billion in 2008 to RMB52,924 billion in 2012, representing a CAGR of 13.8% and an annual growth of 12.0% in 2012. According to Economist Intelligence Unit ("EIU"), the nominal GDP of China is expected to grow at a CAGR of 10.2% from RMB58,155 billion in 2013 to RMB85,825 billion in 2017.

According to calculations based on information from the National Bureau of Statistics and EIU, from 2008 to 2012, the per capita nominal GDP of China also increased from approximately RMB23,956 to approximately RMB39,349, representing a CAGR of 13.2%. The per capita nominal GDP of China is expected to grow at a CAGR of 9.8% from RMB43,078 in 2013 to RMB62,600 in 2017.

The following chart illustrates the historical and forecast growth of China's GDP for the periods indicated:

China Nominal GDP and Per Capita Nominal GDP



Source: National Bureau of Statistics and EIU

In addition to GDP growth, China is experiencing a growth in disposable income. According to calculations based on data from the National Bureau of Statistics and EIU estimates, the average per capita annual disposable income of China's residents increased from approximately US$1,426 in 2008 to US$2,654 in 2012, representing a CAGR of approximately 16.8%. The average per capita annual disposable income of China's residents is expected to grow at a CAGR of 12.4% from US$3,021 in 2013 to US$4,826 in 2017.

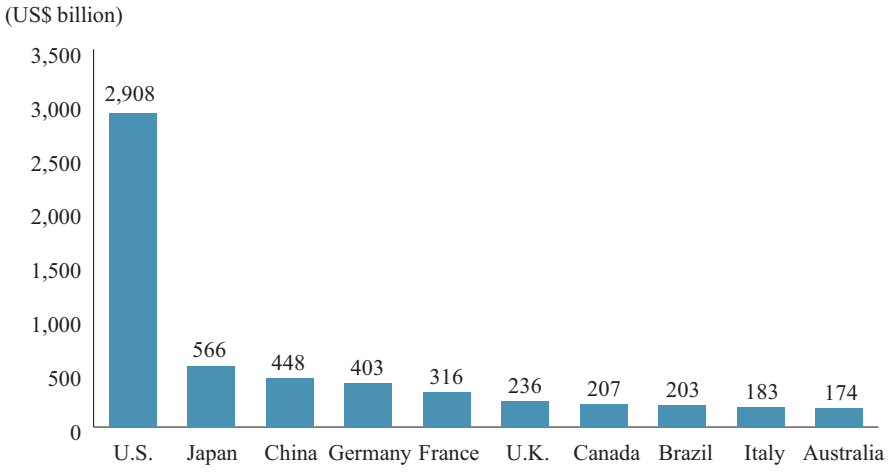
Population Growth and Increased Life Expectancy

The growth of China's population is expected to drive demand for healthcare in China. According to information from the National Bureau of Statistics and EIU, the population in China has increased from approximately 1.31 billion people in 2006 to approximately 1.35 billion people in 2012. According to calculations based on data from the National Bureau of Statistics and EIU, the proportion of the elderly people aged 65 or above in China has increased from 7.9% in 2006, or approximately 104.2 million people, to 9.4%, or approximately 127.1 million people, in 2012. Rising life expectancy is also expected to contribute to the growth of China's elderly population, both as an absolute number and as a percentage of the total population. We believe that the ageing population in China will drive healthcare spending and consequently drive the growth of the PRC healthcare industry.

Rising Health Consciousness and Spending on Healthcare

According to calculations based on information from WHO, the National Bureau of Statistics and EIU, China ranked third globally in terms of total healthcare expenditures in 2012. The following chart sets forth the total healthcare expenditures of the 10 largest healthcare markets in 2012.

Total Healthcare Expenditure in 2012



Source: WHO, National Bureau of Statistics and EIU

Based on data from the OECD, WHO and Espicom, with one-fifth of the world's population, China's per capita healthcare expenditure, despite growing at a CAGR of 19.9% from 2008 to 2012, remains relatively low. China's per capita healthcare expenditure was US$333 in 2012, the lowest among the 10 largest markets. The following table sets forth total and per capita healthcare expenditure information for the 10 largest healthcare markets in the world.

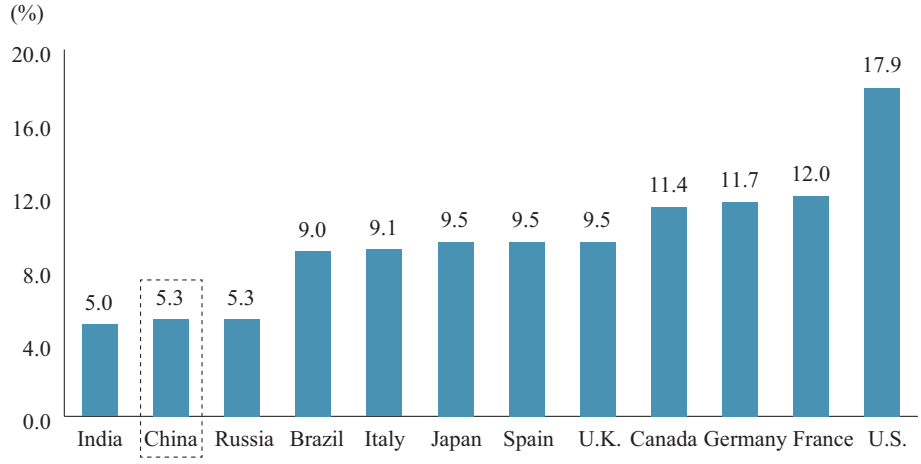
Healthcare Expenditure Information

	Total	Per capita		
	2012	2008	2012	CAGR (2008-2012)
	(US$bn)	(US$)	(US$)	(%)
U.S.	2,907.8	7,980	9,262	3.8
Japan	566.3	3,238	4,491	8.5
China	447.9	161	333	19.9
Germany	402.6	4,739	4,930	1.0
France	316.0	5,107	4,942	(0.8)
U.K.	235.6	3,970	3,732	(1.5)
Canada	206.7	4,769	5,927	5.6
Brazil	202.7	735	1,041	9.1
Italy	183.2	3,404	3,010	(3.0)
Australia	174.1	5,058	7,598	10.7

Source: OECD, WHO, National Bureau of Statistics, Espicom and EIU

According to information from the OECD, WHO and Espicom, China's total healthcare expenditure accounted for approximately 5.3% of its GDP in 2012, compared to 12.0% for France and 17.9% for the United States. The following chart sets forth the total healthcare expenditure as a percentage of GDP of selected countries in 2012:

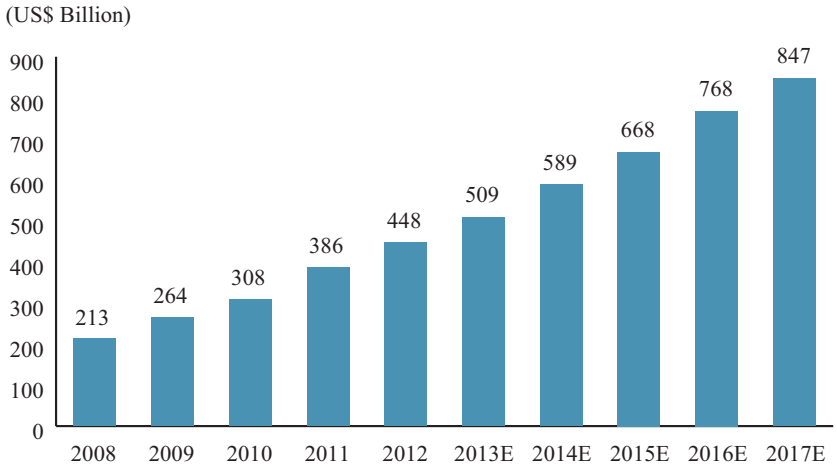
Healthcare Expenditure as a Percentage of GDP in 2012



Source: OECD, WHO and Espicom

According to calculations based on information from WHO, the National Bureau of Statistics and EIU, healthcare expenditure in China has experienced significant growth, increasing from US$213 billion in 2008 to US$448 billion in 2012, representing a CAGR of 20.5%. We believe that China's total healthcare expenditure will continue to increase rapidly as a result of a combination of favourable factors, including the fast-growing economy of China, increasing disposable income and health awareness, an ageing population, increased life expectancy and PRC government support. Total healthcare expenditure in China is expected to grow at a CAGR of 13.6% from 2013 to 2017, and reach US$847 billion in 2017.

Total Healthcare Expenditure in China



Source: WHO, the National Bureau of Statistics and EIU

Government Support and the Healthcare Reform Plans

In October 2008, the PRC government initiated a new healthcare reform plan to increase availability and lower the cost of healthcare services for PRC citizens. On 17 March 2009, the PRC government issued the Opinion on Deepening the Healthcare System Reform (《中共中央國務院關於深化醫藥衛生體制改革的意見》). Subsequently, the PRC government released the Implementation Plan for the Recent Priorities of the Healthcare System Reform (2009-2011) (《國務院關於印發醫藥衛生體制改革近期重點實施方案 (2009-2011) 的通知》). The goal of the healthcare reform plan is to establish a basic, universal healthcare framework to provide Chinese citizens with safe, efficient, convenient and affordable healthcare services. In March 2013, the MOF announced that the actual spending between 2009 and 2012 for these healthcare reform plans amounted to RMB2,242.7 billion, of which RMB655.5 billion was subsidised directly by the PRC central government. The reform plan aims to establish the following five fundamental healthcare systems in China:

- The public health services system, which is a complementary medical service system fully funded by the PRC government.
- The public medical insurance system that covers drugs and medical treatments for the majority of the population.
- The basic healthcare security system to build additional healthcare facilities and to improve the training of healthcare professionals in China.
- The drug supply system to regulate the pricing of drugs and how drugs will be procured, prescribed and dispensed in healthcare institutions.
- The public hospital reforms to build additional hospitals in rural areas, upgrade existing hospitals and further support for public hospitals.

According to the Implementation Plan for the Recent Priorities of the Healthcare System Reform (2009-2011), in implementing the series of programmes outlined in the healthcare reform plan, two-thirds of the original estimated funding of RMB850.0 billion for the healthcare industry was to be used for healthcare service users and the rest was to be used for healthcare service providers.

As part of the on-going reform, in August 2012, the PRC Ministry of Health released a new report with an updated plan called "Healthy China 2020", which is designed specifically to provide a strategic reform roadmap for the PRC healthcare industry. The "Healthy China 2020" report sets forth ten specific targets to be achieved before 2020, in particular the following:

- Further improvement in the key health indicators for the PRC population, so that by 2020, among other things, the average life expectancy of the PRC population reaches 77 years, the mortality rate of children less than five years old is below 1.3%, and the mortality rate for women during pregnancy is less than 0.02%. In addition, the report calls for the gap in health conditions among people living in regions in the PRC to be further narrowed.

- Improvement in the healthcare system to improve the standards and accessibility of healthcare services.
- Enhancement of the medical insurance system and reduction of the economic burden of patient of treatment for health problems.
- Leverage on advancements and adapt to developments in medical science.
- Further increase of investments in the healthcare industry, in particular support on R&D of innovative pharmaceutical products, so that healthcare expenditure will account for 6.5% – 7% of total GDP of PRC, and that strategic targets established under "Healthy China 2020" can be realised.

The key measures mentioned in the "Healthy China 2020" strategy report to promote the development of the PRC healthcare industry include the following:

- Continuing to improve the medical insurance system and further enhance insurance policies by increasing the compensation ratio under the basic medical insurance system; and continue to integrate the medical insurance systems in urban and rural areas by integrating the management of these systems.
- Actively promoting international exchange of ideas and collaboration.

In October 2013, The China State Council has released a plan, "Opinions on Promoting and Developing Health Services", further expanding on the country's aim to provide affordable healthcare for the population in a more seamless and integrated manner and to propel economic growth through healthcare investments in areas of health-related industries and medical tourism through to 2020. The plan also aims to foster the industry to be one of the key pillars of the economy, worth RMB8.0 trillion (US$1.3 trillion) over the period.

The key points in this plan include the following:

- Increase private investment in healthcare from various groups including corporations, charity organisations, and insurance firms; loosen conditions for healthcare joint ventures between local and foreign firms; and expand the conditions that will allow wholly foreign-owned health institutions.
- Develop the commercial/private health insurance industry by encouraging corporations to provide a variety of insurance options and government to procure services provided by qualified medical insurance firms.

The Rising Prevalence of Diseases in the PRC

As a developing economy, China is contending with a range of communicable and non-communicable diseases that form its morbidity and mortality profile. Leading public health issues include HIV/AIDS, cancer (stomach, lung and cervix, although breast cancer prevalence is also on the increase) and heart diseases. In the meantime, according to Business Monitor International, increased westernisation of lifestyles has resulted in the fast-rising prevalence of obesity in the country, while the number of diabetics has topped approximately 43 million. Latest research shows that Parkinson's and other central nervous system (CNS) disorders are on the increase as the population ages. There are approximately two million diagnosed Parkinson's disease sufferers, and the incidence rate of attention deficient hyperactivity disorder (ADHD) among Chinese children in the school-going age group reached 5% by April 2009. Osteoporosis, which is underdiagnosed, affects 69 million people above the age of 50.

According to the China National Bureau of Statistics, the top three causes of death in 2012 in both rural and urban areas in China are:

- Malignant Tumours
- Heart Disease
- Cerebrovascular disease

The table below summarises the top 10 causes of death due to diseases in 2012 in both rural and urban areas in China:

Death Rate of Major Diseases in Urban and Rural Areas (2012)

Urban	Crude mortality rate (1/100,000)	Rural	Crude mortality rate (1/100,000)
Malignant Tumours	164.5	Malignant Tumours	151.5
Heart Disease	131.6	Cerebrovascular Disease	135.9
Cerebrovascular Disease	120.3	Heart Disease	119.5
Diseases of the Respiratory System	75.6	Diseases of the Respiratory System	103.9
External Causes of Injury and Poison	34.8	External Causes of Injury and Poison	58.9
Endocrine, Nutritional & Metabolic Diseases	17.3	Diseases of the Digestive System	16.8
Diseases of the Digestive System	15.2	Endocrine, Nutritional & Metabolic Diseases	10.7
Diseases of the Nervous System	6.9	Diseases of the Genitourinary system	6.6
Diseases of the Genitourinary System	6.3	Diseases of the Nervous System	6.3
Other Diseases	23.8	Other Diseases	29.3

Source: China National Bureau of Statistics

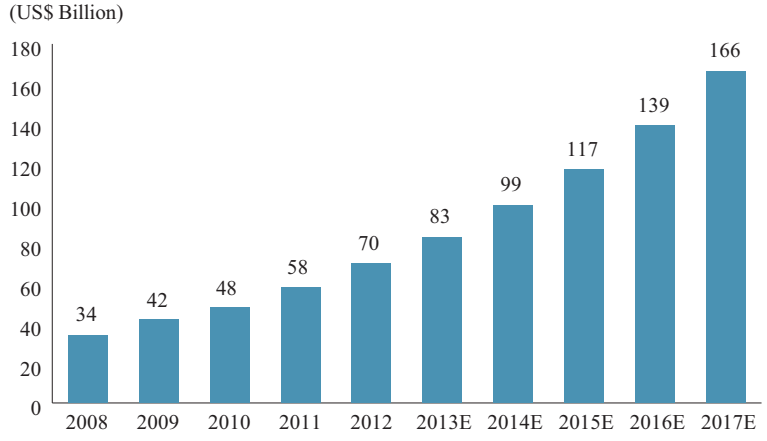
PHARMACEUTICAL MARKET IN CHINA

Market Size and Growth Rate of the Chinese Pharmaceutical Market

The Chinese pharmaceutical market has grown rapidly in recent years due to the favourable macroeconomic environment in terms of GDP growth, increases in healthcare expenditure in China and ageing population in China. According to Espicom, the Chinese pharmaceutical market grew from US$34.5 billion in 2008 to US$69.7 billion in 2012, representing a CAGR of 19.3%. Espicom estimates that the market will grow to US$166.0 billion in 2017, representing a CAGR of 18.8% from 2013 to 2017.

The following chart illustrates the historical and forecast market size of the pharmaceutical market in China for the periods indicated:

China Pharmaceutical Market Size



Source: Espicom

General Description of the PRC Pharmaceutical Industry

Fragmentation of the PRC Pharmaceutical Industry

The pharmaceutical industry in the PRC is highly fragmented and competitive, with more than 6,986 pharmaceutical manufacturers in 2013 according to CFDA. According to IMS, the top 20 pharmaceutical manufacturers in terms of sales in 2013 accounted for only 25.1% of the total PRC pharmaceutical market, while the largest five pharmaceutical manufacturers only accounted for 9.2%. The local industry accounts for approximately 75% of China's pharmaceutical market, although the industry is extremely fragmented, with few players commanding dominant shares. Ongoing consolidation of the local industry players will be accelerated by the drive to bring manufacturing standards in line with international GMP standards by 2015. As smaller companies without the necessary financial resources to upgrade their facilities turn to alternative businesses or exit the market, the larger competition will increase their market share in line with the 12th five-year plan for 2011-2015. The plan's goal is for at least five companies to achieve annual sales of over RMB50 billion and for the top 100 companies to account for at least 50% of total revenues by 2015. Since most local pharmaceutical manufacturers lack scale, nationwide sales capabilities and product breadth, we believe that pharmaceutical manufacturers with well-developed nationwide distribution networks, strong existing product portfolios and effective strategies to expand their product portfolios are well-positioned to capture the opportunities to expand and consolidate their businesses and become industry leaders in the PRC.

Innovative Drugs and Generic Drugs

Pharmaceutical products are categorised as either innovative drugs or generic drugs. Innovative drugs refer to drugs with active ingredients that are new chemical or biochemical entities, while generic drugs refer to drugs with the same active ingredients as, and are considered equivalent to, an innovative drug. The pharmaceutical market in the PRC has been dominated by generic drugs, and innovative drugs only make up a relatively small portion of the PRC pharmaceutical market. Most domestic pharmaceutical companies in the PRC manufacture and sell generic drugs including branded generic drugs, while drugs sold by multinational pharmaceutical companies are mostly innovative drugs, including those that have come off patent.

The 12th five-year-plan for 2011-2015 also highlighted the development of innovative pharmaceutical products as a National Science and Technology Major Project. Through this project, the government intends to provide further support to encourage innovation within the pharmaceutical industry in China with the aim of securing more technological breakthroughs in the R&D and manufacturing of pharmaceuticals. The government would seek to support the launch of 30 domestically originated innovative pharmaceutical products and encourage improvements to approximately 200 types of existing pharmaceutical products through various R&D initiatives. Support will also be provided to promote enhancements to pharmaceutical technological platforms and the continued modernisation of Chinese medicines. In addition, the government intends to encourage further establishments of strategic alliances amongst market participants to promote innovation within the pharmaceutical industry, support the development of a robust domestic innovative pharmaceutical industry and increase domestic pharmaceutical manufacturers' R&D capabilities and overall competitiveness.

Pharmaceutical Market in China by Therapeutic Area

According to MENET, the following five therapeutic areas accounted for 74.3% of the pharmaceutical market in China in 2013:

- antineoplastic agents and immunomodulators;
- systemic anti-infection drugs;
- cardiovascular system drugs;
- alimentary tract and metabolism drugs; and
- blood and blood forming organ drugs.

The following table sets forth market share data of the pharmaceutical market in China by therapeutic area:

	% of the PRC Pharmaceutical Market in 2013	Market growth CAGR 2008-2013
Antineoplastic Agents and Immunomodulators	18.8%	18.0%
Systemic Anti-infectives	15.3%	6.2%
Cardiovascular System	14.4%	18.1%
Alimentary Tract and Metabolism	14.1%	19.2%
Blood and Blood-Forming Organs	11.8%	17.7%
Central Nervous System	10.9%	22.3%
Musculoskeletal System	3.4%	20.6%
Respiratory System	3.1%	21.4%
Systemic Hormonal Preparations (Excluding Sex Hormones)	1.9%	17.0%
Genitourinary System and Sex Hormones	1.4%	17.1%
Others	4.9%	17.4%

Source: MENET

ONCOLOGY DISEASES IN THE PRC

Overview

Oncology diseases are commonly known as cancer, malignant tumours and neoplasms. According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the total diagnosed cases of oncology diseases increased from two million cases in 1993 to four million in 2008. Oncology disease has been a major cause of death in the PRC. According to the China National Bureau of Statistics, oncology diseases were responsible for approximately 25% of deaths caused by diseases in the PRC in 2012 and represent the largest cause of death in the same year.

According to WHO, cancer arises from the transformation of a normal cell into a tumour cell through a multistage process, typically a progression from a pre-cancerous lesion to malignant tumours. Tobacco use, alcohol use, unhealthy diet and physical inactivity are the main causes of cancer worldwide. Chronic infections from hepatitis B virus ("**HBV**"), hepatitis C virus ("**HCV**") and some types of Human Papilloma Virus ("**HPV**") are also direct causes of cancer. Ageing is another fundamental factor that leads to the development of cancer. We believe that an ageing population and unhealthy lifestyle changes associated with urbanisation and economic growth will continue to contribute to an increasing prevalence rate of oncology diseases in the PRC, which will have a direct impact on the demand for drugs and medical services for such diseases.

According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the following table illustrates an increasing historical prevalence rate in the PRC of the major chronic diseases within the malignant tumours and benign tumours categories. The national survey is conducted every five years.

	1998	2003	2008
Malignant tumours	0.1%	0.1%	0.2%
Benign tumours	0.1%	0.1%	0.1%

Source: MOH

CARDIO-CEREBRAL VASCULAR DISEASES IN THE PRC

Overview

Cardio-cerebral vascular diseases are a group of diseases with symptoms or origins from or related to the heart, blood vessels or the blood supply to the brain. According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the total diagnosed cases of cardio-cerebral vascular diseases increased from 35 million cases in 1993 to 108 million in 2008. Cardio-cerebral vascular diseases have been a major cause of death in the PRC. According to the China National Bureau of Statistics, cerebrovascular and cardiovascular diseases, in aggregate, were responsible for approximately 40% of deaths caused by diseases in the PRC in 2012, and each of cerebrovascular and cardiovascular diseases was among the top three leading causes of death in the same year.

According to WHO, behavioural risk factors are responsible for approximately 80% of cardio-cerebral vascular diseases. These risk factors include unhealthy diet, physical inactivity, tobacco use and harmful use of alcohol. Other factors that contribute to the prevalence of cardio-cerebral vascular diseases include globalisation, urbanisation, population ageing, poverty, stress and hereditary factors. The effects of unhealthy diet and physical inactivity may manifest raised level of blood pressure (hypertension), blood glucose (diabetes) and blood lipids (hyperlipidaemia), overweight and obesity. There are often little to no early symptoms of the underlying disease of the blood vessels that precede severe acute complications such as heart attack (cardiac infarction) or stroke.

According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the following table illustrates an increasing historical prevalence rate in the PRC of the major chronic diseases within the cardio-cerebral vascular diseases category.

	1998	2003	2008
Cardiovascular diseases	1.4%	1.4%	1.8%
Cerebrovascular diseases	0.6%	0.7%	1.0%
Hypertension	1.6%	2.6%	5.5%

Source: MOH

We believe that an ageing population and lifestyle changes associated with urbanisation and economic growth will continue to contribute to an increasing prevalence rate of cardio-cerebral vascular diseases in the PRC, which will have a direct impact on the demand for drugs and medical services for such diseases.

DIABETES IN THE PRC

Overview

Diabetes is a chronic disease that occurs either when the pancreas does not produce enough insulin or when the body cannot effectively use the insulin it produces. Insulin is a hormone that regulates blood sugar level. Hyperglycaemia, or raised blood sugar level, is a common effect of uncontrolled diabetes and over time leads to serious damages to many of the body's systems, especially the nerves system and cardiovascular system. There are three main types of diabetes: type 1 diabetes, type 2 diabetes and gestational diabetes:

1. Type 1 diabetes is characterised by deficient insulin production and requires daily administration of insulin. The cause of Type 1 diabetes is not known and it is not preventable currently.

2. Type 2 diabetes results from the body's ineffective use of insulin. Type 2 diabetes is largely the result of excess body weight and physical inactivity.

3. Gestational diabetes is hyperglycaemia with onset or first recognition during pregnancy.

According to International Diabetes Federation, 382 million people worldwide and 98.4 million people in China had diabetes in 2013. Among these type 2 diabetes patients worldwide, 80% lived in low and middle income countries in 2013. According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the total diagnosed cases of diabetes increased from two million cases in 1993 to 14 million in 2008. According to the China National Bureau of Statistics, endocrinology and metabolic diseases were responsible for approximately 2% of deaths caused by diseases in the PRC in 2012.

According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the following table illustrates an increasing historical prevalence rate in the PRC of the major chronic diseases within the endocrinology and metabolic diseases category.

	1998	2003	2008
Endocrinology and metabolic diseases	0.5%	0.8%	1.3%
Diabetes	0.3%	0.6%	1.1%

Source: MOH

CENTRAL NERVOUS SYSTEM DISEASES IN THE PRC

Overview

Central nervous system diseases are diseases of the brain, spinal cord, cranial nerves, nerve roots and autonomic nervous system. These disorders include epilepsy, Alzheimer's disease and other dementias, Parkinson's disease, neuroinfections, brain tumours, traumatic disorders of the nervous system and mental disorders such as depression, insomnia and anxiety. According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the total diagnosed cases of central nervous system diseases decreased from nine million cases in 1993 to eight million in 2008. According to the China National Bureau of Statistics, central nervous system diseases were responsible for approximately one per cent of deaths caused by diseases in the PRC in 2012. We believe that the decrease in total diagnosed cases of central nervous system diseases during this period can be attributed to a lack of awareness amongst the general public on the importance of treating central nervous system diseases.

According to WHO, depression is the leading cause of disability worldwide, and is a major contributor to the global burden of disease (a measurement that combines the years of life lost due to premature mortality and years of life lost due to time lived in states of less than full health). According to the central government of the PRC, there were approximately 26 million people suffering from depression in 2013. However, less than ten per cent of patients have received related medication. We believe increasing awareness amongst the general public on the importance of treating central nervous system diseases will have a direct impact on the demand for drugs and medical services for such diseases in the future.

According to the MOH's Fourth National Survey on the PRC's Healthcare Services, the following table illustrates the historical prevalence rate in the PRC of the major chronic diseases within the mental disorders and nervous system diseases categories.

	1998	2003	2008
Mental disorders	0.2%	0.2%	0.2%
Nervous system diseases	0.5%	0.4%	0.4%

Source: MOH

SOURCE OF INFORMATION

The information and statistics set out in this section have been extracted or derived from public and private publications of certain information providers, including EIU, MENET, IMS, Business Monitor International, Espicom and BCC Research. All of these information providers are independent third parties and the reports and sources used by such information providers are not commissioned by us.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign-invested enterprises in China must follow applicable Chinese laws and regulations and must not engage in activities detrimental to China's public interest. The Company, an exempted company with limited liability incorporated in Bermuda, is a foreign investor under Chinese laws, therefore all of its PRC subsidiaries are foreign-invested enterprises and are governed by the Foreign Investment Catalogue (defined below) and other applicable Chinese laws and regulations.

Catalogue of Industries for Guiding Foreign Investment

The Catalogue of Industries for Guiding Foreign Investment (2011 Version) (《外商投資產業指導目錄(2011年版)》) (the "Foreign Investment Catalogue"), jointly promulgated by the NDRC and the Ministry of Commerce, or the MOC on 24 December 2011, became effective on 30 January 2012 and repleaded the Catalogue of Industries for Guiding Foreign Investment (2007 version) (《外商投資產業指導目錄(2007年版)》), effective on 1 December 2007. Both versions of the Foreign Investment Catalogue divide foreign investments in the pharmaceutical industry into four categories encouraged, permitted, restricted or prohibited. Encouraged foreign investments are eligible to receive certain benefits and incentives from the government, which may change from time to time; permitted foreign investments are permitted without restrictions, but are not eligible for benefits and incentives from the government; restricted foreign investments are permitted subject to restrictions; and prohibited foreign investments are not allowed.

None of the Company's investments in the pharmaceutical industry falls within the restricted or prohibited category and accordingly, the Company is not subject to restrictions or prohibitions under the Foreign Investment Catalogue. During the Track Record Period, the Company's investments in some of its PRC subsidiaries fell within the encouraged category and as a result, these subsidiaries received certain tax benefits and grants from relevant government authorities.

PRC REGULATORY FRAMEWORK IN RELATION TO THE PHARMACEUTICAL INDUSTRY

China's pharmaceutical industry is highly regulated by the PRC government. The Pharmaceutical Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), as amended on 28 December 2013, provides the basic legal framework for the administration of the production and sale of pharmaceutical products in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceutical products in China.

As a PRC-based pharmaceutical company, our PRC subsidiaries are subject to regulation and oversight by various government authorities in China. The primary regulatory authorities are the CFDA (known as SFDA before) and the NDRC, including their provincial and local branches. Other regulatory authorities include the MOH and the Ministry of Commerce, or the MOC.

The CFDA regulates and supervises the research, production, marketing, distribution and use of pharmaceutical products in China. CFDA's provincial and local branches are responsible for the supervision and administration of pharmaceutical products within their respective administrative regions. Almost every step of our production and sale activities is subject to the CFDA and its branches' regulation.

The NDRC is responsible for the macro supervision and management of the healthcare industry, including development planning, technological upgrading, investment programmes, and medical institution operations. The NDRC also regulates the retail price of medicines, including setting national unified retail prices or maximum retail prices for certain medicines listed in the national Medical Insurance Catalogue or for medicines with a monopoly status in production or distribution.

The MOH performs a variety of regulatory functions in drug administration, including carrying out the healthcare system reform, establishing and implementing the national essential drugs system, issuing the National List of Essential Drugs, proposing pricing policies for the National Essential Drugs and supervising medical institutions.

The Ministry of Commerce, or the MOC, regulates the wholesale of pharmaceutical products in China, and makes plans and policies for the development, restructuring and reform of the pharmaceutical wholesale and distribution industry.

PRC laws and regulations require an enterprise to obtain permits, licences or registrations from relevant governing authorities in order to engage in the development, manufacture or distribution of pharmaceutical products in China.

PRC LAWS AND REGULATIONS RELATING TO THE MANUFACTURE OF PHARMACEUTICAL PRODUCTS

Manufacturers of pharmaceutical products in the PRC must obtain a variety of permits, licences and registrations before commencing operations and production. These include a business licence, a pharmaceutical production licence, a GMP certification, and approval and registration documents in relation to the pharmaceutical products to be produced.

Pharmaceutical Production Licence and Business Licence

According to Pharmaceutical Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), effective on 1 December 2001 and amended on 28 December 2013, no pharmaceutical products may be produced without a pharmaceutical production licence. A manufacturer of pharmaceutical products must obtain a pharmaceutical production licence from one of CFDA's provincial level branches in order to commence production of pharmaceuticals. Prior to granting such licence, the relevant government authority will inspect the manufacturer's production facilities, and decide whether the sanitary conditions, quality assurance system, management structure and equipment within the facilities have met the required standards. According to the Regulations of Implementation of the Law of the People's Republic of China on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法實施條例》), effective on 15 September 2002, a pharmaceutical production licence is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority.

In addition, before commencing business, a pharmaceutical manufacturer must also obtain a business licence from the relevant administration for industry and commerce.

Good Manufacturing Practices or GMP

A manufacturer of pharmaceutical products and pharmaceutical materials must obtain GMP certification to produce pharmaceutical products and pharmaceutical materials in China. The Administrative Measures Governing the Production Quality of Pharmaceutical Products (《藥品生產質量管理規範》) (the "Administrative Measures for Production") provides detailed guidelines on practices governing the production of pharmaceutical products. A GMP certification certifies that a manufacturer's factory has met certain criteria in the Administrative Measures for Production, which include: institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reaction reports.

According to the Administrative Measures for Certification of the Good Manufacturing Practices (《藥品生產質量管理規範認證管理辦法》), effective on 2 August 2011, a manufacturer of pharmaceutical products shall reapply for the GMP certification six months prior to its expiration date.

Continuing Supervision by the CFDA

A manufacturer of pharmaceutical products is subject to periodic inspection and safety monitoring by the CFDA to determine its compliance with regulatory requirements. The CFDA can take a variety of enforcement actions to enforce its regulations and rules, such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and transfer to the relevant authority for criminal investigation.

PRC LAWS AND REGULATIONS RELATING TO THE REGISTRATION OF PHARMACEUTICAL PRODUCTS

Registration of New Drugs

In accordance with the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) (the "Measures for Drug Registration"), effective on 1 October 2007, application for new drugs refers to application for registration of drugs that have not been marketed in China. Application for changing dosage form or route of administration, or claiming a new indication for marketed drugs, shall be submitted as a new drug application.

All new drug applications must undergo four phases before launch: pre-clinical research, phase I clinical trial (preliminary pharmacology and human safety evaluation trials), phase II clinical trial (a preliminary exploration on the therapeutic efficacy), and phase III clinical trial (confirmation of the therapeutic efficacy). After the new drug is launched, a phase IV clinical trial is conducted to assess the product's efficacy and adverse reactions when widely used.

Upon completion of the pre-clinical research, new drug applicants must obtain approval from the CFDA prior to commencing clinical trials. Application materials must first be submitted to the CFDA at the provincial level. Upon receipt of the application, the CFDA at the provincial level will review the applicant's submission and conduct on-site inspections. The CFDA at the provincial level will then submit its inspection opinion and report, as well as the application materials to the CFDA. If the drug to be registered is a biological product, sample drugs must be examined by the drug inspection bureau, which will provide a verification report to the CFDA. Upon receipt of the above materials, the CFDA will conduct both technical and non-technical reviews of the application to decide whether to grant an approval for drug clinical trials.

After completion of the clinical trials, the applicant shall fill in the form of application for drug registration and submit its application materials to the CFDA at the provincial level and the National Institute for the Control of Pharmaceutical and Biological Products. The CFDA at the provincial level will conduct on-site inspections and preliminary review of the application materials. For drugs other than biological products, sample drugs must be taken for verification by the drug inspection bureau. After their inspections and assessment of the application, the CFDA at the provincial level and the drug inspection bureau will report to the CFDA, which will conduct a final assessment to consider whether an approval for registration of the new drug shall be granted. If approved, the applicant will be granted a new drug certificate and a drug approval number and may commence mass production of the new drug.

To protect public health, the CFDA may set an observation period of up to five years in respect of any new drug approved for production. During the observation period, the drug manufacturer shall investigate the manufacturing processes, qualify, stability, therapeutic effect and adverse reactions etc. of the new drug and report annually to the CFDA at the provincial level. The CFDA shall not approve other manufacturers to produce, change dosage form of or import the drug during the monitoring period.

Pursuant to the Measures for Drug Registration, chemical drugs are categorised into six different registration classes. Class I New Chemical Drug is a new chemical drug that has never been marketed in China or abroad, including (1) crude drugs made by synthesis or semi-synthesis and the preparations thereof; (2) new effective monomer extracted from natural substances or by fermentation and the preparations thereof; (3) optical isomer obtained from existing drugs by chiral separation or synthesis and the preparations thereof; (4) drug with fewer components derived from marketed multi-component drugs; (5) new combination products; and (6) a preparation already marketed in China but with a newly added indication not yet approved in any country. Different application materials are required for each registration category.

In accordance with Provisions on the Administration of Special Examination and Approval of Registration of New Drugs (《新藥註冊特殊審批管理規定》), effective on 7 January 2009, a new drug application that meets certain requirements as specified below will be handled with priority in the review and approval process. In addition, the applicant is entitled to provide additional materials during the review period besides those requested by the CFDA, and will have access to enhanced communication channels with the CFDA.

Applicants for the registration of the following new drugs are entitled to request for priority treatment in review and approval: (1) effective components extracted from the plants, animals, minerals and other materials the preparations thereof that have not been marketed within China, and newly discovered drug materials and the preparations thereof; (2) chemical drug substances and the preparations thereof that have not been approved for marketing in China or abroad; (3) new drugs for the treatment of diseases such as AIDS, malignant tumours and rare diseases, etc. with significant clinical advantage; and (4) new drugs for the treatment of diseases, for which effective therapeutic methods are not available. Some applications for Class I New Chemical Drugs may fall within the above categories and therefore may be eligible for priority treatment by the CFDA in the review and approval process.

Registration of Generic Drugs

In accordance with the Measures for Drug Registration, application for generic drugs refers to the registration application for producing drugs that have been approved by the CFDA to be marketed in China and have existing national standard for production. Pharmaceutical manufacturers are required to register their generic drugs in the form of application for recognition of compliance with national standards before commencement of manufacturing of such products.

To apply for approval to manufacture a drug with existing national standards, the applicant must submit, among other things, relevant information prepared in accordance with the relevant national standards to the CFDA at the provincial level, which will then review the applicant's submission and conduct on-site inspection. Three consecutive production batches of drug samples will be collected from the applicant's production site for examination by the drug inspection bureau appointed by the CFDA. After the preliminary review, the CFDA at the provincial level and the drug inspection bureau will then submit the relevant materials and inspection report to the CFDA, which will conduct a final assessment of the application to consider whether an approval should be granted. If approved, the applicant will be granted a drug approval number or an approval for drug clinical trials. After completing drug clinical trials, the applicant shall submit clinical trial data to the CFDA. The CFDA shall issue a drug approval number or a disapproval notice based on the technical review opinions.

Supplemental Application

Supplementary application refers to application for variation, addition, or cancellation of the items or contents approved in the original application for new pharmaceutical products, generic drug. Where changes or modifications are proposed to a registered medicine in respect of, among other things, its drug standard, curative effects or production technology, the pharmaceutical enterprise which is the applicant or holder of relevant registration certificate for such medicine is required to apply to the provincial level drug administration authority or CFDA.

Re-registration

An approval number for medicine issued by the CFDA is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority.

PRC LAWS AND REGULATIONS RELATING TO DISTRIBUTION OF PHARMACEUTICAL PRODUCTS

Luye Trading, a distributor of pharmaceutical products and medical devices, must obtain a variety of permits and licences before commencing its operations. These include a business licence, a pharmaceutical operation permit, a GSP certificate and a medical device operation permit.

Pharmaceutical Operation Permit and Business Licence

The establishment of a wholesale or retail pharmaceutical distribution company requires the approval of CFDA of the provincial level. Upon approval, the authority will grant a pharmaceutical operation permit. According to The Measures for the Administration of Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》), the pharmaceutical operation permit is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority.

In addition, before commencing business, a wholesale or retail pharmaceutical distribution company must also obtain a business licence from the relevant administration for industry and commerce.

Good Supply Practices or GSP

Each retail or wholesale operator of pharmaceutical products is required to obtain a GSP certificate from CFDA. According to Administrative Measures for Certification of Good Supply Practices (《藥品經營質量管理規範認證管理辦法》), promulgated on 24 April 2003, and Administrative Measures Governing the Supply Quality of Pharmaceutical Products (《藥品經營質量管理規範》), promulgated on 1 July 2000 and amended on 1 June 2013, the GSP certificate is valid for five years and may be renewed three months prior to its expiration date upon a re-examination by the relevant authority.

PRC LAWS AND REGULATIONS RELATING TO COMMERCIAL BRIBERIES WITH RESPECT TO PHARMACEUTICAL INDUSTRY

Medical production and operation enterprises involved in criminal, investigation or administrative procedure for commercial bribery shall be listed in the Adverse Records of Commercial Briberies by provincial health and family planning administrative department. Pursuant to the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) enforced on 1 March 2014 by the National Health and Family Planning Commission, if medical production and operation enterprises be listed into the Adverse Records of Commercial Briberies for the first time, their production shall not be purchased by public medical institutions, and medical and health institutions receiving financial subsidies in local province in two years from public of the record, and public medical institution, and medical and health institutions receiving financial subsidies in other province shall lower their rating in bidding or purchasing process. If medical production and operation enterprises be listed into the Adverse Records of Commercial Briberies twice or more times in five years, their production shall not be purchased by public medical institutions, and medical and health institutions receiving financial subsidies nationwide in two years from public of the record.

As advised by our PRC legal adviser, from a PRC law perspective, a pharmaceutical company will not be penalised by the relevant PRC government authorities merely by virtue of having contractual relationships with distributors or third party promoters who are engaged in bribery activities, so long as such pharmaceutical company and its employees are not utilising the distributors or third party promoters for the implementation of, or acting in conjunction with them in, the prohibited bribery activities. In addition, a pharmaceutical company is under no legal obligation to monitor the operating activities of its distributors and third party promoters, and will not be subject to penalties or sanctions by relevant PRC government authorities as a result of failure to monitor their operating activities.

PRC LAWS AND REGULATIONS RELATING TO THE MEDICAL DEVICE OPERATION

In accordance with the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), which became effective on 1 April 2000 and was amended on 12 February 2014 (with the amendments becoming effective on 1 June 2014) and the Measures for the Administration of Permits for Medical Devices Operation Enterprises (《醫療器械經營企業許可證管理辦法》), which became effective on 9 August 2004, an enterprise engaged in wholesale or retail of medical devices must keep a record with the municipal level food and drug administration before commencing the distribution of class II medical devices, and must obtain an operation permit before commencing the distribution of class II medical devices. An operation permit is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority.

PRC LAWS AND REGULATIONS RELATING TO THE IMPORT OF PHARMACEUTICAL PRODUCTS

Under the Measures for the Administration of Pharmaceutical Product Import (《藥品進口管理辦法》), an enterprise that imports pharmaceutical products is required to report to the local food and drug administration which has jurisdiction over the import port before proceeding to custom clearance. And a port inspection is also compulsory prior to import into China.

PRC LAWS AND REGULATIONS RELATING TO THE PROTECTION OF PHARMACEUTICAL PRODUCTS

Protection under Patent Law

The PRC first allowed patents for the protection of proprietary rights as set forth in the PRC Patent Law (《中華人民共和國專利法》). Pharmaceutical inventions became patentable after the Patent Law was amended on 1 January 1993. Patents are divided into three categories: inventions, utility-models and designs, and we have patents in all these three categories**.** The term "invention" refers to any new technical solution relating to a product, a process or an improvement thereof. The term "utility model" refers to any new technical solution relating to a product's shape, structure, or a combination thereof, which is fit for practical use. The term "design" refers to any new design of a product's shape, pattern or a combination thereof, as well as the combination of the colour and the shape or pattern of a product, which creates an aesthetic feeling and is fit for industrial application. Patents relating to pharmaceutical inventions are effective for 20 years from the initial date the patent application was filed. Under the PRC Patent Law, the term of patent protection starts from the date the patent was filed, instead of the date it was issued. Patents relating to utility-models and designs are effective for ten years from the initial date the patent application was filed. Existing patents can become invalid or unenforceable due to a number of factors, including known or unknown prior art, deficiencies in patent application, and lack of originality in technology.

Any persons and entities using the patent in the absence of authorisation from the patent owner or conducting other activities which infringe upon patent rights will be held liable for compensation to the patent owner, subject to fines charged by relevant administrative authorities and may include criminal liabilities.

Protection under Trademark Law

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated in 1982 (later amended on 30 August 2013), and the PRC Trademark Implementing Regulations (《中華人民共和國商標法實施條例》) were promulgated on 2 August 2002 and amended on 29 April 2014. These laws provide the basic legal framework for the regulation of trademarks in the PRC. The Trademark Office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a "first-to-file" principle with respect to trademarks. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The SAIC has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

Protection of Chinese Medicine

The State Council promulgated the Regulations on the Protection of Chinese Medicine (《中藥品種保護條例》) on 14 October 1992, which came into effect on 1 January 1993 ("the Chinese Medicine Regulations"), for the purposes of improving the quality and promoting the

development of traditional Chinese medicines, as well as protecting their manufacturers' legitimate rights and interests. Under the current regulatory framework, Chinese medicines eligible for state protection are limited to those in compliance with national standards. As a result, new Chinese medicine products recognised as in compliance with national standards and generic Chinese medicine products which already gained their recognition of compliance with national standards may apply for state protection and the manufacturer may apply for the Certificate for the Protection of Chinese Medicine. Medicines covered by the Chinese Medicine Regulations are divided into Grade 1 and Grade 2 for their protection. Grade 1 protection lasts for 30 years, 20 years, and/or 10 years; Grade 2 protection lasts for seven years. During the protection period, unless it is in urgent use and approved by CFDA, the protected Chinese medicine shall be manufactured only by the manufacturer who has obtained the Certificate for the Protection of Chinese Medicine.

PRC LAWS AND REGULATIONS RELATING TO THE NATIONAL MEDICAL INSURANCE PROGRAMME AND PRICE CONTROLS OF PHARMACEUTICAL PRODUCTS

Reimbursement under the National Medical Insurance Programme

The national medical insurance programme was adopted pursuant to the Decision of the State Council on the Establishment of the Urban Employee Basic Medical Insurance Programme (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by the State Council on 14 December 1998, under which all employers in urban cities are required to enrol their employees in the basic medical insurance programme and the insurance premium is jointly contributed by the employers and employees. The State Council promulgated Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance (國務院關於開展城鎮居民基本醫療保險試點的指導意見) on 10 July 2007, under which urban residents of the pilot district, rather than urban employees, may voluntarily join Urban Resident Basic Medical Insurance. The State Council expects the pilot Urban Resident Basic Medical Insurance to cover the whole nation by 2010.

According to the PRC National Bureau of Statistics, approximately RMB536.4 million and RMB473.4 million people in China were enrolled in the national medical insurance programme as of 31 December 2011 and 2012, respectively. Participants of the national medical insurance programme and their employers, if any, are required to contribute to the payment of insurance premium on a monthly basis. Programme participants are eligible for full or partial reimbursement of the cost of medicines included in the Medical Insurance Catalogue. The Notice Regarding the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Employee (《關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知》), jointly issued by several authorities including the Ministry of Labour and Social Security and the MOF, among others, on May 12, 1999, provides that a pharmaceutical product listed in the Medical Insurance Catalogue must be clinically needed, safe, effective, reasonably priced, easy to use, available in sufficient quantity, and must meet the following requirements:

- it is set forth in the Pharmacopoeia of the PRC;
- it meets the standards promulgated by the CFDA; and
- if imported, it is approved by the CFDA for import.

Factors that affect the inclusion of a pharmaceutical product in the Medical Insurance Catalogue include whether the product is consumed in large volumes and commonly prescribed for clinical use in the PRC and whether it is considered to be important in meeting the basic healthcare needs of the general public.

The PRC Ministry of Labour and Social Security, together with other government authorities, has the power to determine the medicines included in the national Medical Insurance Catalogue, which is divided into two parts, Part A and Part B. Provincial governments are required to include all Part A medicines listed on the national Medical Insurance Catalogue in their provincial Medical Insurance Catalogue, but have the discretion to adjust upwards or downwards by no more than 15% from the number of Part B medicines listed in the national Medical Insurance Catalogue. As a result, the contents of Part B of the provincial Medical Insurance Catalogues may differ from region to region in the PRC.

Patients purchasing medicines included in Part A of the Medical Insurance Catalogue are entitled to reimbursement of the entire amount of the purchase price. Patients purchasing medicines included in Part B of the Medical Insurance Catalogue are required to pay a certain percentage of the purchase price and obtain reimbursement for the remainder of the purchase price. The percentage of reimbursement for Part B medicines differs from region to region in the PRC.

The total amount of reimbursement for the cost of medicines, in addition to other medical expenses, for an individual participant under the national medical insurance programme in a calendar year is capped at the amounts in such participant's individual account under such programme. The amount in a participant's account varies, depending on the amount of contributions from the participant and his or her employer.

National List of Essential Drugs

On 18 August 2009, MOH and eight other ministries and commissions in the PRC issued the Provisional Measures on the Administration of the National List of Essential Drugs (《國家基本藥物目錄管理辦法(暫行)》) (the "Measures on Essential Drugs"), and the Guidelines on the Implementation of the National List of Essential Drugs System (《關於建立國家基本藥物制度的實施意見》) (the "Essential Drugs Guidelines"), which aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC has equal access to the drugs contained in the National List of Essential Drugs. MOH promulgated the National List of Essential Drugs (Catalog for the Basic Healthcare Institutions) (《國家基本藥物目錄(基層醫療衛生機構配備使用部分)》) on 18 August 2009, and promulgated the revised National List of Essential Drugs (《國家基本藥物目錄》) on 13 March 2013. According to these regulations, basic healthcare institutions funded by government, which primarily include county-level hospitals, county-level Chinese medicine hospitals, rural clinics and community clinics, shall store up and use drugs listed in National List of Essential Drugs. The drugs listed in National List of Essential Drugs shall be purchased by centralised tender process and shall be subject to the price control by NDRC. Remedial drugs in the National List of Essential Drugs are all listed in the Medical Insurance Catalogue and the entire amount of the purchase price of such drugs is entitled to reimbursement.

Price Controls

The retail price of certain pharmaceutical products sold in the PRC, primarily those pharmaceutical products included in the Medical Insurance Catalogues and the National List of Essential Drugs and those drugs the production or trading of which are deemed to constitute monopolies, are subject to price controls by the PRC government in the form of fixed retail prices or maximum retail prices.

Manufacturers and distributors cannot set the actual retail price for any given price-controlled product above the maximum retail price or deviate from the fixed retail price set by the government. The retail prices of pharmaceutical products that are subject to price controls are administered by the NDRC and provincial and regional price control authorities. From time to time, the NDRC publishes and updates a list of pharmaceutical products that are subject to price controls. Maximum retail prices for pharmaceutical products are determined based on a variety of factors, including the profit margins that the relevant government authorities deem reasonable, the product's type, quality, and production costs, as well as the prices of substitute pharmaceutical products. The NDRC directly regulates the pricing of all prescription medicines on the Medical Insurance Catalogues and all medicines on the National List of Essential Drugs, and delegates to provincial and regional price control authorities the authority to regulate the pricing of non-prescription medicines on the Medical Insurance Catalogues.

Further, pursuant to the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services (《關於進一步整頓藥品和醫療服務市場價格秩序的意見》) jointly promulgated by the NDRC, the State Council Legislative Affairs Office and the State Council Office for Rectifying, the MOH, the SFDA, the MOFCOM, the MOF and Ministry of Labour and Social Security on 19 May 2006, the PRC government exercises price control over pharmaceutical products included in the Medical Insurance Catalogues and made an overall adjustment of their prices by reducing the retail price of certain overpriced pharmaceutical products and increasing the retail price of certain underpriced pharmaceutical products in demand for clinical use but that have not been produced in large quantities by manufacturers due to their low retail price level. In particular, the retail price charged by hospitals at the county level or above may not exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for Chinese herbal pieces.

The NDRC promulgated the Notice on Adjusting the Price of Some Pharmaceutical Products (including drugs used for treatment of respiratory disease, antipyretic and analgesic drugs and drugs with special treatment effect) and Related Issue (《國家發展改革委關於調整呼吸解熱鎮痛和專科特殊用藥等藥品價格及有關問題的通知》) on 31 December 2012, which came into effect on 1 February 2013. The lists attached to the notice prescribed the maximum retail prices of pharmaceutical products that are subject to separate pricing or centralised pricing. The medical institutions, retail drugstores, drug manufacturers and drug supply enterprises shall not sell the pharmaceutical products at a price higher than the maximum retail prices. The price administration at the provincial level is authorised to determine maximum retail price in its administration region for the drugs that are not subject to price control by the NDRC, and the maximum retail prices for the pharmaceutical products, of which the dosage forms or specifications were not included in the lists.

With respect to medicines that are not subject to price controls, the pharmaceutical manufacturers can freely determine the retail prices. Sales of pharmaceutical products by pharmaceutical manufacturers in China to overseas markets are not subject to price controls.

PRC LAWS AND REGULATIONS RELATING TO CENTRALISED PROCUREMENT AND TENDER PROCESS

The Guiding Opinions concerning the Urban Medical and Health System Reform (《關於城鎮醫藥衛生體制改革的指導意見》), promulgated on 21 February 2000, aims to regulate the purchasing process of pharmaceutical products by medical institution. The MOH and other relevant government authorities have promulgated a series of regulations and releases in order to implement the tender requirements.

According to the Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Tender Procurement of Drugs by Medical Institutions (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》) promulgated on 7 July 2000 and the Notice on Further Improvement on the Implementation of Centralised Tender Procurement of Drugs by Medical Institutions (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) promulgated on 8 August 2001, medical institutions established by county or higher level government are required to implement centralised tender procurement of drugs.

The MOH promulgated the Working Regulations of Medical Institutions for Procurement of Drugs by Centralised Tender and Price Negotiations (for Trial Implementation) (《醫療機構藥品集中招標採購和集中議價採購工作規範(試行)》) ("Centralised Procurement Regulations") on 13 March 2002, and promulgated Sample Document for Medical Institutions for Procurement of Drugs by Centralised Tender and Price Negotiations (for Trial Implementation) ("Centralised Tender Sample Document" (《醫療機構藥品集中招標採購和集中議價採購文件範本(試行)》) in November 2001, to implement the tender process requirements and ensure the requirements are followed uniformly throughout the country. The Centralised Tender Regulations and the Centralised Tender Sample Document provide rules for the tender process and negotiations of the prices of drugs, operational procedures, a code of conduct and standards or measures of evaluating bids and negotiating prices.

On 17 January 2009, the MOH, the CFDA and other four national departments jointly promulgated the Opinions on Further Regulating Centralised Procurement of Drugs by Medical Institutions (《關於進一步規範醫療機構藥品集中採購工作的意見》). According to the notice, public medical institutions owned by the government at the county level or higher or owned by state-owned enterprises (including state-controlled enterprises) shall purchase pharmaceutical products by online centralised procurement. Each provincial government shall formulate its catalogue of drugs subject to centralised procurement. Except for drugs in the National List of Essential Drugs (the procurement of which shall comply with the relevant rules on National List of Essential Drugs, certain pharmaceutical products which are under the national government's special control and traditional Chinese medicines, in principle, all drugs used by public medical institutions shall be covered by the catalogue of drugs subject to centralised procurement. On 15 July 2010, the MOH and five other ministries and commissions jointly promulgated the Working Regulations of Medical Institutions for Centralised Procurement of Drugs (《醫療機構藥品集中採購工作規範》) to further regulate the centralised procurement of drugs and clarify the code of conduct of the parties in centralised drug procurement.

The centralised tender process takes the form of public tender operated and organised by provincial or municipal government agencies. The centralised tender process is in principle conducted once every year in the relevant province or city in China. Intermediaries may be engaged to act as bidding agencies for the centralised tender process. Such intermediaries are not permitted to engage in the distribution of drugs and must have no conflict of interest with the organising government agencies. The bids are assessed by a committee composed of pharmaceutical experts who will be randomly selected from a database of experts approved by the relevant government authorities. The committee members assess the bids based on a number of factors, including but not limited to, bid price, product quality, clinical effectiveness, qualifications and reputation of the manufacturer, and after-sale services. Only pharmaceuticals that have won in the centralised tender process may be purchased by public medical institutions funded by government in the relevant region.

PRC LAWS AND REGULATIONS RELATING TO RESTRICTIONS ON ADVERTISING OF PHARMACEUTICAL PRODUCTS

Pursuant to the Provisions for Drug Advertisement Examination (《藥品廣告審查辦法》), which were promulgated on 13 March 2007 and came into effect on 1 May 2007, an enterprise seeking to advertise its drugs must apply for an advertising approval code. The validity term of an advertisement approval number for pharmaceutical drugs is one year. The content of an approved advertisement may not be altered without prior approval. Where any alteration to the advertisement is needed, a new advertisement approval number shall be obtained.

PRC LAWS AND REGULATIONS RELATING TO PACKAGING OF PHARMACEUTICAL PRODUCTS

According to the Measures for The Administration of Pharmaceutical Packaging (《藥品包裝管理辦法》) effective on 1 September 1988, pharmaceutical packaging must comply with the provisions of the national standard and professional standard. If there are no standards above, the enterprise can formulate its own standard after obtaining the approval of the provincial level food and drug administration or bureau of standards. The enterprise shall reapply for the relevant authorities if it needs to change the packaging standard. Drugs without packing must not be sold in PRC (except for drugs needed by the army).

PRC LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

Under the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995 and subsequently amended on 27 August 2009, the PRC Employment Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007 and became effective on 1 January 2008 and subsequently amended on 28 December 2012 and became effective on 1 July 2013 and the Implementing Regulations of the Employment Contract Law (《中華人民共和國勞動合同法實施條例》), which were promulgated by the State Council and became effective on 18 September 2008, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury, and employers are required, when employing labour, to truthfully inform prospective employees of the job description, working conditions, location, occupational hazards and status of safe production as well as remuneration and other conditions as requested by the Labour Contract Law of the PRC.

Pursuant to the Law of Manufacturing Safety of the People's Republic of China (《中華人民共和國安全生產法》) effective on 1 November 2002, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with applicable laws and regulations. Manufacturers not meeting relevant legal requirements are not permitted to commence their manufacturing activities.

Pursuant to the Administrative Measures Governing the Production Quality of Pharmaceutical Products (《藥品生產質量管理規範》) effective on 1 March 2011, manufacturers of pharmaceutical products are required to establish production safety and labour protection measures in connection with the operation of their manufacturing equipment and manufacturing process.

Pursuant to applicable PRC laws, rules and regulations, including the Social Insurance Law (《社會保險法》) which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》) which was promulgated by the State Council and became effective on 22 January 1995, Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》) the Regulations on Work-related Injury Insurance (《工傷保險條例》) which was promulgated by the State Council on 27 April 2003 and became effective on 1 January 2004 and subsequently amended on 20 December 2010, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance work-related injury insurance, and maternity insurance. An employer who fails to register with the social insurance administrative authority may be ordered to rectify within a specific time period. If it fails to do so, the social insurance administrative authority shall impose a fine on the employer equivalent to one to three times the amount of the overdue social insurance contributions, and those management personnel and personnel who are directly responsible shall be imposed with a fine of between RMB500 to RMB3,000. If the employer fails to make social insurance contributions timely and in full amount, the social insurance collecting authority will order the employer to make up outstanding contributions within the prescribed time period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to three times the overdue amount.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in China are the Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) which were promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996. Under these rules and other PRC rules and regulations on currency conversion, China Yuan is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and divided payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterparts is obtained. Foreign investment enterprises, or FIEs in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (such as board resolutions), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain their recurrent exchange earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with the designated banks in the PRC. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval form or filling with the relevant PRC government authorities (if necessary).

The Notice on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises ("Circular No. 142", 《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) was promulgated and became effective on 29 August 2008. It regulates the conversion by a FIE of foreign currency into China Yuan by restricting how the converted China Yuan may be used. It requires that China Yuan converted from the foreign currency-denominated capital of a FIE may only be used for purposes within the business scope

approved by the relevant governmental authorities and may not be used for equity investments within the PRC unless otherwise specifically provided. Further, it cannot be used to repay China Yuan loans if the proceeds of such loans have not yet been used.

Pursuant to the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies ("Circular No. 59", 《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) promulgated by SAFE on 19 November 2012 and became effective on 17 December 2012, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. Circular No.59 also simplified the capital verification and confirmation formalities for the FIEs and the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equities and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of FIEs.

REGULATIONS ON FOREIGN EXCHANGE IN ONSHORE AND OFFSHORE TRANSACTIONS CONDUCTED BY THE FOUNDERS

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles ("Circular No. 75", 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which was issued by the SAFE on 21 October 2005 and became effective on 1 November 2005, and Circular No. 59, (1) a PRC resident is required to register with the local branch of SAFE before he or she establishes or controls an overseas special purpose vehicle, or overseas SPV, for the purpose of overseas equity financing (including convertible debt financing), (2) when a PRC resident transfers assets of or equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such a PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE, and (3) when the overseas SPV undergoes a material capital change event outside of China, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. If a SPV has other changes, the PRC resident concerned may go through the registration formalities in a centralised manner with the local branch of the SAFE where the SPV is registered during the annual examination periods of foreign-invested enterprises.

For the purpose of Circular No. 75, a PRC resident refers to a resident who holds a PRC passport or a PRC identity card or an individual who does not have a legal status in the PRC but chronically resides in the PRC due to economy interest in the PRC. Circular No. 59 further clarify that a non-PRC individual who chronically resides in the PRC due to economy interest mainly fall into the following three categories: (1) an individual who has a permanent residence in the PRC, but temporarily leaves the PRC for reasons such as travel, study, medical treatment or work outside the PRC or satisfying a residence requirement in a foreign country, and who returns to his or her permanent domicile in the PRC after the aforementioned reasons no longer exists, (2) an individual who holds equity interests in a domestic-funded enterprise, or (3) an individual who originally held equity interests in a domestic-funded enterprise and has remained the beneficial owner after legal ownership of such interests are converted to equity interests in a foreign-invested enterprise.

Under Circular No. 75, failure to comply with the registration procedures may result in the imposition of restrictions on an SPV's PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV and penalties, including orders of remittance of foreign exchange illegally paid out of China back into China and the imposition of fines.

PRC LAWS AND REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors ("M&A Rules"), which was amended on 22 June 2009. An SPV is defined under the M&A Rules as an offshore entity directly or indirectly controlled by PRC individuals or enterprises with the objective of an overseas listing, and the main assets of which are the rights and interests in affiliated domestic enterprises. Under the M&A Rules, if an SPV intends to merge with or acquire any domestic enterprise affiliated with such PRC individuals or enterprises that control the SPV, the proposed merger or acquisition shall be submitted to the MOFCOM for approval. We acquired the shares of Shandong Luye through AsiaPharm Investments in the portions of 95.93% and 4.07% in September 2003 and February 2005, respectively, resulting in the conversion of Shandong Luye into a wholly-foreign owned enterprise. Our acquisition of Shandong Luye took place before the M&A Rules became effective, and therefore, as advised by our PRC legal adviser, is not subject to the M&A Rules. Chapter 3 of the M&A Rules also requires an SPV to obtain approval from the CSRC prior to the listing and trading of its securities on an overseas stock exchange, if the SPV, for purposes of listing overseas, acquired the existing or newly issued shares from one or more PRC companies and paid the consideration with existing or newly issued shares of the SPV. We paid the acquisition consideration for Shandong Luye with foreign currency. As advised by our PRC legal adviser, the Listing is not subject to Chapter 3 of the M&A Rules and we do not need to obtain approval from the CSRC for the Listing.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) promulgated and effective on 26 December 1989 and amended on 24 April 2014, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The provincial governments and the local governments in autonomous regions and municipalities may also promulgate local standards for environmental protection on matters not specified under national standards and the local governments must report such standards to the competent department of environmental protection administration under the State Council for record.

Pursuant to the Law on Environmental Impact Studies of the People's Republic of China (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers must prepare environmental impact study report setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project.

Pursuant to Air Pollution Prevention Law of the People's Republic of China (《中華人民共和國大氣污染防治法》) promulgated on 29 April 2000 by the General Committee of the National People's Congress of the PRC and effective on 1 September 2000, the environmental protection authorities above the county level are in charge of promulgating laws and regulations governing prevention of air pollution. The environmental protection department under the State Council formulates national standards and the local provincial governments formulate local standards on matters not specified under national standards. Manufacturers discharging polluted air must comply with applicable national and local standards. If a manufacturer emits polluted air exceeding national or local standards, it must correct its action during a certain period of time and the manufacturer may be subject to penalties.

Pursuant to Water Pollution Prevention Law of the People's Republic of China (《中華人民共和國水污染防治法》) promulgated by the General Committee of the National People's Congress of the PRC on 1 November 1984 and amended on 28 February 2008, the environment protection department under the State Council is in charge of promulgating laws and regulations governing national standards relating to discharge of waste water. Provincial governments may promulgate local waste discharge standards for matters not specified in national standards. Manufacturers must discharge of waste water in accordance with national and local standards. Manufacturers discharging waste water must pay water treatment fees. If the waste water discharged exceeds national or local standards, the manufacturer is required to pay higher waste water treatment fees. The environmental protection department has the right to order manufacturers which severely polluted water to correct their actions by reducing the amount of discharge during a stipulated period of time, suspend their operation or shutdown.

Pursuant to the Laws of Prevention and Control of Environmental Noise Pollution of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) promulgated on 29 October 1996 and effective on 1 March 1997, the environment protection department under the State Council is in charge of promulgating national standards for noise control. Local governments at the county level or above are in charge of promulgating local standards with respect to noise control. Manufacturers releasing exhaust fume exceeding the national or local standards may be required to correct their actions and be subject to penalties.

PRC LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

Pursuant to The General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which became effective from 1 January 1987, manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated in 1993 and amended in 2000 to strengthen quality control of products and protect consumers' rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to the confiscation of earnings from such sales, the revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on 31 October 1993 and was amended on 25 October 2013 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. Under the amendment on 25 October 2013, all business operators shall pay high attention to protect the customers' privacy which they obtain during the business operation. In extreme situations, pharmaceutical product manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

Under the Tort Law of the PRC (《中華人民共和國侵權責任法》) promulgated by the Standing Committee of the National People's Congress of the PRC on 26 December 2009 and was implemented from 1 July 2010, if damages to other persons are caused by defective products that are resulted from the fault of a third party such as the parties providing transportation or warehousing, the producers and the sellers of the products have the right to recover their respective losses from such third parties. If defective products are identified after they have been put into circulation, the producers or the sellers shall take remedial measures

such as issuance of warning, recall of products, etc. in a timely manner. The producers or the sellers shall be liable under tort if they fail to take remedial measures in a timely manner or have not make efforts to take remedial measures, thus causing damages. If the products are produced and sold with known defects, causing deaths or severe damage to the health of others, the infringed party shall have the right to claim respective punitive damages in addition to compensatory damages.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Under the EIT Law and its implementation rules promulgated by the State Council on 6 December 2007, the tax rate for both domestic-funded enterprises and foreign-invested enterprises is 25%, and the high-technology enterprise receiving key support from the State enjoy a reduced EIT rate of 15%. High-technology enterprises are enterprises that have their own independent, core intellectual property rights and at the same time meet the following conditions: (1) The product (service) falls within the scope of the High and New Technology Areas Entitled to the Key Support of the State; (2) The proportion of research and development expenses in the sales revenues is not lower than the prescribed proportion; (3) The proportion of the income from high and new technology products (services) in the total income of the enterprise is not lower than the prescribed proportion. (4) The proportion of technicians in the total number of staff members of the enterprise is not lower than the prescribed proportion; (5) Other conditions as stipulated in the measures for the determination of high and new technology enterprises. The high and new tech enterprise qualifications shall be valid for a period of three years as of the date of issuance of the certificate, and may be renewed at least three months prior to its expiration date upon a re-examination by the relevant authority.

Under the EIT Law and its implementation rules, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the EIT Law, a "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Dividends from resident enterprises to their investors, which are treated as resident enterprises, are exempted from withholding tax.

The EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an established or place of business in the PRC, or which do not have an established or place of business in the PRC but have income sourced within the PRC. The implementation rules of EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident enterprise investors which do not have an establishment or place of business in the PRC, or which have such established or place of business but the relevant income is not effectively connected with the established or place of business, to the extent such dividends are derived from source within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and the jurisdiction in which the non-resident enterprise investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業税暫行條例》), which was promulgated by the Stated Council on 13 December 1993 and subsequently amended on 10 November 2008 and its Implementation Rules (《中華人民共和國營業税暫行條例實施細則》) which was promulgated by the MOF and SAT on 18 December 2008 and subsequently amended on 28 October 2011, all of which became effective on 1 January 2009, unless stated otherwise, the tax payers providing taxable services the PRC are required to pay a business tax at a normal tax rate of 5% of their revenues.

Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值税暫行條例》), which was promulgated by the State Council on 13 December 1993 and subsequently amended on 10 November 2008 and its implementation rules by the MOF on 28 October 2011, all of which became effective on 1 January 2009, unless stated otherwise, the tax rate for value-added tax payers who are selling or importing goods, and providing processing repairs and replaced services in the PRC shall be 17%.

Tax Treaties

According to the Arrangement between the Mainland China and Hong Kong for the Avoidance of Double Taxation on Income (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) signed on 21 August 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, such tax shall not exceed 10% of the gross amount of dividends payable, if a Hong Kong resident holds less than 25% equity interest in a PRC company; and in the case where a Hong Kong resident holds 25% equity interest or more in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company.

PRC LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (《中華人民共和國公司法》) promulgated by the National People's Congress Standing Committee in 1993 and amended in 1999, 2004, 2005 and 2013, the Foreign Investment Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated by the National People's Congress Standing Committee in 1986 and amended in 2000, and the Administrative Rules under the Foreign Investment Enterprise Law (《外資企業法實施細則》) promulgated by the State Council in 1990 and amended in 2001.

Under the laws and regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in China, like our PRC subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

PRC LAWS AND REGULATIONS RELATING TO THE RECOGNITION AND REVIEW OF HIGH AND NEW TECHNOLOGY ENTERPRISES

Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), promulgated by the Ministry of Science and Technology, MOF and SAT on 14 April 2008, high and new technology enterprises refer to the PRC resident enterprises that are incessantly devoted to the research and development as well as transformation of technological achievements in the "High and New Technology Areas Entitled to the Key Support of the State", have formed their own independent core intellectual property rights and are carrying out business activities on this basis, and have been registered for at least one year within the territory of China (excluding Hong Kong, Macau and Taiwan regions).

An enterprise must satisfy the following requirements simultaneously in order to be recognised as a high and new technology enterprise: (1) it must be an enterprise that is registered within the territory of China (excluding Hong Kong, Macau and Taiwan regions) and possess independent intellectual property rights of the core technologies in its major products (services) by way of independent research and development, acceptance of transfer, donation or merger during the immediately preceding three years or through exclusive licensing for a minimum period of five years; (2) its products (services) fall within the range prescribed in the "High and New Technology Areas Entitled to the Key Support of the State"; (3) the proportion of scientific and technological personnel and research and development personnel in its employment with a minimum educational background of junior college graduation reaches the required percentage; (4) the enterprise has been conducting continuous research and development activities, and the proportion of its total research and development expenditure and its total sales revenue during the immediately preceding three accounting years meets the requirements; (5) the revenue from high and new technology products (services) accounts for at least 60 percent of the total revenue of the enterprise during the current year; and (6) the enterprise's level of organisation and management of research and development, capacity of transformation of scientific and technological achievements, the number of independent intellectual property rights, growth in sales and total assets as well as other indicators conform to the requirements mentioned in the Guidelines on the Administration of Recognition of High and New Technology Enterprises.

In accordance with the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) and the Guidelines on the Administration of Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》), promulgated by the Ministry of Science and Technology, MOF and SAT on 8 July 2008, an enterprise shall first make a self-evaluation referring to the previously mentioned requirements at the "Website of Administration of Recognition of High and New Enterprise". If an enterprise fulfils the requirements and has registered online, it may file a recognition application before the recognition authority and submit the following application materials: (1) an application for determination of high and new technology enterprise; (2) the duplication of the enterprise's business licence and tax registration certificate (photocopies); (3) certificate materials for technological innovation activities; (4) description of the number of educational background of the employees, as well as the proportion of the research and development personnel, and the total number of employees of the enterprise; (5) statements on the research and development expenditure of the enterprise during the immediately preceding three accounting years and special audit report on the revenue from high and new technology products (services) during the immediately preceding one accounting year attested by a qualified intermediary agency; and (6) the financial statements attested by a qualified intermediary agency during the immediately preceding three accounting years.

The validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate of high and new technology enterprise. The enterprise shall file an application for review within three months prior to the expiration of the validity period. The review shall focus on the conformity with the previously mentioned fourth requirement, i.e. the continuity of research and development activities of the enterprise and the proportion of its total research and development expenditure and its total sales revenue. Therefore, for the review, the enterprise shall submit a report on research and development activities and other technological innovation activities conducted during the immediately preceding three years, statements on the research and development expenditure of the enterprise during the immediately preceding three accounting years and special audit report on the revenue from high and new technology products (services) during the immediately preceding one accounting year attested by a qualified intermediary agency.

OVERVIEW

Our history began with the establishment of Shandong Luye, formerly known as Yantai Luye Pharmaceutical Co. Ltd. ("Yantai Luye"), by Yantai Bio-technology Co. Ltd. ("Yantai Bio-tech") and Shengli Petroleum Administrative Bureau Yantai Sanatorium ("Shengli") on 8 June 1994 to engage in the manufacture and sale of pharmaceutical products as well as active pharmaceutical ingredients. Yantai Bio-tech, which owned 62.5% of the equity interest in Yantai Luye, was a holding company established by our Founding Shareholders, Messrs. Liu Dian Bo, Yuan Hui Xian and Yang Rong Bing. The remaining 37.5% of the equity interest in Yantai Luye was owned by Shengli.

As our business continued to expand and required further capital to fund our operations and expansion plan, our Group sought a listing on the main board of the Singapore Exchange Securities Trading Limited, or SGX-ST, in 2004 with the aim of gaining access to capital markets and raising our corporate profile. To prepare for the listing on the SGX-ST, we carried out a corporate reorganisation and as part of such reorganisation, our Company was incorporated in Bermuda on 2 July 2003 to act as the holding company of our Group. In 2012, Luye Investment made a privatisation offer, and as a result of which we became a wholly-owned subsidiary of Luye Investment. Our Shares were delisted from the SGX-ST on 29 November 2012.

BUSINESS MILESTONES

The following sets forth the major milestones in our corporate development history:

1994	•	Shandong Luye, formerly known as Yantai Luye Pharmaceutical Co. Ltd., which is one of our major operating subsidiaries in China, was founded.
1995	•	In May 1995, we commenced production of Maitongna, a formulation of sodium aescinate in injectable form and one of our current key products.
1998	•	In January 1998, we commenced the construction of our Yantai Laishan facility.
1999	•	Our R&D centre in Yantai was established to focus on the R&D of new natural active ingredients and drugs with new formulations.
2001	•	We acquired the proprietary rights to manufacture and sell Lutingnuo, which is the brand of our reduced glutathione in injectable form and one of our current key products.
2003	•	In February 2003, we launched Lutingnuo.
2004	•	Our Company was listed on the main board of the SGX-ST.
2006	•	We acquired the proprietary cancer treatment injection CMNa and its distribution network.
2007	•	We acquired a 100% equity interest in the holding company of Nanjing Sike Pharmaceutical Co. Ltd. (now Nanjing Luye Sike), which focuses on oncology products and its key products, Lipusu and Tiandixin, have become two of our current key products. This acquisition together with the acquisition of CMNa helped establish our market position in oncology and provided the platform for our oncology-related R&D efforts, as well as the facilities for our oncology-related pharmaceutical product production.
	•	We acquired a 43.0% equity interest in Beijing WPU, which focuses on cardiovascular system products. Its key product, Xuezhikang, has become one of our current key products.

2009	•	We adopted our current name "Luye Pharma Group Ltd.".
	•	We acquired a further 26.6% equity interest in Beijing WPU and increased our holding in Beijing WPU to 69.6%.
2011	•	We acquired a 100% equity interest in Sichuan Baoguang Pharmaceutical Co. Ltd. (now Sichuan Luye), which focuses on diabetes products and its key product, Bei Xi, has become one of our current key products. We entered into the field of diabetes and strengthened our position in alimentary tract and metabolism.

AWARDS

The following sets forth some of the awards and other recognitions that we have achieved throughout our history of development:

1998	•	In 1998, we were awarded the "Outstanding Private Science and Technology Enterprises in Shandong Province" (山東省優秀民營科技企業) by the Shandong Province Science and Technology Committee in recognition of our modernised enterprise management system and our focus on R&D with highly advanced technology products.
1999	•	As a testimony to our research capabilities, the State Personnel Ministry approved the establishment of Shandong Luye as a "Post-doctorate Scientific Research Work-station" (企業博士後科學研究工作站).
2000	•	We were awarded "High-Advanced Technology Enterprise" (高新技術企業) by the Shandong Provincial Bureau for Science and Technology.
	•	Our R&D centre was recognised by the Shandong Science and Technology Committee as a "Shandong Natural Drug Engineering Research and Development Centre" (山東省天然藥物工程技術研究中心).
2001	•	We were awarded as the "Base for the Commercialisation of the Result of the National High-Technology Research and Development Planning" (國家高新技術研究發展企劃成果產業基地) by the Ministry of Science and Technology.
	•	Our low toxicity for anti-inflammatory and anti-exudation pharmaceutical composition of sodium aescinate for injection was named a "First Grade Shandong Science and Technology Advancement Product" (山東省科技進步一等獎產品) by the Shandong Provincial Drug Administration.
2003	•	The Shandong Province Economic and Trade Commission awarded us the "Shandong Province Certified Enterprise Technology Centre" (山東省認定企業技術中心) in recognition of our technological creativity, system creativity and R&D results.
2007	•	We were awarded the "National Certified Enterprise Technology Centre" (國家認定企業技術中心) by the NDRC, the Ministry of Science and Technology, the MOF, the State Administration of Taxation and the General Administration of Customs.
2008	•	We were awarded the "Jiangsu Engineering Research Centre for Liposome Drug" (江蘇省脂質體藥物工程技術研究中心) by the Jiangsu Department of Science and Technology and Jiangsu Department of Finance.

2009	• Our oral drug formulation and topical drug formulation production facilities were awarded the "Certificate of Manufacturing Facility" by the Australian Therapeutic Goods Administration. • We were awarded the "Base for International Science and Technology Cooperation" (國際科技合作基地) by the Ministry of Science and Technology.
2010	• We won the awards of "State Key Laboratory of Long-acting and Targeting Drug Delivery System" (長效和靶向製劑國家重點實驗室) approved by the Ministry of Science and Technology. • "Luye" was recognised as a "Well-Known Trademark in China" (中國馳名商標). • We were awarded "State-Focused High-Advanced Technology Enterprise" (國家重點高新技術企業) under the State Torch Program (國家火炬計劃) by the PRC Ministry of Science and Technology.
2011	• Our formulation production site in Shandong and our R&D centre obtained the ISO9001:2008 certificate issued by SGS United Kingdom Ltd. • We were awarded the "State Intellectual Property Exemplary Company" (全國企事業知識產權示範單位) by the State Intellectual Property Office. • We were awarded "2011 Best Place to Work at" (2011年中國最適宜工作的公司) by Fortune China.
2012	• Our product Lipusu won "The First Prize of Science & Technology" (科學技術獎一等獎) from the Chinese Pharmaceutical Association (中國藥學會). This was the first time in history that this award was granted to a research project led by a corporate entity. Prior to that, the awards had only been given to research projects led by academic or research institutes. • We were nominated as one of the top 10 "Chinese Most Innovative Pharmaceutical Enterprises" (中國最具創新力製藥企業) by the Southern Institute of Medical Economics (南方醫藥經濟研究所) and Medicine Economic News (《醫藥經濟報》).
2013	• We were named as one of the "Top 20 Powerful Brand Names for Chinese Pharmaceutical Enterprises" (中國最具品牌力藥企20強) by the Southern Medicine Economic Institute (南方醫藥經濟研究所) and the Medicine Economic News (《醫藥經濟報》). • We were named as one of the "Top 20 Innovative Chinese Pharmaceutical Enterprises" (中國醫藥企業創新力二十強) by the China State Institute of Pharmaceutical Industry (中國醫藥工業研究總院), the China National Pharmaceutical Industry Information Centre (中國醫藥工業信息中心) and the China Medical Newspaper (《中國醫藥報》).

OUR HISTORY AND DEVELOPMENT

Set forth below are the history and development of our major operating subsidiaries:

Shandong Luye

Shandong Luye, formerly known as Yantai Luye Pharmaceutical Co. Ltd., was established on 8 June 1994 with registered capital of RMB8.0 million and was owned as to 62.5% by Yantai Bio-tech and 37.5% by Shengli. Yantai Bio-tech was a holding company established by our Founding Shareholders, Messrs. Liu Dian Bo, Yuan Hui Xian and Yang Rong Bing, using their own funds.

Following the establishment of Shandong Luye, there were several changes to its ownership until Shandong Luye converted into a joint stock limited liability company in 1999. Immediately following the conversion, the registered capital of Shandong Luye was RMB51 million and was held as to 91.5% by Yantai Bio-tech, which had changed its name to Luye Investment Group, and the remaining interest by several other shareholders including our Founding Shareholders. Luye Investment Group is owned by our Founding Shareholders. Except for Luye Investment Group and our Founding Shareholders, the other then shareholders of Shandong Luye were independent third parties.

In June 2003, Luye Investment Group acquired a 4.4% shareholding in Shandong Luye from a shareholder at par for a consideration of RMB2,264,400. In September 2003, Luye Investment Group transferred its entire interest, being 95.9%, in Shandong Luye to AsiaPharm Investments, a company incorporated in Bermuda and wholly owned by our Company. In March 2005, AsiaPharm Investments acquired the remaining interests in Shandong Luye from the minority shareholders, following which Shandong Luye became a wholly-owned subsidiary of AsiaPharm Investments. On 6 June 2014, AsiaPharm Investments transferred its entire equity interest in Shandong Luye to its wholly-owned subsidiary, Yantai Luye Pharma Holdings Co. Ltd., as payment for the increase of US$43,590,000 in the registered capital of Yantai Luye Pharma Holdings Co. Ltd. As confirmed by our PRC legal adviser, we have obtained all necessary approvals from the relevant PRC government authorities for the transfer of the equity interest in Shandong Luye from AsiaPharm Investments to Yantai Luye Pharma Holdings Co. Ltd. The transfer has been properly and legally completed.

As of the Latest Practicable Date, the registered capital of Shandong Luye was RMB271.8 million. The principal business of Shandong Luye is the R&D, manufacture and sale of pharmaceutical products and it operates our Yantai Laishan facility and Yantai Industrial Park facility. The key products produced at the Yantai Industrial Park facility and the Yantai Laishan facility are Maitongna, Lutingnuo and CMNa.

Luye Trading

Luye Trading, formerly known as Yantai Luye Biochemical Drugs Trading Co. Ltd., was established on 27 March 1997 with registered capital of RMB1.0 million. It was owned as to 80% by Shandong Luye (then known as Yantai Luye Pharmaceutical Co. Ltd.), 14% by the family of Mr. Liu Dian Bo, our Executive Chairman, and 3% by each of Messrs. Yuan Hui Xian and Yang Rong Bing, each an Executive Director. Luye Trading adopted its current name in June 2002. It was converted into a foreign investment enterprise when the three individual shareholders transferred all of their interests in Luye Trading to Shandong Luye in May 2006. Since then Luye Trading has been a wholly-owned subsidiary of Shandong Luye.

As of the Latest Practicable Date, the registered capital of Luye Trading was RMB20.0 million. The principal business of Luye Trading is the sale and distribution of our Group's products.

Acquisition of Nanjing Luye Sike

Nanjing Luye Sike, formerly known as Nanjing Sike Pharmaceutical Co. Ltd., was established on 22 February 2002 in the PRC with registered capital of RMB1.01 million. Our Group acquired a 100% interest in Nanjing Luye Sike in 2007 through our acquisition of its holding company Solid Success, a company incorporated in the BVI. In January 2007, our Company entered into an agreement with Mr. Hui Tin Cho, an independent third party, to acquire the entire issued share capital of Solid Success for RMB345.0 million, of which

RMB280.0 million was payable in cash, RMB15.0 million was to be settled by the allotment and issue of five million Shares in our Company, and the balance of RMB50.0 million was to be deducted and set off against a loan in the same amount owed by the vendor to Solid Success's subsidiaries. The consideration for the above acquisition was agreed after arm's length negotiation between the parties and was settled in full on 11 January 2008. At the time we acquired Solid Success, Solid Success held the entire issued share capital of Apex Group Holdings and Kang Hai Pharmaceutical, both of which are companies incorporated in Hong Kong. Apex Group Holdings and Kang Hai Pharmaceutical in turn held 100% of Nanjing Luye Sike and 100% of Nanjing Kanghai Pharmaceutical Co. Ltd., respectively. In December 2007, Apex Group Holdings and Kang Hai Pharmaceutical transferred a 75% interest in Nanjing Luye Sike and a 75% interest in Nanjing Kanghai Pharmaceutical Co. Ltd., respectively, to Shandong Luye. In August 2010, the business of Nanjing Kanghai Pharmaceutical Co. Ltd. was merged into that of Nanjing Luye Sike. Following the merger, the registered capital of Nanjing Luye Sike was increased to RMB70.0 million and has since then been owned by Shandong Luye as to 75%, Kang Hai Pharmaceutical as to 21.4% and Apex Group Holdings as to 3.6%. As confirmed by our PRC legal adviser, we have obtained all necessary approvals from the relevant PRC government authorities for all the acquisitions of equity interests in Nanjing Luye Sike and Nanjing Kanghai Pharmaceutical Co. Ltd. and the merger of Nanjing Kanghai Pharmaceutical Co. Ltd. by Nanjing Luye Sike. The acquisition has been properly and legally completed and settled.

The principal business of Nanjing Luye Sike is the R&D, manufacture and sale of pharmaceutical products and it operates our Nanjing facility. Our key products manufactured at the Nanjing facility are Lipusu and Tiandixin.

Beijing WBL Peking University Biotech Co. Ltd.

Beijing WPU was established in the PRC by Peking University Technology Development Department and WBL Corporation Limited on 1 September 1994 as a foreign investment enterprise with registered capital of RMB80.0 million. We first acquired a minority interest in Beijing WPU in 2007 from WBL Corporation Limited, a company incorporated in Singapore. Prior to our acquisition, Beijing WPU was held as to 30.4% by Peking University Weiming Biotechnology Group ("Beida"), 43% by WBL Corporation Limited and 26.6% by Beijing Holdings Hi-tech Development Co. Ltd. ("BeiKong"). In October 2007, our Company acquired a 43% interest in Beijing WPU from WBL Corporation Limited, an independent third party, for a cash consideration of S$19,871,880. We settled the consideration in full on 23 October 2007. In November 2009, we acquired the entire issued share capital of Luye Hong Kong, a company incorporated in Hong Kong formerly known as Pacific Target Holdings Limited and which holds a 26.6% interest in Beijing WPU, from Beijing Enterprises Biotech Limited, an affiliate of BeiKong and an independent third party, for a cash consideration of RMB102,040,000, thereby increasing our equity interest in Beijing WPU to 69.6% and since then Beijing WPU has become our subsidiary. In addition, we agreed to pay Beijing Enterprises Biotech Limited an amount equal to its entitlement to unpaid dividend of Beijing WPU of RMB5,260,500. The consideration for the above acquisition was settled in full in November 2009. The consideration paid in each of the above acquisitions was agreed after arm's length negotiations between the parties. In March 2011, we reorganised our holding in Beijing WPU, and our Company and Luye Hong Kong transferred their aggregate interest of 69.6% in Beijing WPU to Shandong Luye. As of the Latest Practicable Date, the registered capital of Beijing WPU was RMB80.0 million. As confirmed by our PRC legal adviser, we have obtained all the necessary approvals from the relevant PRC government authorities for the acquisitions of equity interests in Beijing WPU. These acquisitions have been properly and legally completed and settled.

The principal business of Beijing WPU is the R&D, manufacture and sale of Xuezhikang. Beijing WPU operates our Beijing facility.

Acquisition of Sichuan Luye

Sichuan Luye, formerly known as Sichuan Baoguang Pharmaceutical Co. Ltd., was established in the PRC by five corporate entities on 21 December 2000 as a joint stock limited liability company with registered capital of RMB36.0 million. Each of the founders of Sichuan Luye was an independent third party. We acquired a 100% interest in Sichuan Luye in 2011. Prior to the acquisition, Sichuan Luye was held by 成都紅創科技有限公司 (Chengdu Hong Chuang Technical Co. Ltd.) and Ms. Yang Yuan (楊媛), both independent third parties, as to 99.7% and 0.3%, respectively. On 1 July 2011, our subsidiaries, Shandong Luye and Luye Trading, entered into share transfer agreements with each of Chengdu Hong Chuang Technical Co. Ltd. and Ms. Yang Yuan to acquire the entire registered paid-up capital of Sichuan Luye for a total cash consideration of RMB288 million. The consideration for the acquisition was agreed after arm's length negotiations between the parties and was settled in full on 21 May 2012. Following the acquisition, Sichuan Luye became a wholly-owned subsidiary of our Company. As confirmed by our PRC legal adviser, we have obtained all the necessary approvals from the relevant PRC government authorities for this acquisition. This acquisition has been properly and legally completed and settled.

Sichuan Luye operates our Sichuan facility. Our key product manufactured at the Sichuan facility is Bei Xi. The acquisition of Sichuan Luye and its Bei Xi product allowed us to enter the field of diabetes and add new products in gastroenterology, and strengthened our position in alimentary tract and metabolism. The acquisition is in line with our long-term strategic plan to accelerate growth and strengthen our foothold within the Chinese pharmaceutical industry through strategic acquisitions.

PRIOR LISTING ON SGX-ST

Privatisation of our Company and Delisting from SGX-ST

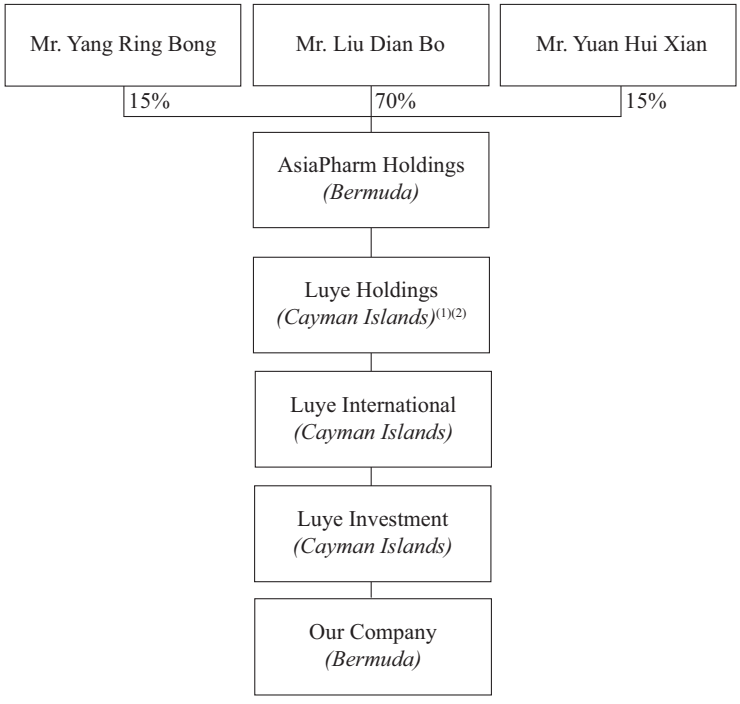
Our Shares were listed on the SGX-ST on 5 May 2004 (at which time the name of our Company was AsiaPharm Group Ltd.) and remained listed on the SGX-ST for more than eight years. In March 2009, we adopted our current Chinese name and changed our English name to our current name. On 28 August 2012, Luye Investment announced a privatisation proposal and subsequently made a voluntary unconditional cash offer of S$1.30 per share for all the issued and paid-up Shares, other than those already owned, controlled or agreed to be acquired by Luye Investment. The closing price of the Shares and the market capitalisation of our Company on 27 July 2012, being the last full trading day immediately prior to the announcement of the privatisation offer was S$1.12 and S$551.9 million, respectively. On the date of the announcement of the privatisation offer, Luye Investment and parties acting in concert with it owned in aggregate Shares representing approximately 92.64% of the total number of Shares then in issue. During the privatisation offer, Luye Investment and parties acting in concert with it received valid acceptances and acquired or agreed to acquire Shares in aggregate representing approximately 6.61% of the total issued Shares. Accordingly, at the close of the privatisation offer, the total number of Shares owned, controlled or agreed to be acquired by Luye Investment and parties acting in concert with it, together with the Shares in respect of which valid acceptances to the privatisation offer had been received, amounted to approximately 99.56% of the total number of Shares then in issue. Luye Investment had the right and served a notice pursuant to section 103 of the Bermuda Companies Act to compulsorily acquire all the Shares held by shareholders who had not accepted the privatisation offer. Following completion of the privatisation offer and the compulsory acquisition, our Company became a wholly-owned subsidiary of Luye Investment and our Shares were delisted from the SGX-ST on 29 November 2012. During the period that our Company was listed on the SGX-ST, we had complied with the listing rules of the SGX-ST in all material aspects.

Funding of the Privatisation Offer

The privatisation offer was funded by a combination of the issuance of the Exchangeable Bonds in the aggregate amount of US$248,711,018.31 and three special shares by Luye Holdings to the Existing Investors and a US$80 million term loan obtained by Luye Investment from China CITIC Bank International Limited (formerly known as CITIC Bank International Limited). The loan carried interest at LIBOR plus a margin of 2.8% to 4.75% per annum and was secured by, among others, certain share mortgages or pledges over the share capital, equity interest and bank accounts of some of our subsidiaries. The loan was fully repaid by Luye Investment in January 2014 and all the related share mortgages and pledges were released in February 2014.

Please refer to "—Existing Investors" below for further details of the background of the Existing Investors and information on their investments in Luye Holdings.

The following chart sets forth our shareholding structure immediately before the delisting (unless otherwise specified, each subsidiary is 100% owned by its holding company):



Notes:

(1) AsiaPharm Holdings held 100% of the issued ordinary shares of par value US$0.01 each in the capital of Luye Holdings.

(2) CDH Flower, CPE Greenery and Beyond Border each held a special share of par value US$0.01 each in the share capital of Luye Holdings. The Existing Investors also held the Exchangeable Bonds issued by Luye Holdings.

Buy-out of Prior Investor in Luye International

At the beginning of 2012 and prior to the privatisation offer, Luye International, through Luye Investment, had a 77.41% interest in our Company. The entire issued share capital of Luye International was then wholly-owned by AsiaPharm Holdings except for one share and certain bonds convertible into shares of Luye International, which were held by Hygeia Holdings Limited, an independent third party and a company owned by MBK Partners, L.P. On 28 February 2012, AsiaPharm Holdings acquired from Hygeia Holdings Limited all its interest in Luye International. Consequently, MBK Partners, L.P. ceased to hold any deemed interest in our Company.

Rationale for the Privatisation Offer and the Delisting

The reasons for the privatisation offer were as follows:

Generally Low Trading Liquidity of Shares. The trading volume of the Shares on the SGX-ST over the year preceding the privatisation offer had been low, with an average daily trading volume of approximately 105,480 Shares during the 12-month period up to and including the last full market day prior to the announcement of the privatisation offer.

Opportunity for the Remaining Shareholders to Realise Their Investment. At the time when the privatisation offer was announced, Luye Investment owned or controlled Shares representing approximately 92.63% of the entire issued share capital of our Company. This implies that no more than approximately 7.37% of all the Shares were held in public hands. Hence, the privatisation offer provided the remaining Shareholders with an opportunity to realise their investment in the Shares, without incurring brokerage and other trading costs, at a premium of approximately 20.4%, 39.8% and 41.3% over the volume weighed average price of the Shares in the one-month, six-month and 12-month periods up to and including the last full market day prior to the announcement of the privatisation offer, respectively.

Greater Management Flexibility. The board of directors of Luye Investment believed that delisting our Company from the SGX-ST and privatising our Company would give Luye Investment and our management more flexibility to manage the business of our Group and optimise the use of our management and capital resources. Given the distance between Singapore and China and taking into account the low liquidity of our Shares on the SGX-ST, the board of directors of Luye Investment considered that it would not be cost effective and efficient to deploy resources to maintain a listing on the SGX-ST. The delisting would allow our Group to rationalise the management, resources and cost structure of our Group's business in China for greater efficiency and competitiveness.

Luye Investment believes that the valuation and trading liquidity of the shares of a company carrying on healthcare related businesses with operations in China may be improved if that company were to be listed on an exchange where the shares of a number of comparable companies are traded, such as the Stock Exchange. Accordingly, we are seeking a listing on the Stock Exchange.

EXISTING INVESTORS

To fund the buy-out of the prior investor in Luye International, the privatisation offer and delisting of the Shares from the SGX-ST, AsiaPharm Holdings, Luye Holdings and the Founding Shareholders formed a consortium with CDH Flower, CPE Greenery and Beyond Border (collectively, the "Existing Investors") and entered into the Consortium Agreement dated 28 January 2012 (as amended), under which the Existing Investors agreed to subscribe in cash for the Exchangeable Bonds in an aggregate amount of US$248,711,018.31 and special shares of par value US$0.01 each in the capital of Luye Holdings. The consideration was agreed after arm's length negotiation between the parties and took into account the valuation of our Group as agreed to between the parties at the relevant time.

Exchangeable Bonds

The following is a summary of certain of the key terms of the Consortium Agreement and the Exchangeable Bonds:

Principal amount of the Exchangeable Bonds	:	US$248,711,018.31
Issue date	:	On 28 February 2012, we issued the full principal amount of the Exchangeable Bonds upon payment by the Existing Investors of US$212,183,974.70 on that date. On 25 July 2012, the remaining balance of US$36,527,043.61 was paid by the Existing Investors.
Effective cost per Share in our Company if the Exchangeable Bond is exchanged into the Shares of our Company	:	US$0.22 (equivalent to approximately HK$1.74), representing a discount of approximately 69.3% to the Offer Price of HK$5.65 per Share, being the mid-point of the indicative offer price range stated in this prospectus.
Maturity date for each Exchangeable Bond	:	The date falling on the fifth anniversary of the issuance date of the Exchangeable Bond.
Interest rate	:	10% per annum of the outstanding principal amount of the Exchangeable Bond, compounded annually, payable on the maturity date unless the Exchangeable Bonds have been converted, exchanged or redeemed previously.
Conversion right	:	The Exchangeable Bonds are convertible into ordinary shares of par value US$0.01 each of the capital of Luye Holdings at any time after the first anniversary of the issuance date or upon occurrence of certain events of default or certain events having a material adverse effect on Luye Holdings and its subsidiaries (the "LPH Group"), at an original conversion price of US$304 per share (subject to adjustments). The conversion price was agreed after arm's length negotiation between the parties and took into account the valuation of our Group as agreed between the parties at the relevant time.

Exchange right	:	The Exchangeable Bonds are exchangeable into Shares in our Company held by Luye Investment at any time after the first anniversary of the issuance date or upon the occurrence of certain events of default or certain events having a material adverse effect on the LPH Group at the exchange price of US$0.22 per Share (subject to adjustments). The exchange price was agreed after arm's length negotiation between the parties and took into account the valuation of our Group as agreed between the parties at the relevant time.
Use of proceeds	:	The proceeds from the Exchangeable Bonds have been fully applied (i) to settle the consideration for the acquisition by AsiaPharm Holdings from Hygeia Holdings Limited of the convertible bonds and the special share issued by Luye International; (ii) to fund the privatisation offer; and (iii) for our Group's general working capital needs.
Reserved matters	:	Holders of Exchangeable Bond or relevant LPH Group Company shares issued upon conversion or exchange of an Exchangeable Bond have veto rights over certain major corporate actions of LPH Group. Such rights will be terminated upon Listing.
Put option	:	If there is no approved listing by the maturity date of the Exchangeable Bonds or on the occurrence of certain other events, the Existing Investors have the right to require AsiaPharm Holdings and Mr. Liu Dian Bo, our Executive Chairman, to purchase all the Exchangeable Bonds (and all equity securities converted or exchanged from the Exchangeable Bonds). Such put option will be terminated upon Listing.
Information rights	:	A holder of an Exchangeable Bond or relevant LPH Group Company shares issued upon conversion or exchange of an Exchangeable Bond is entitled to receive certain financial and operational information about the LPH Group, including the annual budget and business plan of the LPH Group. Such information rights will be terminated upon Listing.

Restriction on disposal by the Founding Shareholders	:	For so long as the Existing Investors (and their beneficial owners) continue to hold: • 60% or more of their Original Holding (as defined below) immediately upon completion of the Global Offering; or • 40% or more of their Original Holding after completion the Global Offering, the Founding Shareholders and AsiaPharm Holdings may not dispose of Shares in the aggregate representing more than 10% of the issued share capital of our Company without the prior consent of the Existing Investors. "Original Holding" means the Existing Investors' (and their beneficial owners') aggregate shareholding in our Company immediately following the exchange of their Exchangeable Bonds and the Capitalisation Issue but without taking in account any Shares which may be issued or sold under the Global Offering.
Annual budget	:	The Existing Investors and the Founding Shareholders agree to include provisions in the Bye-laws of our Company that our annual budget and any alteration to the number of directors of our Board must be approved by at least 75% of the Board voting in favour at a Board meeting. In the event that the Existing Investors cease to continue to hold: • 60% or more of their Original Holding immediately upon completion of the Global Offering; or • 40% or more of their Original Holding after completion the Global Offering, the Investors have undertaken to the Founding Shareholders that they will cast their votes in respect of their Shares in favour of any resolution put forward to the general meeting of our Company to remove the above provisions in the Bye-laws.

Shareholding of the Existing Investors upon Listing

The Existing Investors have served a notice to Luye Investment to exchange their entire holding of the Exchangeable Bonds subject to and conditional and immediately upon each of the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into, becoming unconditional and not having been terminated and the Capitalisation Issue being completed. Upon full exchange of the Exchangeable Bonds and following the Capitalisation Issue, Luye Investment will transfer a total of 1,110,503,913 Shares to the Existing Investors. Further, CPE Greenery will make a distribution in specie of 267,902,223 Shares to be obtained from the exchange of its Exchangeable Bonds to one of its shareholders, CPE Palm Beach L.P., whose general partner is CPE Coinvest Management Limited. In return for such distribution in specie, CPE Palm Beach L.P. will surrender all of its shares in CPE Greenery for nil consideration. CPE Coinvest Management Limited will distribute in specie all of such 267,902,223 Shares to Tropical Excellence, who is the sole limited partner of CPE Palm Beach L.P., upon receipt of the distribution in specie from CPE Greenery. As a result of such distribution in specie made by CPE Coinvest Management Limited, Tropical Excellence will hold 267,902,223 Shares directly. CPE Greenery, whose sole shareholder after the surrender of all of CPE Palm Beach L.P.'s shares in CPE Greenery will be CPEChina Fund, L.P., will continue to hold 306,797,245 Shares after the distribution in specie made by CPE Greenery.

Tropical Excellence is a private limited company organised and existing under the laws of Singapore, and managed by GIC Special Investments Pte. Ltd. GIC Special Investments Pte. Ltd. is in turn a private limited company incorporated in Singapore and is the private equity investment arm of GIC Private Limited. GIC Private Limited is wholly-owned by the Government of Singapore and was set up with the purpose of managing Singapore's foreign reserves.

Immediately after the completion of the Capitalisation Issue and the Global Offering, and assuming that the Over-allotment Option is not exercised, CDH Flower, CPE Greenery, Beyond Border and Tropical Excellence will hold approximately 6.4%, 6.8%, 5.4% and 5.9% of the issued share capital of our Company, respectively. As none of the Existing Investors and Tropical Excellence will hold 10% or more of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering, their shareholdings in our Company will be counted as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

Since the Exchangeable Bonds were issued by Luye Holdings and not by any member of our Group, the Exchangeable Bonds had no impact on our financial statements during the Track Record Period.

Our Company and the Joint Sponsors are of the view that the pre-IPO investments mentioned above are in compliance with the Interim Guidance (i.e. Guidance Letter HKEx-GL29-12), the Guidance Letter HKEx-GL43-12 and the Guidance Letter HKEx-GL44-12.

Information on the Existing Investors

CDH Flower

CDH Flower is a Cayman Islands incorporated investment holding company wholly owned by CDH Pharmaceutical Investments Limited ("CDH PIL"), a company incorporated in the Cayman Islands. CDH PIL is in turn wholly owned by CDH Fund IV, L.P. ("CDH Fund IV"), an exempted limited partnership organised under the laws of the Cayman Islands. CDH IV Holdings Company Limited, a limited liability company incorporated under the laws of the Cayman Islands, is the general partner of CDH Fund IV. CDH China Management Company Limited ("CDH"), a limited liability company incorporated under the laws of the Cayman Islands, is the management company of CDH Fund IV. CDH is a private equity company primarily specialising in growth capital, middle market and buyout investments in Greater China.

CPE Greenery

CPE Greenery is a Cayman Islands incorporated investment holding company owned by CPEChina Fund, L.P. ("CPEChina") and CPE Palm Beach L.P. ("CPE Palm Beach"), both of which are exempted limited partnerships registered under the laws of the Cayman Islands. The general partner of CPEChina is CITIC PE Associates, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is CITIC PE Funds Limited, a company incorporated in the Cayman Islands. The general partner of CPE Palm Beach is CPE Coinvest Management Limited, which is a company incorporated in the Cayman Islands. CPEChina is a China-focused private equity fund and CPE Palm Beach is an investment fund for project coinvestment by certain limited partners of CPEChina. Following the exchange of its Exchangeable Bonds, CPE Greenery will make a distribution in specie of 267,902,223 Shares to be obtained from the exchange of its Exchangeable Bonds to CPE Palm Beach L.P., whose general partner is CPE Coinvest Management Limited. In return for such distribution in specie, CPE Palm Beach L.P. will surrender all of its shares in CPE Greenery for nil consideration. Following such distribution and surrender, CPE Greenery will be wholly owned by CPEChina.

Beyond Border

Beyond Border is jointly owned by Harvest Hill Investment Ltd. ("HHI") and AXA Direct Asia II, L.P. ("AXA Fund"). HHI is a company incorporated in the Cayman Islands and is wholly owned by New Horizon Capital III, L.P. ("NHC"), a limited partnership registered under the laws of the Cayman Islands. The general partner of NHC is New Horizon Capital Partners III Ltd. ("New Horizon"), a company incorporated in the Cayman Islands. New Horizon is a private equity company focusing on investing in the consumer and retail, alternative energy, pharmaceutical and healthcare, and advanced manufacturing sectors. AXA Fund is a limited partnership registered under the laws of Scotland and the general partner of AXA Fund is AXA PE Asia Manager Limited, a company incorporated in Jersey. AXA Fund is an Asia-Pacific focused vehicle, with a specific focus on the most significant countries and regions in terms of private equity activity being the PRC, Australia, India, South Korea and South-East Asia.

Each of the Existing Investors was an independent third party prior to the entering into the Consortium Agreement. Following the exchange of the Exchangeable Bonds into the Shares of our Company, the Existing Investors will become Shareholders of our Company.

TRUST SETTLEMENT BY MR. LIU DIAN BO

On 19 May 2014, Mr. Liu Dian Bo transferred to Nelumbo Investments Limited his entire shareholding in, representing 70% of the entire issued share capital of, AsiaPharm Holdings, for nil consideration as an additional settlement on the Liu Family Trust, a discretionary trust whose beneficiaries are certain family members of Mr. Liu Dian Bo. Nelumbo Investments Limited is wholly owned by the trustee of the Liu Family Trust, Ginkgo Trust Limited, which in turn is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo.

ISSUE OF SHARES BY LUYE HOLDINGS FOR EMPLOYEE INCENTIVE SCHEME

Luye Holdings proposes to adopt an employee incentive scheme ("**Employee Incentive Scheme**") for the purpose of incentivising the employees of our Group. In connection with the Employee Incentive Scheme, on 20 June 2014, the board of directors of Luye Holdings resolved to allot and issue a total of 136,852 ordinary shares of US$0.01 each ("**EIS Shares**") in Luye Holdings, representing approximately 12.0% of the enlarged issued ordinary share capital of Luye Holdings, to AsiaPharm Holdings, conditional on the Underwriting Agreements having being entered into, becoming unconditional and not having been terminated and the Capitalisation Issue being completed. AsiaPharm Holdings will hold the EIS Shares on trust as trustee for the future beneficiaries of the Employee Incentive Scheme. The EIS Shares, when issued, will not carry any rights to be converted into Shares of our Company following Listing.

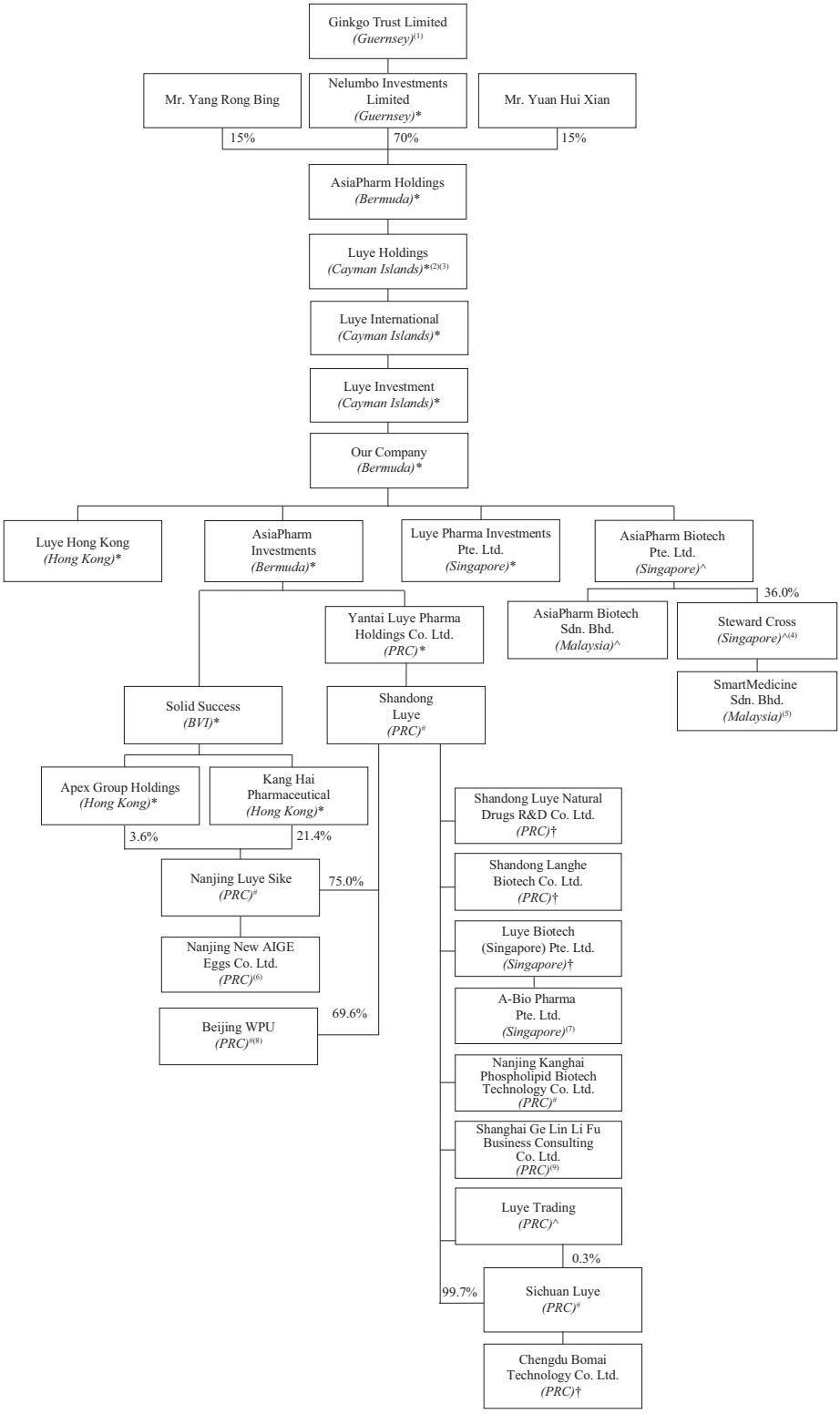
It is expected that eligible participants of the Employee Incentive Scheme will include directors, senior management and other employees of our Company and our subsidiaries. Under the Employee Incentive Scheme, Luye Holdings may (or may not) award to eligible participants the rights to acquire the EIS Shares at a price ("**Award Price**") to be determined by a committee comprising certain senior management and representatives from the controlling shareholders of our Company (which could potentially be the remuneration committee of the Board of our Company) (the "**Scheme Committee**") from time to time. The Employee Incentive Scheme, when adopted, will not be subject to the provisions of Chapter 17 of the Listing Rules as the scheme does not involve the grant by our Company or any of our subsidiaries of options over new shares or other new securities of our Company or any of our subsidiaries to, or for the benefit of, specified participants of such scheme as envisaged under Chapter 17 of the Listing Rules.

It is envisaged that the Scheme Committee will be formed to determine which eligible participants will be granted the rights to acquire the EIS Shares. Luye Holdings does not expect to set any performance target for the vesting of any EIS Shares to be awarded, however, the EIS Shares will be offered to the selected eligible participants at an Award Price to be determined by the Scheme Committee.

Pursuant to IFRS 2, the Employee Incentive Scheme will not have any accounting impact on our Group's consolidated financial statements before any EIS Shares under the Employee Incentive Scheme are granted. Upon the granting of the EIS Shares to the selected eligible participants of our Group under the Employee Incentive Scheme, our Group will measure and recognise the value of the services received from the grantees by reference to the fair value of such awards with the corresponding increase in equity in the consolidated financial statements. As of the Latest Practicable Date, the terms of the Employee Incentive Scheme were still being considered by Luye Holdings and were expected to be finalised only after Listing.

GROUP STRUCTURE

The following chart depicts the shareholding and corporate structure of our Group as of the Latest Practicable Date (unless otherwise specified, each subsidiary is 100% owned by its holding company):



Notes:

* The principal activities of these companies are investment holding.

\# The principal activities of these companies are manufacture and sale of pharmaceutical products.

^ The principal activities of these companies are distribution and sale of pharmaceutical products.

† The principal activities of these companies are research and development.

(1) Ginkgo Trust Limited, which is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo, holds the entire issued share capital of Nelumbo Investments Limited as trustee of the Liu Family Trust.

(2) AsiaPharm Holdings holds 100% of the issued ordinary shares of par value US$0.01 each in the capital of Luye Holdings, approximately 12.0% of which is held by AsiaPharm Holdings as trustee on trust for the future beneficiaries of the employee incentive scheme proposed to be adopted by Luye Holdings for the purpose of incentivising the employees of our Group.

(3) CDH Flower, CPE Greenery and Beyond Border each holds a special share of par value US$0.01 each in the share capital of Luye Holdings. The Existing Investors also hold the Exchangeable Bonds issued by Luye Holdings.

(4) The remaining shareholding of Steward Cross is held as to 20%, 7%, 27% and 10%, respectively by Siow Kwong Thye, Michael Tay Poh Choon, Grace Yip Yin May and Ng Swee Pheng, each of whom is an independent third party.

(5) The principal activities of SmartMedicine Sdn. Bhd are the distribution of pharmaceutical products.

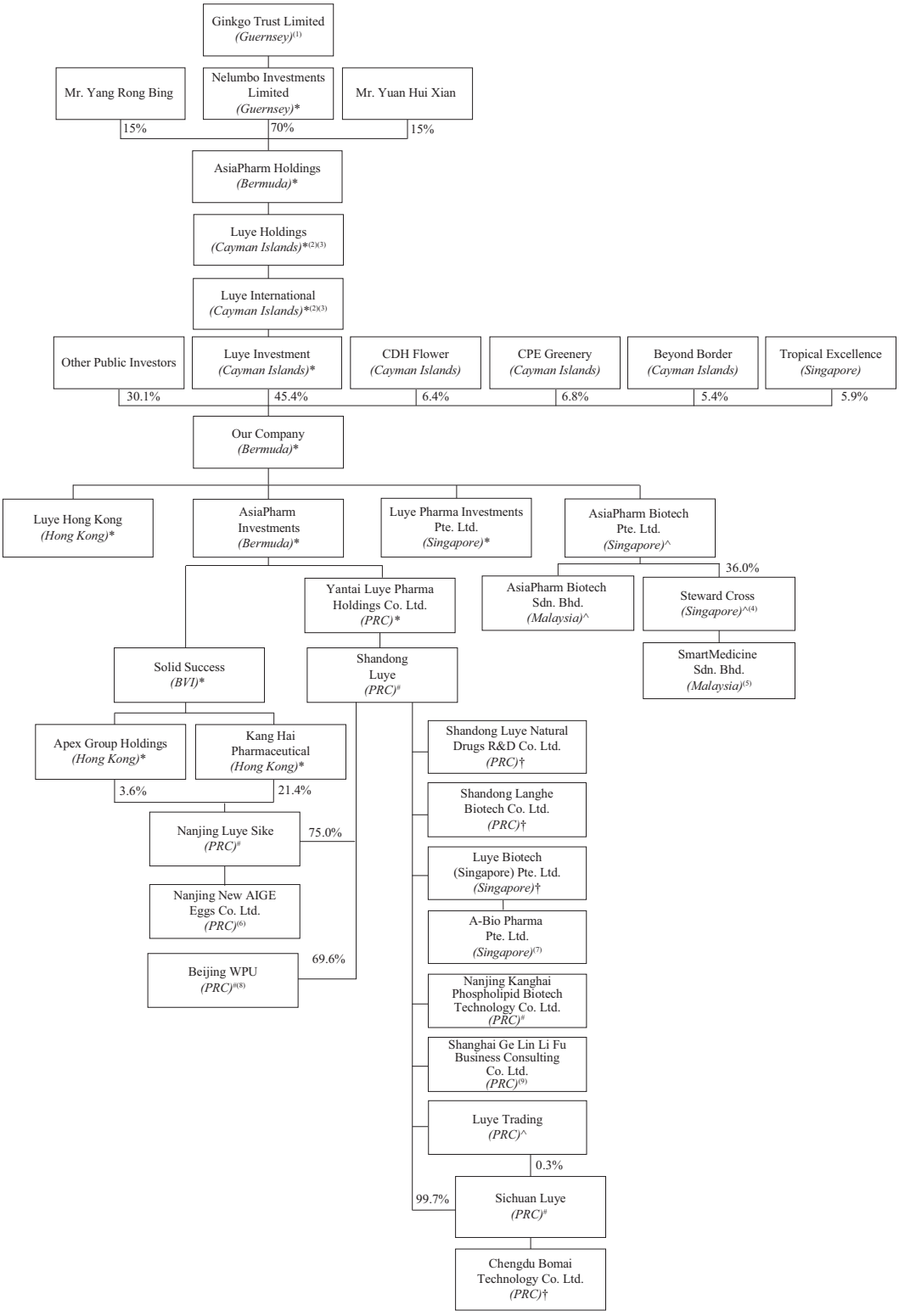
(6) The principal activities of Nanjing New AIGE Eggs Co. Ltd. are the manufacture and sale of eggs and technology development.

(7) The principal activities of A-Bio Pharma Pte. Ltd. are the provision of contract research, process development and manufacturing services.

(8) The remaining shareholding of Beijing WPU is held by Beijing Beida Asset Management Co. Ltd., who would have been an independent third party but for its interest in Beijing WPU.

(9) The principal activities of Shanghai Ge Lin Li Fu Business Consulting Co. Ltd. are the provision of contract research, process development and manufacturing services.

The following chart depicts the shareholding and corporate structure of our Group immediately following the completion of the Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised (unless otherwise specified, each subsidiary is 100% owned by its holding company):



Notes:

* The principal activities of these companies are investment holding.

\# The principal activities of these companies are manufacture and sale of pharmaceutical products.

^ The principal activities of these companies are distribution and sale of pharmaceutical products. The principal activities of these companies are research and development.

(1) Ginkgo Trust Limited, which is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo, holds the entire issued share capital of Nelumbo Investments Limited as trustee of the Liu Family Trust.

(2) AsiaPharm Holdings holds 100% of the issued ordinary shares of par value US$0.01 each in the capital of Luye Holdings, approximately 12.0% of which is held by AsiaPharm Holdings as trustee on trust for the future beneficiaries of the employee incentive scheme proposed to be adopted by Luye Holdings for the purpose of incentivising the employees of our Group.

(3) CDH Flower, CPE Greenery and Beyond Border each holds a special share of par value US$0.01 each in the share capital of Luye Holdings.

(4) The remaining shareholding of Steward Cross is held as to 20%, 7%, 27% and 10%, respectively by Siow Kwong Thye, Michael Tay Poh Choon, Grace Yip Yin May and Ng Swee Pheng, each of whom is an independent third party.

(5) The principal activities of SmartMedicine Sdn. Bhd are the distribution of pharmaceutical products.

(6) The principal activities of Nanjing New AIGE Eggs Co. Ltd. are the manufacture and sale of eggs and technology development.

(7) The principal activities of A-Bio Pharma Pte. Ltd. are the provision of contract research, process development and manufacturing services.

(8) The remaining shareholding of Beijing WPU is held by Beijing Beida Asset Management Co. Ltd., who would have been an independent third party but for its interest in Beijing WPU.

(9) The principal activities of Shanghai Ge Lin Li Fu Business Consulting Co. Ltd. are the provision of contract research, process development and manufacturing services.

PRC LEGAL COMPLIANCE

As advised by our PRC legal adviser, the Founding Shareholders completed their Circular 75 registrations with SAFE in March 2014.

We obtained our shareholder's approval for the Global Offering on 19 June 2014. As advised by our PRC legal adviser, no shareholders' approval is required for the proposed Listing under PRC law. Please refer to "Statutory and General Information—A. Further Information about Our Company and Our Subsidiaries—3. Resolutions of the Shareholder of our Company" in Appendix IV to this prospectus for further details.

OVERVIEW

We focus on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism. Our product portfolio consists of 29 products and centres around seven key products, six of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. Our sales of patent-protected products accounted for 92.2%, 85.9% and 83.6% of our total revenue for 2011, 2012 and 2013, respectively. We have strong R&D and sales and marketing capabilities. We also have a proven track record of identifying, acquiring and integrating pharmaceutical companies with market-leading drugs and technologies.

All of our key products are competitively positioned in one of our three key therapeutic areas and have gained top-ranking market shares measured by revenue. According to MENET, oncology-related pharmaceutical products constituted the single largest market for pharmaceutical products in the PRC in 2013. Our portfolio of oncology products includes Lipusu, the second most popular domestically manufactured pharmaceutical product for cancer treatment in China in 2013, and Tiandixin, the third most popular chemical immunostimulant with oncology indications in China in 2013, according to IMS, as well as CMNa, a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. Market data from MENET shows that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2013. Our key cardiovascular system products include Xuezhikang, the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, and Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS. Alimentary tract and metabolism-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2013 based on MENET data. According to IMS, based on revenue in 2013, we were the fourth largest domestic pharmaceutical manufacturer of oral diabetic medications and the sixth largest manufacturer of liver protection medications in China.

For 2011, 2012 and 2013, our revenue from sales of our seven key products was RMB1,577.6 million, RMB1,864.6 million and RMB2,215.1 million, respectively, accounting for 88.9%, 87.3% and 88.1% of our total revenue for the respective period, representing a CAGR of 18.5% over the period.

We primarily sell our products within the PRC. We generate demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing activities, including academic promotion, and generate revenue by selling our pharmaceutical products to distributors who, in turn, sell our products to hospitals and other medical institutions, either directly or through their sub-distributors. We develop our marketing and promotion strategies centrally in order to maximise our brand recognition and optimise our product positioning in the PRC market. We implement our strategies primarily through three internal sales teams that are aligned to our key therapeutic areas. We also utilise independent third party promoters where we believe it enables us to leverage their relationships to expand our hospital coverage efficiently. We believe this approach enables us to optimise the allocation of our marketing resources. In total, our sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 employees, over 500 third party promoters and over 800 distributors which collectively enabled us to sell our products to 30 provinces, autonomous regions and municipalities throughout the PRC and to over 8,000 hospitals in 2013.

We believe our ability to develop innovative pharmaceutical products through our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. Our market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas—oncology, cardiovascular system and alimentary tract and metabolism and central nervous system—with a focus on those candidates that have the potential for future commercialisation in global markets. We balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities.

As of 31 December 2013, we had a pipeline of 22 PRC product candidates in various stages of development that we are targeting to launch by 2020, including 17 product candidates that we are targeting to launch by 2018. These candidates included eight oncology products and four alimentary tract and metabolism products, as well as ten products within the central nervous system therapeutic area, which according to MENET was the fastest growing therapeutic area in China from 2008 to 2013. As of 31 December 2013, our R&D team consisted of 266 employees, including 30 Ph.D. degree holders and 124 Master's degree holders in medical, pharmaceutical and other related areas. As of 31 December 2013, we had been granted 230 patents and had 84 pending patent applications in the PRC, and had been granted 75 patents and had 77 pending patent applications overseas.

We intend to supplement our existing product portfolio and pipeline of product candidates through an acquisition strategy that focuses on pharmaceutical products that we deem to possess high growth potential in the PRC, primarily within our existing three therapeutic areas, as well as central nervous system, which we expect to become an additional key therapeutic area for us. We believe this approach will enhance our profitability by driving additional revenues through our existing sales and marketing infrastructure and production facilities. In 2011, we acquired Sichuan Baoguang Pharmaceutical Co. Ltd. (now Sichuan Luye) and its product Bei Xi and we began promoting the product through our internal sales and marketing infrastructure. We grew our revenue from sales of Bei Xi from RMB153.7 million in 2012, the first full financial year following its acquisition, to RMB238.9 million in 2013, representing growth of 55.4%. We will also explore acquisitions involving complementary technologies that we believe will enhance our ability to implement our market-driven R&D strategies, and international acquisitions consistent with our long-term strategies.

Over the longer term, we intend to become a leading pharmaceutical company globally. We believe we are one of the first Chinese pharmaceutical manufacturers to conduct clinical trials in international markets, including the United States. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market. One of these product candidates, Xuezhikang, is already a key cardiovascular system product for us in the PRC market and has completed phase II clinical trials in the United States, and the other three product candidates are being concurrently developed for the PRC and U.S. markets. For overseas market product candidates, we will seek to maximise the potential value of our product candidates by pursuing flexible development, partnership and commercialisation strategies tailored to the target market.

Our production activities are carried out at five facilities, two located in Yantai, Shandong Province, one located in Nanjing, Jiangsu Province, one located in Beijing and one located in Luzhou, Sichuan Province. As of 31 December 2013, we operated a total of 30 production lines at these facilities. We plan to increase our production capacity by constructing new production lines, as well as to upgrade our production facilities, to meet demand for our products. We

adopt a phase by phase approach in our expansion and upgrade plan, primarily taking into consideration our projected sales, and continually re-evaluate our capital expenditures and the timing of our projects based on market demand for our products, the progress of the developments on our product candidates and technological development that are relevant to our production process. Our current expansion and upgrade plan involves all five of our production facilities.

For 2011, 2012 and 2013, our total revenue was RMB1,774.4 million, RMB2,135.9 million and RMB2,515.1 million, respectively, representing a CAGR of 19.1% over the period. For 2011, 2012 and 2013, our net profit was RMB166.2 million, RMB175.6 million and RMB327.9 million, respectively, representing a CAGR of 40.5% over the period. For 2011, 2012 and 2013, our gross profit margin was 83.0%, 83.5% and 83.6%, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and position us well for continued growth:

We focus on three of the largest and fastest growing therapeutic areas in the PRC.

We focus on pharmaceutical products within oncology, cardiovascular system and alimentary tract and metabolism, which are three of the largest and fastest growing therapeutic areas in the PRC. We believe our positioning within these markets will enable us to capture continued growth, as well as to increase our operational efficiency by further leveraging our sales and marketing infrastructure and production capacity through the introduction of new products targeting these key therapeutic areas:

Oncology. According to the China National Bureau of Statistics, cancer was the leading cause of death in China for both its urban and rural population in 2012. According to MENET, oncology was the largest overall therapeutic area for pharmaceutical products in China in 2013 based on revenue, accounting for 18.8% of the market. Based on revenue in 2013, we were the fifth largest domestic oncology pharmaceutical product manufacturer in China, according to IMS. We currently market and sell six oncology products, including three of our seven key products, and our product pipeline includes eight additional oncology product candidates that are in various stages of development. For 2011, 2012 and 2013, our revenue from sales of oncology products was RMB799.9 million, RMB940.8 million and RMB1,102.2 million, respectively, accounting for 45.1%, 44.1% and 43.8% of our total revenue for the respective period.

Cardiovascular system. According to the China National Bureau of Statistics, heart disease was the second and third leading causes of death in China for its urban and rural population in 2012, respectively. According to MENET, cardiovascular system was the third largest overall therapeutic area for pharmaceutical products in China in 2013 in terms of revenue, accounting for 14.4% of the market. We currently market and sell six cardiovascular system products, including two of our key products. According to IMS, Xuezhikang, one of our key cardiovascular system products, was the most popular Chinese medicine in China for the treatment of hypercholesterolaemia in 2013, and our other key cardiovascular system product, Maitongna, was the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013. For 2011, 2012 and 2013, our revenue from sales of cardiovascular system products was RMB613.9 million, RMB630.7 million and RMB723.1 million, respectively, accounting for 34.6%, 29.5% and 28.7% of our total revenue for the respective period.

Alimentary tract and metabolism. According to MENET, alimentary tract and metabolism was the fourth largest overall therapeutic area for pharmaceutical products in China in 2013 in terms of revenue, accounting for 14.1% of the market. According to IMS, based on revenue in 2013, we were the fourth largest domestic pharmaceutical manufacturer of oral diabetic medications and the sixth largest manufacturer of liver protection medications in China. We currently market and sell eight alimentary tract and metabolism products, including two of our key products, and our product pipeline includes four additional alimentary tract and metabolism product candidates. For 2011, 2012 and 2013, our revenue from sales of alimentary tract and metabolism products was RMB280.0 million, RMB451.1 million and RMB575.2 million, respectively, accounting for 15.8%, 21.1% and 22.9% of our total revenue for the respective period.

Additionally, we are strategically focusing our R&D efforts on central nervous system product candidates, which we expect to become one of our key therapeutic areas. We believe the market is currently underpenetrated, and will continue to generate fast-growing demand. According to MENET, the central nervous system market in China grew at a CAGR of 22.3% from 2008 to 2013, making it the fastest growing therapeutic area in China. As of 31 December 2013, our product pipeline included ten central nervous system product candidates.

Our key products enjoy strong competitive positioning for high prevalence medical conditions that are expected to grow significantly in China.

For 2011, 2012 and 2013, our revenue from sales of our seven key products was RMB1,577.6 million, RMB1,864.6 million and RMB2,215.1 million, respectively, accounting for 88.9%, 87.3% and 88.1% of our total revenue for the respective period. We believe our seven key products are competitively positioned for high prevalence medical conditions that are expected to grow significantly in China.

Lipusu® (力撲素®). Lipusu is our 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 RMB30.2 billion in 2013. According to IMS, based on revenue, Lipusu was the second most popular domestically manufactured pharmaceutical product for cancer treatment in China in 2013, and the most popular paclitaxel product in China in 2013 with a market share of approximately 38.9%. As of 31 December 2013, Lipusu was the first and only paclitaxel liposome product approved for sale globally.

Tiandixin® (天地欣®). Tiandixin is our formulation of lentinan in injectable form and is indicated for use as an adjunctive therapy for certain malignant tumours. According to IMS, the market for lentinan products in China was estimated to be approximately RMB946 million in 2013. According to IMS, Tiandixin ranked as the third most popular chemical immunostimulant with oncology indications in China in 2013.

CMNa® (希美納®). CMNa is sodium glycididazole, a proprietary compound that we prepare 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 China as of 31 December 2013. 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 our proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, we were the only Xuezhikang manufacturer in China as of 31 December 2013. According to IMS, 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 RMB6.5 billion in 2013. According to IMS, Xuezhikang ranked as the fifth most popular domestically manufactured pharmaceutical product in China based on revenue for the treatment of hypercholesterolaemia in 2013, with a market share of over 1.9% in 2013. In addition, IMS data show that Xuezhikang was the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, with a market share of over 99.1%.

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 pharmaceuticals in China was estimated to be approximately RMB1.8 billion in 2013. Maitongna was the best-selling sodium aescinate product in China in 2013 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS, with a market share of approximately 18.7% in 2013.

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, we were the only manufacturer of acarbose in capsule form in China as of 31 December 2013. According to IMS, the market for acarbose products in China was estimated to be approximately RMB2.4 billion in 2013. Bei Xi ranked as the third most popular acarbose product in China, with a market share of approximately 3.0% in 2013, according to IMS.

Lutingnuo® (綠汀諾®). Lutingnuo is reduced glutathione in injectable form and is indicated for use as an adjuvant therapy for liver toxicity caused by alcohol and certain medications. According to IMS, the market for reduced glutathione in China was estimated to be approximately RMB2.2 billion in 2013. Lutingnuo ranked as the fourth most popular reduced glutathione product in China, with a market share of approximately 13.5% in 2013, according to IMS.

We have significant competitive strengths in R&D centred around three technology platforms and a robust pipeline of product candidates.

Our market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas, with a focus on those candidates that have the potential for future commercialisation in global markets. Through our three R&D platforms—long-acting and extended release technology, liposome and targeted drug delivery and new compounds—we balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities.

The following table sets forth selected information on each of our R&D platforms:

Platform	Technology focus and highlight	Key product candidates under development
Long-acting and extended release technology	Focuses on innovation in microsphere technology Tailors drug release rates to the needs of a specific application Provides protection to active pharmaceutical ingredients that would otherwise be rapidly destroyed by the body Reduces the frequency of administration to improve patients' comfort and compliance	Risperidone extended release microspheres for injection Rotigotine extended release microspheres for injection
Liposome and targeted drug delivery	Focuses on innovation in cancer-targeting delivery technology and liposome technology in order to improve the efficacy for proven compounds as well as reduce toxic side effects and increase maximum dosage level	Vincristine sulphate liposome for injection
New compounds	Seeks to improve existing compounds through rapid simulation, comparative research and deficiency reduction to selectively develop new proprietary compounds	Ansofaxine hydrochloride extended release tablets

We believe our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. As of 31 December 2013, our product pipeline included 22 PRC product candidates that we are targeting to launch by 2020, four of which are pending approval for production, seven of which are at various stages of clinical trials, six of which are pending approval to enter clinical trials and five of which are at pre-clinical stage.

Through our three platforms and corresponding R&D capabilities, we focus on R&D projects within the oncology, alimentary tract and metabolism, as well as central nervous system therapeutic areas. Our product candidates include eight oncology products, four alimentary tract and metabolism products and ten central nervous system products. We are targeting that 17 product candidates will be approved for marketing and sale in China by 2018 and we believe the following ten product candidates will have the greatest impact on our competitive position during this period:

Mucoadhesive oral wound rinse: an oncology product candidate for the treatment of mouth ulcers caused by chemotherapy. It is expected to be classified as a medical device and we are targeting to obtain CFDA approval for its manufacture and sale in the second half of 2014.

Reduced glutathione enteric capsules: an alimentary tract and metabolism product candidate for the treatment of certain liver dysfunctions. By using enteric capsules, we believe our formulation of reduced glutathione allows the active pharmaceutical ingredients to be better preserved in the alimentary tract, which, in turn, will result in higher efficacy. According to IMS, the market size of reduced glutathione in the PRC in 2013 was approximately RMB2.2 billion, and grew at a CAGR of 16.4% from 2011 to 2013. We have completed clinical trials for the product and are targeting to obtain CFDA approval for its manufacture and sale in 2015. Once approved, we expect it will be the first formulation of reduced glutathione in enteric capsules approved for sale in the PRC.

Risperidone extended release microspheres for injection: a central nervous system product candidate being developed through our long-acting and extended release technology platform for the treatment of schizophrenia and bipolar disorder. We believe our formulation of risperidone in extended release injection has the same therapeutic properties as the currently marketed long acting risperidone product but, through the application of our microsphere technology, has a faster onset of action and more stable plasma concentration. According to IMS, the market size of antipsychotics in the PRC in 2013 was RMB3.4 billion, and grew at a CAGR of 17.5% from 2011 to 2013. We are concurrently conducting phase I and phase II clinical trials in the United States and phase I clinical trials in the PRC. We are targeting to obtain CFDA approval for the manufacture and sale of risperidone extended release microspheres for injection in 2016.

Vincristine sulphate liposome for injection: an oncology product candidate being developed through our liposome and targeted drug delivery platform for the treatment of certain types of cancer. Through the application of our liposomal technology, we expect our formulation of vincristine in injectable form to demonstrate an enhanced safety profile in comparison with other marketed vincristine products. According to IMS, the market for oncology pharmaceutical products in the PRC in 2013 was RMB30.2 billion, and grew at a CAGR of 18.3% from 2011 to 2013. We commenced phase III clinical trials for the product in June 2013 and we are targeting to obtain CFDA approval for its manufacture and sale in 2016.

Laxymig: a central nervous system product candidate being developed under licence for the treatment of epilepsy. It is a branded formulation of generic drug valproate semisodium extended release tablets that has been marketed in Taiwan. According to IMS, the market size for antiepileptics in the PRC in 2013 was approximately RMB1.4 billion, and grew at a CAGR of 24.6% from 2011 to 2013. We are conducting clinical trials for the product in China and we are targeting to obtain CFDA approval for its sale in 2016.

Triptorelin acetate extended release microspheres for injection: an oncology product candidate for the treatment of certain cancers, including prostate cancer. We believe our formulation of triptorelin acetate, a gonadotropin-releasing hormone agonist, using our microspheres injection technology will be bioequivalent to existing triptorelin acetate microspheres. According to IMS, the market size for gonadotropin-releasing hormone agonist products in the PRC in 2013 was approximately RMB1.7 billion, and grew at a CAGR of 29.0% from 2011 to 2013. We await approval from CFDA to commence clinical trials in China and we are targeting to obtain CFDA approval for the manufacture and sale of triptorelin acetate extended release microspheres for injection in 2017.

Rotigotine extended release microspheres for injection: a central nervous system product candidate being developed within our long-acting and extended release technology platform for the treatment of Parkinson's disease. We expect our rotigotine product will simplify the treatment regimen, improve patient compliance and reduce side effects while providing the therapeutic benefits of continuous delivery of rotigotine and continuous dopaminergic stimulation, as compared with the currently marketed rotigotine transdermal patches. According to IMS, the market size of pharmaceutical products for the treatment of Parkinson's disease in the PRC in 2013 was RMB516.8 million, and grew at a CAGR of 24.3% from 2011 to 2013. We are concurrently conducting phase I clinical trials for the product in the United States and the PRC and we are targeting to obtain CFDA approval for its manufacture and sale in 2017.

Exenatide extended release microspheres for injection: an alimentary tract and metabolism product candidate for the treatment of type 2 diabetes mellitus. We believe our formulation of exenatide using our microspheres technology will provide earlier and longer lasting stable plasma concentration levels than existing products. According to IMS, the market size of products for the treatment of diabetes in the PRC in 2013 was approximately RMB7.7 billion, and grew at a CAGR of 23.4% from 2011 to 2013. We currently await CFDA approval to commence clinical trials for the product and we are targeting to obtain CFDA approval for its manufacture and sale in 2017.

Ansofaxine hydrochloride extended release tablets: a central nervous system product candidate being developed within our new compounds platform for the treatment of moderate to severe depression. It is expected to be approved as a Class I New Chemical Drug. We believe our formulation of ansofaxine hydrochloride in extended release tablets, a new SNDRI investigational drug, will have higher efficacy and fewer side effects compared to traditional anti-depressants. According to IMS, the market size for anti-depressants in the PRC in 2013 was approximately RMB2.9 billion, and this market grew at a CAGR of 21.2% from 2011 to 2013. We have commenced phase I clinical trials for the product and we are targeting to obtain CFDA approval for its manufacture and sale in 2018.

Evogliptin tartrate tablets: an alimentary tract and metabolism product candidate being developed within our new compounds platform for the treatment of type 2 diabetes mellitus. It is expected to be approved as a Class I New Chemical Drug. Evogliptin was proven to be effective in significantly lowering blood glucose levels in patients with type 2 diabetes and was proven to be safe and well tolerated with no severe adverse drug reactions during clinical trials. In addition, we believe evogliptin tartrate tablets will help reduce the burden of patients with moderate-to-severe renal impairment as pharmacokinetic study in animal model and healthy human volunteers showed low renal elimination. According to IMS, the market size of products for the treatment of diabetes in the PRC in 2013 was approximately RMB7.8 billion, and grew at a CAGR of 23.4% from 2011 to 2013. We have submitted clinical trial application for evogliptin tartrate tablets and expect to obtain the approval for clinical trial in June 2014. We are targeting to obtain CFDA approval for the manufacture and sale of evogliptin tartrate tablets in 2019.

We also source new product candidates through collaborations with overseas pharmaceutical companies, research institutions and universities to further broaden our access to proprietary products and leverage our co-development partners' established R&D platforms, thereby minimising the upfront costs and risks associated with early stage product development.

In addition to our drug development programmes for the PRC market, we believe we are one of the first Chinese pharmaceutical manufacturers to conduct clinical trials in international markets, including the United States. We currently have four product candidates at the clinical trial stage in the United States. One of these product candidates, Xuezhikang, is already a key cardiovascular system product for us in the PRC market and has completed phase II clinical trials in the United States. We have submitted our IND application under the category for botanical drug products. The other three candidates are central nervous system products being concurrently developed for the PRC market and are currently in clinical trials in the United States. For two of these product candidates, rotigotine extended release microspheres for injection and risperidone extended release microspheres for injection, we have submitted our IND application under Section 505(b)(2) in order to enable us to rely on pre-existing third party data in respect of the product safety and efficacy and we believe this implicates a higher success rate and allows us to reduce costs and risks associated with the process. For the other product candidate, ansofaxine hydrochloride extended release tablets, we have submitted our IND application under the new drug registration route and it is currently undergoing phase I clinical trials.

Our sales network provides us with extensive coverage of hospitals and other medical institutions in China and our in-house sales teams provide us with deep penetration in our key therapeutic areas.

We have established an extensive nationwide sales and distribution network and sold our products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2013. Our sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 sales and marketing personnel, a network of over 500 third party promoters and over 800 distributors that collectively enabled us to sell our products to over 8,000 hospitals in 2013. Our sales and distribution network enabled us to sell our products to 1,123 or approximately 65.0% of all Class III hospitals, 2,487 or approximately 37.3% of all Class II hospitals and 4,437 or approximately 27.9% of all Class I and other hospitals and medical institutions in the PRC in 2013.

We develop our marketing and promotion strategies centrally in order to maximise our brand recognition and optimise our product positioning in the PRC market. We implement our strategies primarily through three internal sales teams that are aligned to our key therapeutic areas. We also utilise independent third party promoters where we believe it enables us to leverage their relationships to expand our hospital coverage efficiently. We believe this approach enables us to optimise the allocation of our marketing resources. We also believe that the alignment of our internal sales team to our therapeutic areas positions us well to conduct specialised, academic promotional activity that is specifically tailored to doctors and hospitals that drive demand for our products within their respective therapeutic areas.

In order to competitively position our products, our marketing department establishes marketing strategies for each of our products through market research and analysis and coordinates the various other departments involved in our marketing and promotion activities. In addition, our marketing department is responsible for new product pre-marketing strategy, including market research and planning, allocation of marketing resources, and, based on new product features and competitive conditions, pricing strategy.

We place strong emphasis on academic promotion and carry out various marketing activities throughout China, including organising academic conferences, seminars and symposia, to promote awareness and knowledge of our products in the industry.

We believe our sales and marketing model and extensive coverage of hospitals and other medical institutions represent a significant competitive advantage because they are the result of the culmination of both academic promotion by our in-house personnel in different regions and partnerships with qualified distributors across the country. We believe our sales and marketing model also provides a solid foundation for us to continue to enhance market awareness of our brand and expand the market reach of our products.

In addition to our continued efforts to strengthen our sales force recruiting, training and management programmes, we have also developed an internal management system and a robust compliance programme to manage and support our in-house and external sales and marketing team, as well as our nationwide distribution network.

We have expanded our business through selective strategic acquisitions, and have a proven track record in identifying appropriate targets and successfully integrating acquired companies.

Our historical growth has been supported by a series of successful and selective strategic acquisitions. We focus on pharmaceutical products that we deem to possess high growth potential in the PRC, acquisitions that we believe will enable us to achieve rapid and effective market penetration in new therapeutic areas, as well as acquisitions involving complementary technologies that we believe will enhance our ability to implement our market-driven R&D strategies, and international acquisitions consistent with our long-term strategies. In general, we integrate acquired companies by: (i) streamlining their sales and marketing, R&D, operations and finance functions using our industry experience and business models; (ii) restructuring their sales and marketing models by leveraging our existing sales and marketing infrastructure so as to increase the direct marketing and promotion of those products; (iii) providing access to our extensive network of coverage of hospitals and other medical institutions coverage; and (iv) upgrading their production facilities to improve efficiency. In particular, our current centralised sales and marketing model represents the integration and realignment of the various sales teams of companies we have acquired, and we have successfully incorporated the therapeutic focus of these teams under our central management in order to maximise our brand recognition, market share and hospital coverage.

In 2006, we acquired the proprietary cancer treatment injection CMNa and its distribution network, followed by the acquisition of the holding company of Nanjing Sike Pharmaceutical Co. Ltd. (now Nanjing Luye Sike) in 2007. These acquisitions helped establish our market position in oncology and provided the platform for our oncology-related R&D efforts, as well as the facilities for our oncology-related pharmaceutical product production. Sales of our key oncology products substantially increased following our integration of these acquisitions. For example, revenue from Lipusu was RMB194.2 million in 2008, the first full financial year following our acquisition of Nanjing Sike Pharmaceutical Co. Ltd., and has increased to RMB847.2 million in 2013, representing a CAGR of 34.3% for the period. In 2009, we became a controlling shareholder of Beijing WPU, which focuses on cardiovascular system products and its key product, Xuezhikang, has become one of our key products accounting for 13.5% of our revenue in 2013. Revenue from Xuezhikang was RMB268.6 million in 2010, the first full financial year following its acquisition, and has increased to RMB338.5 million in 2013. We have also completed phase II clinical trials for Xuezhikang in the United States. More recently, we acquired Sichuan Baoguang Pharmaceutical Co. Ltd. (now Sichuan Luye) and its Bei Xi product in 2011, which allowed us to enter the field of diabetes and add new products in gastroenterology, and strengthened our position in alimentary tract and metabolism. Bei Xi is one of the key products for diabetes treatment in China and we believe that it continues to present significant growth potential. Our revenue from sales of Bei Xi was RMB153.7 million in 2012, the first full financial year following its acquisition, and has increased to RMB238.9 million in 2013, representing a growth of 55.4%.

We have developed strong acquisition capabilities and resources, including our industry relationships and in-house acquisition databases that can be used to screen and identify the most suitable targets that meet our criteria, our dedicated business development staff with broad acquisition expertise and a well-established set of standard operating procedures to assist with integrating acquired targets into our operations. Our previous acquisitions not only provided us with an opportunity to enter into new attractive therapeutic areas through established platforms, but also expanded and enhanced our existing product offering. We believe our strong capabilities, dedicated business development staff and proven track record in acquisition, integration and consolidation will help us to capture further business opportunities and to continue to expand the scale of our operations.

We have a stable, experienced, dedicated and visionary senior management team, as well as a sound corporate governance system.

We have a strong senior management team with in-depth knowledge of, and extensive experience in, the PRC pharmaceutical industry. Members of our senior management team possess an average of 22 years of pharmaceutical industry-related or professional management experience. Our Executive Chairman and Chief Executive Officer, Mr. Liu Dian Bo, has more than 24 years of experience in the management of pharmaceutical companies and was one of our founders. Mr. Yuan Hui Xian, our Executive Director and also one of our founders, has 20 years of management experience with our Group and was previously a physician for 14 years. Mr. Yang Rong Bing, our Executive Director and also one of our founders, has more than 25 years of experience in the pharmaceutical industry. Our Chief Operating Officer, Mr. Liu Yu Bo has 20 years of management experience in the pharmaceutical industry in China and abroad, in particular in sales and marketing at multinational corporations, which helps implement our strategies to deepen our market penetration. Our Chief Financial Officer, Mr. Liu Yuan Chong, has extensive experience in accounting and finance, which helps ensure the effective management of our financial system. Our head of R&D, Dr. Li You Xin, has 23 years of industry research and management experience in China and abroad, in particular in multinational corporations, which helps provide us insights to identify and develop product candidates with significant market potential. Our Vice President, Ms. Xue Yun Li, has extensive experience in managing production and quality control in the pharmaceutical industry, which enables us to ensure that our manufacturing processes are maximising our profitability. Our Vice President and head of international business, Ms. Jiang Hua, has over 15 years of experience in international business development, in particular acquisition and product portfolio development, which helps implement our international strategy.

Our senior management team has been with us for an average period of more than 12 years, and has established a proven track record in identifying market opportunities, executing business strategies, guiding our expansion into high growth areas and increasing our Group's overall profitability. We believe that we will be able to continue to capitalise on the industry expertise, professional management skills and strong execution capability of our senior management team and successfully formulate and implement our development strategies in the pharmaceutical industry.

In addition, as a public company that was listed on the SGX-ST from 2004 to 2012, we believe we have established a sound corporate governance system.

OUR STRATEGIES

Our objective is to consolidate and further enhance our leading position in our key therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism—and develop a strong position in the PRC central nervous system therapeutic area. Over the longer term, our objective is to become a leading pharmaceutical company globally. In order to achieve our goals, we plan to pursue the following strategies:

Deepen our market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts.

We intend to deepen the market penetration and increase the market share of our existing products, as well as to position ourselves to successfully commercialise our product candidates under development and any additional products we may acquire or in-licence through the increased efficiency and expansion of our sales force. In particular, we will seek to broaden our coverage of county-level hospitals and hospitals in smaller cities in order to capitalise on favourable government policies and increased spending on pharmaceutical products among China's rural populations.

We intend to continue to strengthen our sales and marketing capabilities in each of our existing key therapeutic areas to further capitalise on the expected increase in our production capacity and market demand for our products. Specifically, we intend to increase our coverage of third tier cities and to increase our sales force for cardiovascular system products in anticipation of our production capacity expansion for Xuezhikang. In order to successfully commercialise the central nervous system products that we expect to develop and launch, we intend to begin forming a dedicated sales team focusing on central nervous system products from 2015 and will continue to expand the team in light of the expected development of our product candidates in this therapeutic area. We also expect to expand our sales and distribution network as a result of potential strategic acquisitions.

At the same time, we will continue to implement measures to further increase the efficiency of our internal sales and marketing efforts. In order to increase our sales productivity, we intend to continue to strengthen our sales data analysis capability to ensure that required resources are properly allocated to hospitals and other medical institutions, thereby optimising our sales volumes and managing our sales efforts appropriately. We believe our internal sales teams provide us with a foundation to achieve greater sales performance.

Expand our portfolio of competitively positioned, innovative products in key therapeutic areas through market-driven drug development programmes.

We intend to expand our portfolio of innovative, competitively positioned products through market-driven drug development programmes focusing on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas, with a focus on those candidates that have the potential for future commercialisation in global markets. We believe our existing R&D platforms—long-acting and extended release technology, liposome and targeted drug delivery and new compounds—will be the primary drivers of additions to our product portfolio and we intend to continue to invest in our internal R&D efforts to develop our existing product candidates, as well as new product candidates. Through our R&D platforms, we balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities. In particular, our long-acting and extended release technology platform and liposome and targeted drug delivery platform provide us with the flexibility to target new formulations of

blockbuster pharmaceutical products and obtain intellectual property rights to the products in order to extend their life cycle. We believe our R&D strategy will allow us to maximise our returns on our R&D costs. In order to complement our drug development programmes, we will continue to explore product-focused acquisitions and in-licencing opportunities for third party proprietary products, particularly for products that are complementary to our existing product portfolio, and where we can effectively employ our sales and marketing infrastructure and manufacturing capabilities towards successfully commercialising those products.

We believe the continued expansion of our product portfolio will enable us to achieve significant operational efficiencies that will drive our profitability. In particular, we believe an expanded product portfolio will enable us to achieve greater sales efficiency by leveraging the existing relationships of our internal sales force within their respective therapeutic areas to drive additional revenues through our existing sales channels. We also believe an expanded portfolio will enable us to fully maximise our production capacity and increase our returns on our investment in our production facilities.

Accelerate the growth of our business and our product portfolio through acquisitions and effective integration.

We intend to continue to accelerate our business growth through selective acquisitions of suitable pharmaceutical companies. Our acquisition strategy has significantly contributed to our historical growth and expansion into new therapeutic areas. We plan to continue to implement our acquisition strategy by focusing our acquisition efforts on pharmaceutical products that we deem to possess high growth potential, primarily within our existing three therapeutic areas, as well as central nervous system, which we expect to become an additional key therapeutic area for us. We believe this approach will further enhance our profitability by driving additional revenues through our existing sales and marketing infrastructure and production facilities. We will also explore acquisitions that we believe will enable us to achieve rapid and effective market penetration in new therapeutic areas, as well as acquisitions involving complementary technologies that we believe will enhance our ability to implement our market-driven R&D strategies, and international acquisitions consistent with our long-term strategies. In order to implement our acquisition strategy, we intend to leverage our existing experience, capabilities and resources, including our industry relationships, our in-house acquisition databases that can be used to screen and identify suitable targets and our dedicated, highly experienced business development staff. We believe our proven track record in consummating strategic acquisition positions us well to identify attractive acquisition targets and consummate successful transaction that complement our existing businesses and product offerings, and our track record of growing the revenue of products we acquire, including our key products Lipusu and Bei Xi, supports our acquisition strategy.

We intend to capitalise on our experience in effective integration to generate synergies from our strategic acquisitions. We intend to share resources, industry and management experiences, as well as expertise with the acquired companies and we believe these procedures will allow us to efficiently integrate the acquired businesses into our existing platforms and business lines.

Grow our international business through drug development programmes for overseas markets.

We have R&D programmes supported by collaboration with local and overseas research partners, a product candidate pipeline that has been selected with a focus on developing product candidates that have the potential for future commercialisation in global markets and production lines that meet international standards. We currently have a foothold in various overseas pharmaceutical markets, including Malaysia, Singapore, Russia and Norway. To further leverage our strong presence in our key therapeutic areas in the PRC and capitalise our capabilities in reaching international markets, we intend to continue to grow our business internationally, and over the longer term, to become a leading pharmaceutical company globally.

The centrepiece of our international growth strategy is international product development. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market. Among our four U.S. product candidates, one product, Xuezhikang, is already a key cardiovascular system product for us in the PRC market and has completed phase II clinical trials in the United States, and the other three product candidates are being concurrently developed for the PRC and U.S markets.

For overseas market product candidates, we will seek to maximise the potential value of our product candidates by pursuing flexible development, partnership and commercialisation strategies tailored to the target market. For example, in developed markets we may seek co-development partners for our product candidates. We have historically maintained on-going relationships with a number of overseas pharmaceutical companies in the development of new product candidates.

Increase our production capabilities through the steady growth of our production capacity and continuous upgrades.

We plan to increase our production capacity and capability by constructing new production lines, as well as to upgrade existing production lines and production facilities in anticipation of the continued growth of our business. Expanding our production capabilities will also enhance our production flexibility and minimise our reliance on third-party manufacturers.

As of 31 December 2013, we operated five production facilities in four cities with a total of 30 production lines. We plan to increase our production capacities and capabilities by constructing new production lines, as well as improving existing production lines and production facilities, to meet demand for our products. We intend to adopt a phase by phase approach in our expansion plan, primarily taking into consideration our projected sales. Our current expansion plan involves all five of our production facilities and centres on increasing our production capacity for injection and capsules in anticipation of the expected demand of our current products and the launch of our product candidates.

Further, we intend to enhance our production capabilities and know-how through increasing automation. We also plan to maximise our production capabilities by continuously upgrading our existing production facilities. We will continue to develop new, or upgrade existing, production techniques to enhance product quality and manufacturing efficiency. We also believe the continued expansion of our product portfolio will fully maximise our production capacity and increase our returns on our investment in our production facilities to further drive profitability.

Continue to improve our profitability and enhance efficiency in key aspects of our operations.

For 2011, 2012 and 2013, our total profits were RMB166.2 million, RMB175.6 million and RMB327.9 million, and our net profit margins increased from 9.4% to 13.0% over the period. We aim to continue to improve our profitability and enhance efficiency in key aspects of our operations. With respect to our sales and marketing activities, we are undertaking a series of changes and initiatives to adjust our marketing and promotion spend away from regions and products where marketing and promotion expenditure has lower returns and increase our overall sales efficiency. We also believe our positioning within three of the largest and fastest growing therapeutic areas in the PRC as well as our strategic expansion of product portfolio will enable us to increase our operational efficiency by further leveraging our sales and marketing infrastructure through the introduction of new products targeting these key therapeutic areas.

We also intend to increase our profitability through production efficiency. We plan to enhance automation, control inflation of manufacturing personnel costs and continuously upgrade our existing production facilities. We will also continue to develop new, or improve existing, production techniques to enhance product quality and manufacturing efficiency. We believe the continued expansion of our product portfolio will fully maximise our production capacity and increase our returns on our investment in our production facilities to drive profitability.

We will also seek to increase our profitability by further optimising our management and business procedures in order to derive greater synergies between various segments and functions of our Group. Our management team will continue to promote greater sharing of resources internally, while systematically implementing our strategies across business lines to enhance strategic coordination, which we believe will enable us to further improve our management efficiency and overall profitability.

OUR PRODUCTS

We currently market and sell 29 pharmaceutical products consisting of six oncology products, six cardiovascular system products, eight alimentary tract and metabolism products and nine other products indicated for a range of therapeutic conditions. According to the CFDA classifications, 24 of our products are chemical medicines and five of our products are Chinese medicines.

The following table sets forth a breakdown of our revenue, by amount and as a percentage of our total revenue, from the sale of products by therapeutic area for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Therapeutic Area						
Oncology	799,921	45.1	940,830	44.1	1,102,165	43.8
Cardiovascular System	613,926	34.6	630,654	29.5	723,079	28.7
Alimentary Tract and Metabolism	280,038	15.8	451,086	21.1	575,237	22.9
Other Therapeutic Areas	80,505	4.5	113,373	5.3	114,630	4.6
Total	1,774,390	100.0	2,135,943	100.0	2,515,111	100.0

Our current product portfolio centres around seven key products that are indicated for the treatment or prevention of high prevalence medical conditions that are expected to grow significantly, including cancer, cardiovascular diseases and diabetes.

The following table sets forth a breakdown of our revenue, by amount and as a percentage of our total revenue, from the sale of our key products for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Key Product						
Oncology						
Lipusu (力撲素)	584,160	32.9	699,912	32.8	847,155	33.7
Tiandixin (天地欣)	162,630	9.2	181,673	8.5	185,757	7.4
CMNa (希美納)	34,072	1.9	36,891	1.7	43,330	1.7
Cardiovascular System						
Xuezhikang (血脂康)	326,228	18.4	295,887	13.9	338,453	13.5
Maitongna (麥通納)	244,131	13.8	285,859	13.4	333,532	13.3
Alimentary Tract and Metabolism						
Bei Xi (貝希)	34,621	1.9	153,653	7.1	238,919	9.4
Lutingnuo (綠汀諾)	191,775	10.8	210,711	9.9	227,910	9.1
Key Product Subtotal	1,577,617	88.9	1,864,586	87.3	2,215,056	88.1
Other Products	196,773	11.1	271,357	12.7	300,055	11.9
Total	1,774,390	100.0	2,135,943	100.0	2,515,111	100.0

Note:

(1) None of our key products were registered as generic drugs (drugs that had been previously approved by the CFDA for marketing and sale and had existing national standards for production). We developed Maitongna and launched the product for manufacture and sale in 1995. We acquired the proprietary rights to manufacture and sell Lutingnuo in 2001 from an independent third party, and launched the product in 2003 when it was first approved by the CFDA for manufacture and sale in the PRC. We added our other key products to our portfolio through acquisitions from companies that either developed or acquired these products.

The following table sets forth selected information relating to our key products:

Therapeutic area	Key product	Manufacturing permit number	Expiry date of manufacturing permit	Patent number	Expiry date of patent
Oncology	Lipusu® (paclitaxel liposome injection) (力撲素® (注射用紫杉醇脂質體))	H20030357	29 September 2015	ZL00119039.3	18 October 2020
				RU2264807	28 February 2021
				IDP0025604	27 February 2021
				IN205351	27 February 2021
				IN208865	27 February 2021
				EP1332755	27 February 2021
	Tiandixin® (lentinan injection) (天地欣® (注射用香菇多醣))	H10950078	29 September 2015	ZL03112908.0	3 March 2023
				US7091336	14 April 2021
				RU2303978	28 February 2021
				ID0017474	27 February 2021
				IN193666	27 February 2021
				IN206223	27 February 2021
	CMNa® (sodium glycididazole injection) (希美納® (注射用甘氨雙唑鈉))	H20070031	11 March 2017	EP1043316	4 April 2020
		H20070022	11 March 2017	US6271250	5 April 2020
				JP4598227	6 April 2020
				ZL03151291.7	28 September 2023
				ZL201310081158.1	13 March 2033
Cardiovascular system	Xuezhikang® (xuezhikang capsules) (血脂康® (血脂康膠囊))	Z10950029	3 December 2017	Over 70 patents	Expiry dates range from 2017 to 2028
	Maitongna® (sodium aescinate injection) (麥通納® (注射用七葉皂苷鈉))	H20003240	29 September 2015	CN99103226.8	28 March 2019
		H20023113	29 September 2015	CN99815996.4	29 December 2019
		H20003239	29 September 2015	US6475520	29 December 2019
				CN03136127.7	14 May 2023
Alimentary tract and metabolism	Bei Xi® (acarbose capsules) (貝希® (阿卡波糖膠囊))	H20020391	29 August 2015	Nil	
	Lutingnuo® (reduced glutathione injection) (綠汀諾® (注射用還原型穀胱甘肽))	H20041619	29 September 2015	ZL201110004370.9	10 January 2031
		H20041620	29 September 2015		
		H20030002	29 September 2015		
		H20030001	29 September 2015		

Oncology Products

We currently market and sell six oncology products, including three of our seven key products, and our product pipeline includes eight additional oncology product candidates that are in various stages of development. For 2011, 2012 and 2013, our revenue from sales of oncology products was RMB799.9 million, RMB940.8 million and RMB1,102.2 million, respectively, representing a CAGR of 17.4% over the period. According to MENET, oncology was the largest overall therapeutic area for pharmaceutical products in China in 2013 based on revenue, accounting for 18.8% of the market. Based on revenue in 2013, we were the fifth largest domestic oncology pharmaceutical product manufacturer in China, according to IMS. We market one of our non-key oncology products pursuant to a distribution agreement.

Key Oncology Products

Lipusu® (paclitaxel liposome injection) (力撲素®(注射用紫杉醇脂質體))

Lipusu is our proprietary formulation of paclitaxel, a taxanes-based anti-microtubule agent that inhibits the ability of cancer cells to divide and spread, using an innovative liposome injection delivery vehicle. Lipusu is classified by the CFDA as a chemical prescription drug and is a first-line chemotherapy treatment for certain types of ovarian cancer, and a second-line chemotherapy treatment for breast cancer following first-line chemotherapy or recurrence. Lipusu is also indicated as first-line chemotherapy treatment for non-small-cell lung cancer that cannot be treated by surgical procedure or radiotherapy. The liposome delivery vehicle employed in Lipusu avoids the need to use solvents to overcome solubility issues commonly associated with paclitaxel formulations. The absence of solvents reduces the risk of life-threatening allergic reactions and other detrimental side-effects and enables higher dosage levels in order to provide better efficacy, according to a 2012 study.

The market for oncology pharmaceutical products in the PRC in 2013 was RMB30.2 billion, and grew at a CAGR of 18.3% from 2011 to 2013. The market for taxanes-based products constituted the largest segment of this market in 2013, with a 17.8% market share, according to IMS. According to IMS, based on revenue, Lipusu was the second most popular domestically manufactured pharmaceutical products for cancer treatment in China in 2013, and the most popular paclitaxel product in China in 2013 with a market share of approximately 38.9%. During the Track Record Period, Lipusu's market share increased from approximately 27.4% in 2011 to approximately 38.9% in 2013. Our competitors in respect of Lipusu are other domestic manufacturers of oncology pharmaceutical products in China, in particular Qilu Pharmaceutical Co. Ltd., Jiangsu Hengrui Medicine Co. Ltd. and Jiangsu Hansoh Pharmaceutical Co. Ltd.

As of 31 December 2013, Lipusu was also the first and the only paclitaxel liposome product approved for sale globally. We have received a number of awards in recognition of Lipusu. In particular, we were awarded the first prize of Science and Technology Award (科學技術一等獎) by the Chinese Pharmaceutical Association (中國藥學會) in 2012, and it was the first time in history that this award was granted to a research project led by a corporate entity. Lipusu also ranked as the second best brand for antineoplastic and immunomodulatory products by the China Pharmaceutical Industry Association (中國化學製藥工業協會) in 2013.

Lipusu was first approved by the CFDA for manufacture and sale in the PRC in 2003. We hold a patent over our composition of paclitaxel liposome and its formulation method in the PRC that is valid until 18 October 2020.

We produce Lipusu at our Nanjing facility, and our current PRC manufacturing permit for Lipusu is valid until 29 September 2015. The principal raw materials for Lipusu are paclitaxel and lecithin. We maintain relationships with three suppliers of paclitaxel, and during the Track Record Period were able to meet our needs for paclitaxel for the manufacture of Lipusu through purchases from two of these suppliers. We produce lecithin at our Nanjing facility.

As of 31 December 2013, Lipusu was listed in 26 provincial Medical Insurance Catalogues.

Lipusu was sold to 775 hospitals in 19 provinces across China in 2013. Sales of Lipusu accounted for 33.7% of our 2013 revenue. Our revenue from sales of Lipusu grew at a CAGR of 20.4% from 2011 to 2013, while our sales volume of Lipusu grew at a CAGR of 20.1% for the same period.

Tiandixin® (lentinan injection) (天地欣® (注射用香菇多醣))

Tiandixin is our formulation of lentinan, an immunomodulatory agent indicated for use as adjunctive therapy for the treatment of certain malignant tumours, in injectable form. Tiandixin is classified by the CFDA as a chemical prescription drug.

Tiandixin was proven to inhibit tumour metastasis with low acute and chronic toxicity recorded in pre-clinical studies. A clinical study in 1999 also demonstrated that lentinan injection was effective in prolonging the lifespan of cancer patients and had little adverse effect on patients when used in conjunction with chemotherapy agents. In addition, as shown in another study of lentinan in unresectable or recurrent gastric cancer patients, the addition of lentinan to standard chemotherapy offers a significant advantage over chemotherapy alone in terms of survival rate for patients with advanced, unresected or recurrent gastric cancer.

According to IMS, the market for lentinan products in China was estimated to be approximately RMB946.0 million in 2013, and grew at a CAGR of 14.8% during the period from 2011 to 2013. According to IMS, Tiandixin was the third most popular chemical immunostimulant with oncology indications in China based on 2013 revenue. Tiandixin was also the second most popular lentinan product in China based on revenue, with a market share of approximately 27.6% in 2013. Our competitors in respect of Tiandixin are other manufacturers of lentinan in China, in particular Jinling Pharmaceutical Co. Ltd., Shanxi Zhendong Taisheng Pharmaceutical Co. Ltd. and Nanjing EASEHEAL Pharmaceutical Co. Ltd.

Tiandixin was first approved by the CFDA for manufacture and sale in the PRC in 1995. We hold a patent over our testing method for lentinan molecular weight and molecular distribution for Tiandixin in the PRC that is valid until 3 March 2023. Tiandixin is produced at our Nanjing facility. Our current PRC manufacturing permit for Tiandixin is valid until 29 September 2015. The principal raw material for Tiandixin is fresh lentinus edodes, which we currently source from a single supplier. During the Track Record Period, we did not experience any issue in raw material supplies for Tiandixin.

As of 31 December 2013, Tiandixin was listed in 18 provincial Medical Insurance Catalogues.

Tiandixin was sold to 510 hospitals in 17 provinces across China in 2013. Sales of Tiandixin accounted for 7.4% of our 2013 revenue. Our revenue from sales of Tiandixin grew at a CAGR of 6.9% from 2011 to 2013, while our sales volume of Tiandixin grew at a CAGR of 5.2% for the same period.

CMNa® (sodium glycididazole injection) (希美納®(注射用甘氨雙唑鈉))

CMNa is sodium glycididazole, a proprietary compound that we prepare, in injectable form. CMNa is classified by the CFDA as a chemical prescription drug and is indicated for use as a sensitiser in connection with radiotherapy for certain solid tumours, such as head and neck

cancer, oesophageal cancer and lung cancer. CMNa accelerates the damage to tumour cells caused by radiotherapy without increasing the side effects on normal cells. 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 China as of 31 December 2013.

In 2009, we commissioned an independent third party international market intelligence provider in pharmaceutical and healthcare industries, who has provided data compilation services for nearly 60 years, to conduct a pharmacoeconomics study on CMNa product. The study evaluated the pharmacoeconomics of CMNa when used in conjunction with chemotherapy in patients suffering from oesophageal cancer, lung cancer, nasopharyngeal cancer and cervical cancer, respectively. The study concluded that the use of CMNa for the treatment of these cancers increased the probability of complete or partial remission for these cancer patients. In addition, taking into consideration the cost of on-going treatment six months after chemotherapy, the use of CMNa was shown to reduce the average overall treatment cost by between RMB210 and RMB5,676.

CMNa was first approved for manufacture and sale in the PRC by the CFDA in 2002 and launched in the PRC in 2003. We commenced manufacturing, marketing and selling CMNa in 2006 by acquiring the product from a third party. We hold patents over our synthesising method of sodium glycodidazolum, as well as our composition of sodium glycodidazolum together with our method of preparation of CMNa in the PRC that are valid until 28 September 2023 and 13 March 2033, respectively. CMNa is processed at our Yantai Laishan facility. Our current PRC manufacturing permit for CMNa is valid until 11 March 2017. The principal raw material for CMNa is sodium glycididazole, which we produce at our Yantai Laishan facility.

As of 31 December 2013, CMNa was listed in the national Medical Insurance Catalogue. CMNa is currently subject to certain limitations on its eligibility for reimbursements under the national Medical Insurance Catalogue, and we intend to seek to have the limitations removed.

CMNa was sold to 143 hospitals in 14 provinces across China in 2013. Sales of CMNa accounted for 1.7% of our 2013 revenue. Our revenue from sales of CMNa grew at a CAGR of 12.8% from 2011 to 2013, while our sales volume of CMNa grew at a CAGR of 16.0% for the same period.

Cardiovascular System Products

We currently market and sell six cardiovascular system products, including two of our seven key products. For 2011, 2012 and 2013, our revenue from sales of cardiovascular system products was RMB613.9 million, RMB630.7 million and RMB723.1 million, respectively, representing a CAGR of 8.5% over the period.

Key Cardiovascular System Products

Xuezhikang® (xuezhikang capsules) (血脂康®(血脂康膠囊)) (also known as Lipascor® capsules in Malaysia and Singapore)

Xuezhikang is our proprietary Chinese medicine derived from red yeast rice, in capsule form. Xuezhikang is classified by the CFDA as a Chinese medicine and is indicated for hypercholesterolaemia. Xuezhikang can reduce total blood cholesterol, triglycerides and low density lipoprotein (bad cholesterol), increase high density lipoprotein (good cholesterol), inhibit atherosclerotic plaque formation, protect vascular endothelial cells and inhibit lipid deposition in the liver. According to the CFDA, we were the only manufacturer of Xuezhikang in China as of 31 December 2013.

According to the Chinese Guideline for the Prevention and Management of Dyslipidemia in Adults included in the May 2007 edition of the Chinese Journal of Cardiovascular Disease, the Chinese Coronary Secondary Prevention Study conducted for Xuezhikang was the only large-scale evidence-based clinical study conducted in respect of the treatment of hypercholesterolaemia in the Chinese population. This was a multi-centre, randomised study carried out from May 1996 to December 2003 involving over 4,700 patients across 65 hospitals in China concluded that long-term treatment with Xuezhikang significantly decreased the recurrence of coronary heart disease and mortality rates in Chinese patients with average levels of LDL cholesterol. Moreover, treatment with Xuezhikang significantly improved plasma lipoprotein lipids and was safe and well tolerated by patients. Treatment with Xuezhikang also significantly decreased the occurrences of cardiovascular diseases and total mortality by 30% and 33%, the need for coronary revascularisation by one third, and lowered total cholesterol and LDL-C lipoprotein cholesterol and triglycerides, but raised HDC-C levels. The results of this study were published in the American Journal of Cardiology in 2008.

According to IMS, 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 RMB6.5 billion in 2013, and grew at a CAGR of 34.7% from 2011 to 2013. According to IMS, Xuezhikang ranked as the fifth most popular domestically manufactured pharmaceutical product in China based on revenue for the treatment of hypercholesterolaemia in 2013, with a market share of over 1.9% in 2013. In addition, IMS data show that Xuezhikang was the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, with a market share of over 99.1%. Our competitors in respect of Xuezhikang are other domestic manufacturers of pharmaceutical products for the treatment of hypercholesterolaemia in China, including Beijing Jialin Pharmaceutical Co. Ltd., Henan Topfond Pharmaceutical Co. Ltd. and Guangzhou Nanxin Pharmaceutical Co. Ltd.

Xuezhikang was first approved for manufacture and sale in the PRC by the CFDA in 1995. We hold patents over our compositions, our separation methods, our inspection methods, our preparation methods as well as our packaging and design of Xuezhikang in the PRC. The expiry dates of these patents range from 2017 to 2028. Xuezhikang is produced at our Beijing facility. Our current PRC manufacturing permit for Xuezhikang is valid until 3 December 2017. The principal intermediate raw material for Xuezhikang is monascuspur pureus, which we obtain through our patented fermentation process from rice that we currently source from a single supplier. During the Track Record Period, we did not experience any issue in rice supplies for Xuezhikang.

As of 31 December 2013, Xuezhikang was listed in the 2009 and 2012 editions of the National List of Essential Drugs and the national Medical Insurance Catalogue.

Xuezhikang was sold to 6,795 hospitals in 25 provinces across China in 2013. Sales of Xuezhikang accounted for 13.5% of our 2013 revenue. Our revenue from sales of Xuezhikang grew at a CAGR of 1.9% from 2011 to 2013, while our sales volume of Xuezhikang grew at a CAGR of 2.6% for the same period. Our revenue growth for Xuezhikang was adversely affected by limited raw material processing capacity until October 2013, when we completed a project to increase our production capacity for Xuezhikang at our Beijing facility.

Maitongna® (sodium aescinate injection) (麥通納® (注射用七葉皂苷鈉))

Maitongna is sodium aescinate extracted from ripened dry seeds of aesculus wilsonii, in injectable form. Sodium aescinate is classified by the CFDA as a chemical prescription drug 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. Maitongna is clinically proven to have anti-inflammation and anti-oedematous properties.

In-vivo studies of Maitongna on rats compared Maitongna with a common glucocorticoid and another NSAID concluded that Maitongna has a longer lasting therapeutic effect on swelling and inflammation. It has also been clinically proven that sodium aescinate injection is an effective medication for the treatment of, amongst other things, traumatic brain injury, cerebrovascular disease, radioactive cerebral oedema, acute facial paralysis and acute lumbar disc disease.

According to IMS, the market for vasoprotective pharmaceuticals in China was estimated to be approximately RMB1.8 billion in 2013, and grew at a CAGR of 12.9% from 2011 to 2013. Maitongna was the best-selling sodium aescinate product in China in 2013 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS, with a market share of approximately 18.7% in 2013. Our competitors in respect of Maitongna are other manufacturers of vasoprotective pharmaceutical products in China, in particular Wuhan Aimin Pharmaceutical Co. Ltd.

We started the manufacture and sale of Maitongna in 1995 when it was first approved by the CFDA for manufacture and sale in the PRC. We hold two patents over the compositions of Maitongna in the PRC that are valid until 28 March 2019 and 29 December 2019, respectively. We hold a patent over arginine aescine and its preparation method in the PRC that is valid until 9 April 2022. We also hold a patent over the application of aescine and its derivatives for the treatment of acute lung inflammation and oedema in the PRC that is valid until 14 May 2023. Maitongna is produced at our Yantai Laishan facility. We also subcontract a portion of the production of Maitongna to an independent third party. Please refer to "—Production—Subcontracting Arrangements" below for further details of our subcontracting arrangements. Our current PRC manufacturing permit for Maitongna is valid until 29 September 2015. The principal raw material for Maitongna is sodium aescinate derived from ripened dry seeds of aesculus wilsonii that we obtain from multiple suppliers.

As of 31 December 2013, Maitongna was listed in the national Medical Insurance Catalogue.

Maitongna was sold to 1,623 hospitals in 19 provinces across China in 2013. Sales of Maitongna accounted for 13.3% of our 2013 revenue. Our revenue from sales of Maitongna grew at a CAGR of 16.9% from 2011 to 2013 during the Track Record Period, while our sales volume of Maitongna grew at a CAGR of 18.9% for the same period.

Alimentary Tract and Metabolism Products

We currently market and sell eight alimentary tract and metabolism products, including two of our seven key products, and our product pipeline includes four additional alimentary tract and metabolism product candidates. For 2011, 2012 and 2013, our revenue from sales of alimentary tract and metabolism products was RMB280.0 million, RMB451.1 million and RMB575.2 million, respectively, representing a CAGR of 43.3% over the period. According to IMS, based on 2013 revenue, we were the fourth largest domestic pharmaceutical manufacturer of oral diabetic medications and the sixth largest manufacturer of liver protection medications in China.

Key Alimentary Tract and Metabolism Products

Bei Xi® (acarbose capsules) (貝希® (阿卡波糖膠囊))

Bei Xi is acarbose in capsule form. Bei Xi is classified by the CFDA as a chemical prescription drug and is indicated as an adjunct to diet for lowering blood glucose in patients with type 2 diabetes mellitus whose hyperglycaemia cannot be managed on diet alone. According to the CFDA, we were the only manufacturer of acarbose in capsule form in China as of 31 December 2013.

Clinical studies have concluded that the addition of acarbose to diabetic patients being treated with insulin therapy or diabetic patients being treated with metformin, an oral diabetic medication, can be a safe and effective method of improving glycaemic control. A 2007 clinical study in China compared the efficacy of Bei Xi with an imported acarbose product and concluded that Bei Xi demonstrated the same efficacy and was as well tolerated as the imported acarbose product in patients suffering from type 2 diabetes mellitus. In addition, a study in 2013 comparing the hypoglycaemic effect of acarbose monotherapy in patients with type 2 diabetes mellitus consuming eastern or western diets concluded that the hypoglycaemic effect of acarbose is superior in patients consuming an eastern diet than in those consuming a western diet and that the hypoglycaemic effect of acarbose in these patients is similar to that of sulfonylureas, metformin and glinide drugs.

According to IMS, the market for acarbose products in China was estimated to be approximately RMB2.4 billion in 2013, and grew at a CAGR of 12.6% from 2011 to 2013. Bei Xi ranked as the third most popular acarbose product in China, with a market share of approximately 3.0% in 2013, according to IMS. Our competitors in respect of Bei Xi are other manufacturers of acarbose products in China, in particular Bayer AG and Huadong Medicine Co. Ltd.

Bei Xi was first approved by the CFDA for manufacture and sale in the PRC in 2002 and launched in the PRC in 2003. Bei Xi is produced at our Sichuan facility. Our current PRC manufacturing permit for Bei Xi is valid until 29 August 2015. The principal raw material for Bei Xi is acarbose. We maintain relationships with three suppliers of acarbose, and are forming a relationship with a fourth supplier that is in the process of obtaining a GMP approval for the production of acarbose.

As of 31 December 2013, Bei Xi was listed in the 2012 edition of the National List of Essential Drugs and the national Medical Insurance Catalogue.

Bei Xi was sold to 1,686 hospitals in 15 provinces across China in 2013. Sales of Bei Xi accounted for 9.4% of our 2013 revenue. Our revenue from sales of Bei Xi grew by 55.4% from 2012, the first full financial year following its acquisition, to 2013, while our sales volume of Bei Xi grew by 53.5% for the same period.

Lutingnuo® (reduced glutathione injection) (綠汀諾® (注射用還原型穀胱甘肽))

Lutingnuo is reduced glutathione in injectable form. Lutingnuo is classified by the CFDA as a chemical prescription drug and is indicated for use as an adjuvant therapy for liver toxicity caused by alcohol and certain medications, such as chemotherapy medicines, antineoplastic agents, anti-tuberculosis drugs, antidepressants and paracetamol. It is also indicated for use as an adjuvant therapy for liver damage caused by alcohol, viruses, medicines and other chemicals and for the treatment of injuries caused by ionising radiation and for a variety of hypoxemia.

Reduced glutathione is widely used for liver disease related treatments, including the protection of protein synthesis function, hormone detoxification and inactivation of liver, and the treatment of hepatitis B. Reduced glutathione is a type of tripeptide naturally synthesised in the cytoplasm of human body cells and is composed of glutamic acid, cysteine and glycine. It plays important roles in anti-oxidation processes in human body. Through the combination of sulfenyl with free radicals in human body, reduced glutathione can be converted into an acid which can be easily metabolised, and thus accelerate the excretion of free radicals. In damaged liver cells, the level of reduced glutathione decreases significantly. Therefore the consumption of reduced glutathione can help restore certain liver functions. Clinical studies of reduced glutathione in cancer patients receiving chemotherapy demonstrated that reduced glutathione is an effective medication as a chemoprotective agent.

Similar to other reduced glutathione injection products marketed in the PRC, Lutingnuo is manufactured using a freeze-drying process. This process, also known as lyophilisation, is a dehydration process typically used to freeze the material and subsequently reduce the surrounding pressure to allow the frozen water in the material to sublimate directly from the solid phase to the gas phase. In contrast with a number of other marketed reduced glutathione products in the PRC which are manufactured using the bulk pallet freeze-drying technique, the manufacturing process for Lutingnuo entails the lyophilisation of the active pharmaceutical ingredients directly in individual vials. Based on tests conducted by government operated laboratories comparing Lutingnuo to other leading marketed reduced glutathione products in the PRC, our production process for Lutingnuo resulted in the product's improved solubility, enhanced volume consistency and reduced impurity levels. We believe that this is attributable to our differentiated freeze-drying technique that improves the uniformity of Lutingnuo and reduces the risk of contamination during the lyophilisation process.

According to IMS, the market for reduced glutathione in China was estimated to be approximately RMB2.2 billion in 2013, and grew at a CAGR of 16.4% from 2011 to 2013. Lutingnuo ranked as the fourth most popular reduced glutathione product in China, with a market share of approximately 13.5% in 2013, according to IMS. Our competitors in respect of Lutingnuo are other manufacturers of reduced glutathione products in China, in particular Shanghai Fosun Pharmaceutical (Group) Co. Shanghai Fudan Forward Science and Technology Co. and Kunming Jida Pharmaceutical Co. Ltd.

We acquired the proprietary rights to manufacture and sell Lutingnuo in 2001 from an independent third party, and launched the product in 2003 when it was first approved by the CFDA for manufacture and sale in the PRC. We hold a patent over a freeze-drying technique for reduced glutathione injection in the PRC that is valid until 10 January 2031. Lutingnuo is manufactured at our Yantai Industrial Park facility. Our current PRC manufacturing permit for Lutingnuo is valid until 29 September 2015. We also subcontract a portion of the production of Lutingnuo to an independent third party. Please refer to "—Production—Subcontracting Arrangements" below for further details of our subcontracting arrangements. The principal raw material for Lutingnuo is glutathione, an active pharmaceutical ingredient, which we source from a two suppliers.

As of 31 December 2013, Lutingnuo was listed in the national Medical Insurance Catalogue.

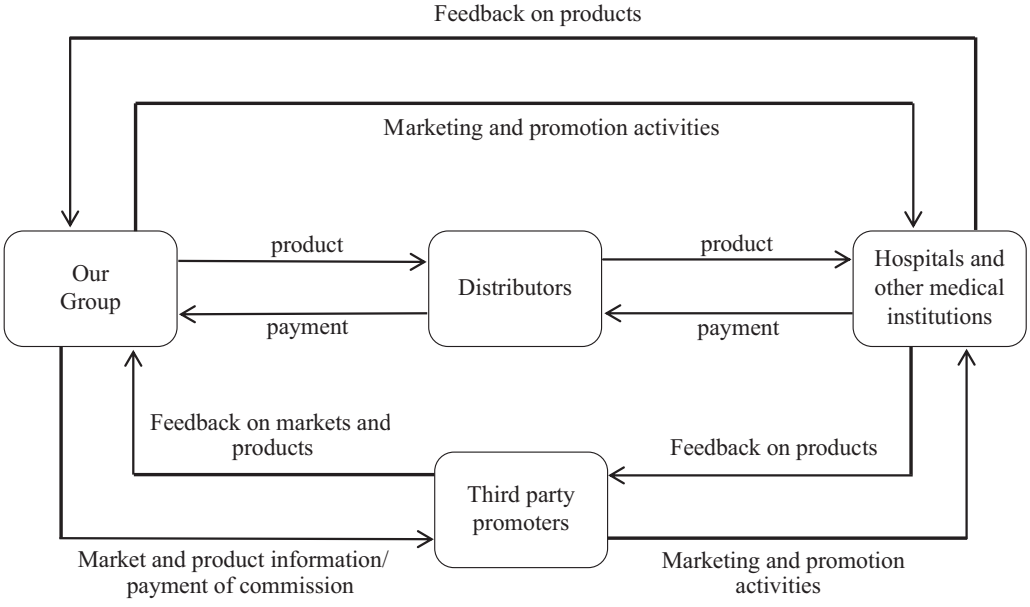
Lutingnuo was sold to 1,267 hospitals in 17 provinces across China in 2013. Sales of Lutingnuo accounted for 9.1% of our 2013 revenue. Our revenue from sales of Lutingnuo grew at a CAGR of 9.0% from 2011 to 2013, while our sales volume of Lutingnuo grew at a CAGR of 13.4% for the same period.

SALES, MARKETING AND DISTRIBUTION

We generate demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing activities, including academic promotion, and generate revenue by selling our pharmaceutical products to distributors who, in turn, sell our products to hospitals and other medical institutions, either directly or through their sub-distributors.

Our sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 employees, over 500 third party promoters and over 800 distributors that collectively enabled us to sell our products to 30 provinces, autonomous regions and municipalities and to over 8,000 hospitals in 2013. Our distribution network enabled us to sell our products to 1,123 or approximately 65.0% of all Class III hospitals, 2,487 or approximately 37.3% of all Class II hospitals and 4,437 or approximately 27.9% of all Class I and other hospitals and medical institutions in the PRC in 2013. Our sales, marketing, promotion and distribution model seeks to deepen our market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts.

The following diagram illustrates the relationships among us, our third party promoters, our distributors and the hospitals and other medical institutions that purchase our products:



Marketing and Promotion

We develop our marketing and promotion strategies centrally and implement our strategies primarily through three internal sales teams that are aligned to our key therapeutic areas. We also utilise independent third party promoters where we believe it enables us to leverage their relationships to expand our hospital coverage efficiently. We believe this approach enables us to optimise the allocation of our marketing resources. We expect to continue to expand our sales force by increasing recruitment of qualified personnel and consolidating sales teams of acquired companies in anticipation of our business growth.

Our centralised marketing department is responsible for developing our overall sales and marketing strategies. The marketing department establishes our marketing strategies for each of our products through its research and analysis of the competitive positioning of our products and coordinates the various other departments involved in our marketing and promotion activities. In addition, our marketing department is responsible for new product pre-marketing strategy, including market research and planning, allocation of marketing resources, and, based on new product features and competitive conditions, pricing strategy. We believe that by centralising and coordinating our approach, it enables us to implement overall brand strategies through academic and professional marketing that maximise our brand recognition, market share and coverage of hospitals and other medical institutions.

In-house Sales Force

According to the strategies developed by the marketing department, our internal marketing and promotional activities are conducted primarily through three sales teams that are aligned to our key therapeutic areas. Each division is responsible for the implementation of our marketing strategies by promoting the relevant products directly to hospitals and other medical institutions in the PRC through promotional activities and the provision of related information that seek to be academic in nature and are designed to educate the doctors at the relevant hospitals and other medical institutions as to the usage and benefits of our products.

Third Party Promoters

We utilise third party promoters for certain products, therapeutic areas and geographies in order to expand our coverage and deepen our market penetration while maintaining operational flexibility and optimising our resource allocation. We believe our third party promoters are experienced in promoting pharmaceutical products in, and have a deep understanding of, their respective target local markets, which assists us in effectively promoting our products to extended geographic regions. We also believe our appointment of third party promoters is in line with industry practice. Our promoters management division is responsible for the management of our third party promoters, including the establishment of annual promotion targets for such promoters.

Our use of third party promoters has primarily arisen as a result of acquisitions, in particular our acquisition of CMNa and its distribution network in 2006, our acquisition of Nanjing Luye in 2007 and our acquisition of Sichuan Luye in 2011. As we seek to increase our level of marketing and promotion activity on hospitals and other medical institutions directly through our in-house sales teams, we will only recruit third party promoters for specific territories that we believe are difficult to penetrate using our own sales force. Our in-house sales teams primarily cover all classes of hospitals and medical institutions in major cities in the PRC, while our third party promoters primarily cover Class II hospitals, Class I hospitals and other medical institutions that are not covered by our internal sales force. During the Track Record Period, revenue attributable to promotion services provided by third party promoters accounted for approximately 20% to 30% of our total revenue. Our Directors do not believe there will be material change to the percentage of revenue attributable to promotion services provided by third party promoters in the future.

Our third party promoters consist primarily of individuals and, on a very limited basis, promotion services companies. We typically enter into agreements with our third party promoters for a term of one year pursuant to which the promoters organise and participate in the marketing and academic promotion of our products. The agreements specify the relevant products to be promoted in designated territories. We set annual promotion targets and require the promoters to furnish us with annual and quarterly academic promotion plans and written feedback on their promotion activities. Our third party promoters also assist us with receivables collections from our distributors within their respective geographic regions.

We pay our third party promoters a pre-agreed per-unit commission for sales of products promoted by them. The per-unit promotion commission takes into consideration the product's competitive dynamics and its awareness level amongst doctors, the amount of promotion effort deemed necessary to effectively generate demand, the amount of time the third party promoters are expected to commit in promoting the products and the estimated miscellaneous expenses to be incurred. We do not separately reimburse our third party promoters for any other expenses. Our third party promoters are generally required to make performance deposits with us, which may be forfeited in the event of certain breaches of the promotion agreement, including failure to meet annual promotion targets. We may also offer additional performance-based bonuses to out-performing third party promoters. We are not required to continue to pay commissions to our third party promoters on a recurring basis once the promotion agreements are terminated.

During the course of our contractual term with third party promoters, our third party promoters are responsible for generating demand for our specified products in designated territories by taking a number of initiatives, for example, organising and participating in academic conferences and promotion activities, conducting visits to hospitals and other medical institutions for medical detailing, and educating doctors on the characteristics of our products. Hospitals and other medical institutions place orders of the relevant products through our distributors that are responsible for delivering the products. In order to ascertain the sales volume of products promoted by our third party promoters, we obtain monthly product flow and sales information from our distributors that deliver products promoted by the relevant third party promoter. We typically conduct quarterly calculations of the corresponding amount of commissions we are required to pay our third party promoters pursuant to our contractual arrangements.

Our promotion agreements prohibit our third party promoters from promoting competing products. Specifically, we restrict our third party promoters from promoting other products that contain the same compound that is contained in our relevant product. In addition, our promotion agreements prohibit our third party promoters from subcontracting their promotional responsibilities, and require them to comply with all applicable laws and regulations during the course of their marketing and promotion activities, including, among other things, anti-bribery laws and regulations. Our promoters management division conducts visits to hospitals and other medical institutions covered by our third party promoters from time to time, which assists us in monitoring their performance and compliance with the contractual obligations. They are not allowed to use our trade name, business cards or any other material which may lead others to believe that they are our employees.

Key Opinion Leaders ("KOLs")

In addition to our in-house sales team and third party promoters, we have also established a network of over 700 KOLs across a range of therapeutic areas in China, including oncology, cardiovascular system and alimentary tract and metabolism, as well as central nervous system. KOLs are typically medical doctors specialising in various therapeutic areas related to our products. They hold an independent professional interest in learning the latest disease management options available in China within their therapeutic areas, as well as introducing cutting-edge medical information and products that they believe have clinical benefits to other physicians in order to maintain their standing within the broader medical community. We help KOLs develop their understanding of the clinical benefits and risks of our products as compared to other treatment options existing in China by informing them technical and clinical aspects of our products or facilitating their participation in clinical trials and post-market studies on or related to our products. Subsequently, we may invite KOLs to share their views or the outcomes from the clinical trials and post-market studies with other physicians and participants at various academic conferences, seminars and symposiums that we sponsor or organise. We believe that these KOLs' views on our products help lend credibility to our marketing and promotion efforts. We also facilitate publications by our KOLs in medical journals that summarise their views or the outcomes of the clinical trials and post-market studies on our products.

All of our KOLs are independent third parties. We generally classify our KOLs into three categories: national level KOLs, regional level KOLs and city level KOLs. Factors taken into consideration when categorising our KOLs include their professional qualifications, previous publications, perceived standing within a particular therapeutic area and their memberships in related medical associations, such as the Chinese Medical Association. National level and regional level KOLs are generally managed centrally by our marketing department. Our marketing brand managers generally identify and invite KOLs from our network to speak and participate in selected marketing events. Specifically, our product specialists submit applications to marketing brand managers to invite certain KOLs to attend a specific conference, study or other event. When selecting KOLs for a specific event, we take into account factors such as the audience, purpose and scale (local, regional or national) of the event, as well as the KOL's academic and professional backgrounds, medical specialties and reputation in the industry. Our marketing brand managers review the applications from a technical perspective and report to marketing directors for approval. After obtaining the application approval, the relevant marketing and promotion personnel arrange itineraries for the KOLs and our marketing brand managers submit expense reports to marketing directors for reimbursement approval. Our marketing department manages reimbursements to KOLs based on its overall budget and expenses for specific events.

We do not pay any remuneration to our KOLs for their activities relating to our products, except for reimbursement of their travel and conference-related expenses in light of the enhanced publicity our products receive as a result of the KOLs' participation. Our finance department reviews the records relating to expense reimbursements to KOLs. True and valid invoices and receipts are required in order for KOLs to receive reimbursements from us. For 2011, 2012 and 2013, the expense reimbursements to our KOLs amounted to no more than 1% of our total selling and distribution expenses in each of the respective period. We do not enter into agreements with our KOLs in their capacity as such.

Marketing Support

The marketing and promotion of our products are further supported by a number of additional departments:

Sales effectiveness and training department. Our sales effectiveness and training department is responsible for managing the overall effectiveness of our sales and promotion process, training our sales personnel according to our business needs and analysing monthly sales data in order to enhance the efficiency of our sales teams. Our sales effectiveness and training department has implemented a sales capability process to strengthen the effectiveness of our sales force through increased sales data analysis capability that enables us to evaluate the required resource to be allocated to hospitals and other medical institutions to optimise our allocation of sales personnel among such hospitals and other medical institutions. We then manage our sales efforts accordingly, including our levels of direct promotional activity and the overall sales process for different regions, to increase our sales productivity.

In order to motivate our sales staff and increase their efficiency, we evaluate their performance semi-annually with references to key performance indicators, and these evaluations are directly linked to remuneration. We have also established a comprehensive training system for our sales teams, including entry level staff, staff with two to three years sales experience and senior sales staff with more than three years' experience and have established an educational programme that enables the continuous development of the employees in our sales teams.

Market access department. Our market access department is responsible for analysing applicable laws and regulations in the pharmaceutical industry and formulating corresponding marketing strategies, as well as preparing tender documents and participating in the centralised tender process with a view to ensuring that our products remain competitive in the centralised tender process. In connection with the regulatory review of Medical Insurance Catalogues and National List of Essential Drugs, our market access department provides information and data to relevant regulatory agencies with a view to ensuring that our key products are listed in the Medical Insurance Catalogues and National List of Essential Drugs where we believe such listings to be beneficial. Our market access department also works with other divisions on the overall management of matters relating to government affairs.

Medical department. Our medical department supports our marketing and promotion activities through the provision of academic information relating to our products and medical training to our internal sales teams and third party promoters based upon the relevant product's life cycle, as well as the development of further clinical studies for our products once they have been launched in the PRC. Our medical department also works closely with our KOLs in order to provide the information and data necessary for the development of their opinions.

Distribution

Our products are generally sold to hospitals and other medical institutions by our distributors, either directly or through their sub-distributors. We have a nationwide third party distribution network of over 800 distributors across 30 provinces, municipalities and autonomous regions in China. As of 31 December 2013, our distribution network reached 1,123 or approximately 65.0% of all Class III hospitals, 2,487 or approximately 37.3% of all Class II hospitals and 4,437 or approximately 27.9% of all Class I and other hospitals and medical institutions in the PRC. We derive substantially all our revenue from the sale of our products to our distributors, who, in turn, sell our products to hospitals and other medical institutions. As of 31 December 2011, 2012 and 2013, we had 776, 931 and 842 distributors, respectively. All of our distributors are independent third parties of the Company.

The following map shows the number of our distributors by region in China as of 31 December 2013:

The following table sets forth the total number of our distributors as of 31 December 2011, 2012 and 2013, respectively, as well as the number of new distributors and the number of distributors whose distributorship terminated during the period indicated:

	2011	2012	2013
Distributors at the beginning of the period	534	776	931
Addition of new distributors	341	335	176
Termination of existing distributors	99	180	265
Net increase (decrease) in distributors	242	155	(89)
Distributors at the end of the period	776	931	842

During the Track Record Period, we terminated our relationships with certain distributors because (1) there was no business between us; (2) we determined that the targeted hospitals and other medical institutions of certain distributors would be more appropriately covered by other distributors; (3) the targeted hospitals and other medical institutions were no longer served by certain distributors, and thus there was no basis for maintaining a business relationship; (4) the occurrence of market consolidation in the PRC pharmaceutical distribution industry, as a result of which certain of our distributors were acquired by or merged with other distributors; and (5) the distributor failed to maintain its GSP certificate. We request terminated distributors to settle any outstanding balances with us as soon as possible. At the same time, we added new distributors primarily as a result of the continued expansion of our sales network. We also commenced relationships with new distributors who were designated to sell our products in the centralised tender process.

Our distributor management division is responsible for the overall management of our distributors. We screen and select our distributors based on various criteria, including their coverage of hospitals and other medical institutions, industry track record, reputation, experience, delivery capabilities, cash flow conditions and creditworthiness. We have established an average of more than five years of relationship with our five largest distributors. None of our Directors, their respective associates and any Shareholder who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company have any interest in any of our top five distributors. None of our suppliers are our major distributors, or *vice versa*. For 2011, 2012 and 2013, our revenue from sales to our five largest distributors was RMB276.8 million, RMB343.6 million and RMB399.1 million, respectively, accounting for approximately 15.6%, 16.1% and 15.9% of our total revenues for the respective period. Our revenues from sales to our largest distributor was RMB63.9 million, RMB104.9 million and RMB123.7 million, accounting for approximately 3.6%, 4.9% and 4.9% of our total revenues for the respective period.

While the PRC pharmaceutical distribution industry has traditionally been fragmented with a large number of small and local distributors, the PRC government has introduced policies over the past few years that encourage industry consolidation by way of mergers and restructurings, pursuant to which groups of distributors were combined into a single entity. Many of our distributors are members of large pharmaceutical distributor groups in China. In particular, three of our distributors that are subsidiaries of Sinopharm Group Co. Ltd. (collectively with its subsidiaries, the "**Sinopharm Group**") were among our top five distributors for each year during the Track Record Period, and were our top three distributors for 2013. For 2011, 2012 and 2013, our revenue from sales to these three distributors accounted for 9.6%, 11.0%, and 10.8% of our total revenue for the respective period. In addition to these three distributors, many of our other distributors are also members of the Sinopharm Group. As

Sinopharm Group is collectively the largest pharmaceutical distributor in China, we believe our level of concentration risk is not specific to our business. The individual members of the Sinopharm Group that act as our distributors are distinct legal entities holding separate GSP certificates. We separately evaluate members of the Sinopharm Group on an individual basis, negotiate our contractual arrangements with them individually and ultimately enter into separate contractual agreements with them. Consequently, our engagement of, or termination or non-renewal of contractual relationships with, an individual member of the Sinopharm Group is independent of our engagement of, or termination or non-renewal of contractual relationships with, any other member of the Sinopharm Group.

We believe our existing distribution model is in accordance with customary industry practice and serves to ensure efficient coverage of our sales network while controlling our cost of distribution.

In order to manage our distribution network, we actively monitor our distributors' inventory levels and further track the flow of our products by obtaining monthly product flow report from our distributors. The product flow report generally sets forth date of sale, customer name, product name, product dosage, unit price, sales volume and batch number, which allow us to monitor the performance of our third party promoters who are responsible for the promotion of these products. Sales of our products to distributors are generally not subject to seasonal fluctuations. We review the performance of our distributors on a regular basis and based on the results of our review, we may elect to continue our cooperation with out-performers, adjust the assigned distribution regions, and terminate or choose not to renew the contracts of those distributors who fail to meet our performance criteria.

We typically enter into agreements with our distributors for a term of one year, pursuant to which the distributors purchase our products and, in turn, sell such products to hospitals and other medical institutions either directly or through their sub-distributors. Our distributors are primarily responsible for the delivery of products to hospitals and other medical institutions, as well as the invoicing and payment collection process. Our distributors are not engaged to provide marketing and promotion of our products to hospitals and other medical institutions. In general, our sub-distributors are engaged directly by our distributors and we do not directly contract with sub-distributors. To the best knowledge of our Directors, all sub-distributors are independent third parties. To the best knowledge of our Directors, the scope of services of sub-distributors is the same as that of distributors, and sub-distributors do not engage in the marketing and promotion of our products to hospitals and other medical institutions.

Our agreements with distributors specify the relevant products to be distributed and the geographic regions and hospitals for which the distributor is responsible. Our agreements with distributors generally also specify an agreed minimum annual purchase amount, although we do not set sales or expansion targets in the form of specific hospitals or a minimum aggregate number of hospitals to which our products must be sold within the relevant geographic region. We set pricing under the distribution agreements primarily based on a discount to the sales price to hospitals and other medical institutions in the specified region. We generally grant our distributors credit terms of between 30 and 90 days, with longer terms granted to selected distributors whom we have built good relationships with. We take into consideration a number of factors in determining the credit term of a distributor, in particular its previous payment history. Distributors who make early payments are granted discounts of the stated contractual price. In addition, appointment of sub-distributors and sales to pharmacies may be conducted only with our written approval. Our distribution management division will provide such approval where we believe our distributors' use of sub-distributors enables the delivery of our products to a greater number of hospitals and medical institutions, particularly in small cities and rural areas.

In order to monitor the performance of our distributors, we require them to furnish us monthly product flow summaries and report any change in business environment that may affect the sales of our products. Our distributors are also required to maintain a product inventory level of 0.8 to one month of sales. We monitor the inventory level of our distributors every month by checking the volume of relevant products we sell to each distributor and the volume of relevant products the distributor resells to hospitals and other medical institutions. In addition, we rate each distributor annually based on various criteria, including, among other things, its annual purchase amount, credit history, distribution capability, geographic location, years of business relationship with us and financial conditions. All of our distributors are required by GSP regulations to ensure that their sale of products are only made to qualified purchasers, for example, GSP-certified sub-distributors or licenced medical institutions. Indirectly, the performance of sub-distributors appointed by our distributors is managed through our arrangements with our distributors, including the product flow report provided by our distributors and our distributors' ability to satisfy the agreed minimum annual purchase requirements.

We manage cannibalisation risk among distributors and sub-distributors through our agreements with our distributors, which specify the relevant products to be distributed and the geographic regions for which the distributor is responsible. The agreements prohibit distributors from selling our products outside their respective designated geographical regions without our prior written consent, either directly or through their sub-distributors. We also track the flow of our products through the monthly reports provided by our distributors.

Our distributors are required to inspect the products on delivery, and must notify us and obtain our written consent before damaged products can be returned or exchanged. Any products that have been accepted on delivery are not eligible for returns. Consequently, we typically recognise revenue from the sale of pharmaceutical products at the invoice price once our distributors have accepted our products for delivery. Our distributors also may not return expired products due to non-quality issues without our written consent. We incurred de minimus returns during the Track Record Period. We did not provide warranties on our products and did not have any express or implied provisions for warranty claims during the Track Record Period.

We generally have the right to terminate our distribution agreements for material breaches, subject to certain cure periods. Our distribution agreements require distributors to comply with all applicable laws and regulations, including, among other things, anti-bribery laws and regulations. All of our distributors are required under PRC laws to obtain pharmaceutical supply permits and GSP certificates. Pursuant to our distribution agreements, our distributors are required to provide us with copies of the relevant licences, permits and certificates, including pharmaceutical supply permits and GSP certificates, with a corporate stamp affixed. New distributors are required to present original copies of the relevant licences, permits and certificates. If there is any change to the documentation, our distributors are required to issue a written notice to us within ten days of the change supported by copies of the updated licences, permits or certificates.

Product Pricing

Pricing of pharmaceutical products in the PRC is heavily regulated. Our market access department analyses government policies and regulations in order to develop our product pricing strategies for the PRC public hospital centralised tender process and procure our products' entry into the national Medical Insurance Catalogue and provincial Medical Insurance Catalogues at appropriate pricing levels.

A substantial portion of the products we sell to our customers are then sold to public hospitals and other medical institutions owned or controlled by government authorities in China. Each public medical institution must make substantially all of their purchases of pharmaceutical products through a centralised tender process. The centralised tender process is held in different provinces and cities with varying terms, procedures and preferences and is usually organised at the national, provincial or city levels. Please refer to "Regulations—PRC Laws and Regulations Relating to Centralised Procurement and Tender Process" for further details of the tender process in the PRC. Each centralised tender process typically applies to all products included in the relevant Medical Insurance Catalogues and specifies product formulations or specific product brands available for tender. The selection of the winning bidder is based on a number of criteria, including bid price, product quality, clinical effectiveness, qualifications and reputation of the manufacturer and after-sale services. The successful bid price in the tender process dictates the price at which distributors sell the relevant product to the relevant public medical institutions. If we are successful in winning bids in a centralised tender process, the relevant products will be sold to the public medical institutions at the bid prices, which in part determine the prices at which we sell our products to our distributors. The centralised tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our bidding strategy generally focuses on differentiating our products instead of competing solely based on pricing. During the Track Record Period, the tender success rates of our key products ranged from approximately 80% to approximately 97%.

Our pharmaceutical products included in the Medical Insurance Catalogues or the National List of Essential Drugs are subject to price controls by the NDRC, either at the national level or the provincial level. Price controls are mainly in the form of fixed or maximum retail prices. From time to time, the NDRC publishes and updates a list of pharmaceutical products that are subject to price controls, either at the national level or the provincial level. Retail prices of pharmaceutical products under price controls are determined based on a variety of factors, including the profit margins that the relevant government authorities deem reasonable, the product's type, quality and production costs, as well as the prices of substitute pharmaceutical products.

The PRC government authorities do not impose restrictions over the prices at which pharmaceutical products may be sold to distributors, hospitals and other medical institutions; however, fixed or maximum retail prices indirectly limit the wholesale prices at which we can sell the relevant products to our distributors. We set the selling prices for our products to our distributors by taking into account factors such as the successful bidding prices with hospitals, our costs of production, our gross profit margins, and the margins for our distributors and third party promoters. There is usually a reasonable gap between the maximum retail prices and our average selling prices to distributors. In the event of any maximum retail price reduction, if necessary we are able to adjust our selling prices at our discretion provided that such selling prices do not exceed the maximum retail prices set by the NDRC for our products that are subject to price controls and allow reasonable margins for the other parties on the value chain, such as distributors, hospitals and other medical institutions. Please refer to "Regulations—PRC Laws and Regulations Relating to the National Medical Insurance Programme and Price Controls of Pharmaceutical Products" for further details of relevant PRC regulations governing pricing.

As of the Latest Practicable Date, 19 of our pharmaceutical products were included in the national Medical Insurance Catalogue and subject to price controls at the national level. These 19 products included five of our key products, Maitongna, Bei Xi, Xuezhikang, CMNa and Lutingnuo, as well as Nuosen injection, Keweijia, Sidinuo, Sailimai, Nuosen capsule,

Jinsiping, Loratadine capsule, Tongke, Glucosamine tablet, Beitangning, Rheumatoid liquid, Weilikang, Tiandijia and Yitaida. For 2011, 2012 and 2013, our revenue from sales of these 19 products accounted for approximately 54.2%, 55.4% and 56.0% of our total revenue for the respective period. As of the Latest Practicable Date, an additional seven of our products were included in the relevant provincial Medical Insurance Catalogues and subject to price controls within the respective province, municipality or autonomous region. These seven products included two of our key products, Lipusu and Tiandixin, as well as Okai, Olai, Sailimai tablet, Yuanjie and Tiandida. For 2011, 2012 and 2013, our revenue from sales of these seven products accounted for approximately 44.3%, 43.4% and 43.0% of our total revenue for the respective period.

NDRC Price Control Measures Affecting Our Key Products

During the Track Record Period, the lowering of the maximum retail prices for those products affected by the NDRC price adjustments had only a limited impact on the overall average selling prices, revenue and gross profit margins of our products because we were able to partially pass on the price adjustments to our distributors and suppliers and provide the products to hospitals and other medical institutions through our distributors at prices that allow a profit margin for hospitals and other medical institutions.

In August and September 2011, the NDRC lowered the maximum retail prices of certain pharmaceutical products, including two of our key products, Maitongna and Bei Xi. For 2011, 2012 and 2013, revenue from the sale of both of these key products collectively accounted for 15.7%, 20.6% and 22.8% of our total revenue for the respective period. The NDRC reduced the maximum retail prices of both of our key products by an average of approximately 15%. Our average selling price of Maitongna decreased by approximately 3% in 2012, as compared to 2011. The lowering of the maximum retail price on Bei Xi in 2011 did not have a discernible effect on our average selling price for Bei Xi in 2012.

In May 2012, the NDRC lowered the maximum retail prices of certain pharmaceutical products, including one of our key products, Lutingnuo. For 2011, 2012 and 2013, revenue from the sale of Lutingnuo accounted for 10.8%, 9.9% and 9.1% of our total revenue for the respective period. The NDRC reduced the maximum retail prices of this product by approximately 19%. Our average selling price of Lutingnuo decreased by approximately 5% in 2012, as compared to 2011.

In October 2012, the NDRC introduced a maximum retail price for CMNa. Prior to this, there was no maximum retail price set by the NDRC for CMNa. Our average selling price of CMNa decreased by approximately 3% in 2013, as compared to 2012.

During the Track Record Period, except for the August and September 2011, May 2012 and October 2012 adjustments, the NDRC has not lowered or imposed maximum retail prices of our key products since 1 January 2011.

During the Track Record Period, the lowering of the maximum retail prices for those products affected by the NDRC price adjustments did not have a material negative impact on our results of operations. For 2011, 2012 and 2013, our total revenue was RMB1,774.4 million, RMB2,135.9 million and RMB2,515.1 million, respectively, representing a CAGR of 19.1% over the period. For 2011, 2012 and 2013, our gross profit was RMB1,473.3 million, RMB1,784.1 million and RMB2,101.6 million, respectively, representing a CAGR of 19.4% over the period. For 2011, 2012 and 2013, our gross profit margin was 83.0%, 83.5% and 83.6%, respectively. However, controls over and adjustments to retail prices of pharmaceutical

products, if significant, could have a corresponding impact on the prices at which we sell such products to our distributors, and consequently our gross profits and gross profit margins. Please refer to "Risk Factors—The retail prices of certain of our products, including most of our key products, are subject to price controls, including periodic downward adjustments, by the PRC government authorities." for further details of risks associated with price controls.

All of our pharmaceutical products that were affected by the NDRC price adjustments have been and will continue to be sold to distributors at prices lower than the maximum retail prices under the price controls and allow a profit margin for other parties on the value chain, such as distributors and hospitals.

To mitigate the risks associated with potential price control measures imposed on our products and to lessen the potential impact on our business and results of operations, we seek to continue to expand our product portfolio to reduce our reliance on any single product or small group of products. We will also continue to monitor and adjust our product portfolio to focus on higher margin products to mitigate the potential impact of future price control measures on our overall profitability.

International Marketing, Promotion, Sales and Distribution

We currently have a foothold in various overseas markets for pharmaceutical products, including Malaysia, Singapore, Russia and Norway. Our international business department includes a total of 16 sales and marketing employees, 13 of whom are based overseas and are primarily responsible for the promotion and sale of Lipascor in Malaysia and Singapore. For other overseas markets, we primarily conduct marketing, promotion, sales and distribution of our products through local distributors. Pursuant to our agreements with local distributors, we generally grant our distributors an exclusive right to import, market and sell the relevant product within a specified region. Our local distributors are typically responsible for all regulatory matters in connection with the importing and marketing of our products at their own costs, including product registration and clinical tests. We do not permit our local distributors to carry competing products during the terms of the distribution agreements. The price at which we sell to our local distributors is specified in the agreement and fixed for the contractual term. We generally deliver our products after receiving payment from our local distributors.

In-licencing

We currently market and sell one in-licenced oncology product pursuant to a distribution agreement and have a number of in-licenced product candidates which we are targeting to launch in the PRC market before 2020. We will continue to explore in-licencing opportunities for third party proprietary products, particularly for products that are complementary to our existing product portfolio, and where we can effectively employ our and sales and marketing infrastructure and manufacturing capabilities towards successfully commercialising those products.

RESEARCH AND DEVELOPMENT

We believe our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. Our market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas, with a focus on those candidates that have the potential for future commercialisation in global markets. We balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities.

Our Internal Research and Development

We focus on R&D projects within oncology, cardiovascular system, alimentary tract and metabolism, as well as central nervous system, which we expect to become one of our key therapeutic areas following the planned launch of several product candidates that are currently in various stages of development. As of 31 December 2013, our R&D team consisted of 266 employees, including 30 Ph.D. degree holders and 124 Master's degree holders in medical, pharmaceutical and other related areas, and nine personnel from global pharmaceutical institutions. Our R&D personnel conduct drug discovery, formulation development, process development, analysis, pre-clinical studies, clinical studies, registration and intellectual property management. In addition, our R&D teams undertake projects to improve our manufacturing activities.

Each of our drug development programmes is subject to the approval of an evaluation committee that consists of the vice president of our R&D team and additional internal and external experts. The evaluation committee reviews feasibility studies on product candidates and makes final decisions on whether to carry out a new drug development programme. We carefully select drug development programmes by balancing the commercial potential of the drug and its likelihood of successful development, and its potential competition and market size. If a drug development programme is approved by our evaluation committee, it is assigned a project code and a project manager who, in turn, determines the research team members. The project manager is responsible for implementing the programme, including the coordination of the various professional departments involved, such as our pharmacology, toxicology, clinical, product registration, intellectual property and quality management departments. We also conduct periodic reviews of our on-going drug development programmes and may elect to discontinue programmes that are not making satisfactory progress.

Our standard employment contracts include confidentiality clauses refraining our employees from disclosing trade secrets to any third party. We may also enter into additional confidentiality agreements with certain research employees that provide that all relevant intellectual properties developed by our research staff during their employment with us become our intellectual properties and are treated as trade secrets.

Our R&D activities are organised around three platforms: long-acting and extended release technology, liposome and targeted drug delivery technology and new compounds.

Long-acting and Extended Release Technology Platform

Our long-acting and extended release technology platform develops long-acting injection products and oral extended release products. These controlled release drug delivery systems enable us to address many of the difficulties associated with traditional methods of drug administration by:

- tailoring drug release rates to the needs of a specific application;
- providing protection to active pharmaceutical ingredients that would otherwise be rapidly destroyed by the body; and
- reducing the frequency of administration to improve patients' comfort and compliance.

Our long-acting and extended release technology platform focuses on innovation in microsphere and nano-particle technology. We believe our microsphere and nano-particle technology will enable us to overcome certain major challenges commonly associated with this technology, such as difficulties associated with large-scale manufacturing, inactivation of the drug during fabrication and poor control of drug release rates.

Our flagship technology within this platform is our microsphere preparation technology. Microsphere technology utilises biodegradable polymer micrometre-sized particles that can encapsulate many types of drugs, including small molecules, proteins and nucleic acids, and are easily administered through injections. Administered through subcutaneous or intramuscular injections, these formulations are designed for sustained release over a predetermined period of time from half a month to longer than one month. Our microsphere preparation technology has wide application for many types of pharmaceutical products, and enables us to develop and obtain intellectual property protection for innovative formulations of existing medicines that we carefully select based on market and competitive conditions.

We have R&D and production capabilities for this platform that include biodegradable and biocompatible polymeric excipient research, laboratory formulation and process research, scale-up preparation, microsphere and nano-particle production and quality control.

As of 31 December 2013, we had 11 product candidates under development through our long-acting and extended release technology platform, one of which was pending approval for production and five of which had received CFDA approvals for clinical trials in China. Three of the product candidates that had received CFDA approvals for clinical trials had also received FDA approvals for clinical trials in the United States. Once approved, we believe a number of these product candidates will be leading or first-to-market pharmaceutical products in China. As of 31 December 2013, we had been granted ten patents based on R&D conducted through this platform.

Liposome and Targeted Drug Delivery Technology Platform

Our liposome and targeted drug delivery technology platform focuses on innovation in cancer-targeting delivery technology and liposome technology. Liposomal drug delivery systems enable us to address many of the difficulties associated with traditional methods of cancer drug administration by:

- improving the solubility of certain types of drugs;
- protecting drug compounds from degradation in the physiological environment in vivo;
- passively targeting the cells of the immune system;
- providing sustained release;
- utilising a site-avoidance mechanism;
- employing site-specific targeting; and
- improving the penetration effectiveness of hydrophilic or charged compounds into cells.

Through this platform, we seek to develop formulations of existing medicines that deliver the active pharmaceutical ingredients to their site of action in order to improve the efficacy of the medicine, reduce its toxic side effects and increase maximum dosage level. For example, through our liposome and targeted delivery technology platform we have developed Lipusu. In 2012, in recognition of our achievements in the development of paclitaxel liposome injection, we were awarded the first prize of Science and Technology Award (科學技術一等獎) by the Chinese Pharmaceutical Association (中國藥學會).

A liposome is a miniscule bubble (vesicle) made out of similar material to a human cell membrane that can be filed with active pharmaceutical ingredients, including macromolecules such as proteins and peptides. Liposomes can vary in size and the number of bilayers, which will affect the amount of drug encapsulation in the liposomes, as well as their bio-distribution and bio-availability in vivo.

Our liposome and targeted drug delivery technology platform is complemented by advanced equipment through which we conduct research, testing, pilot amplification and commercialisation preparation on liposome products. Our R&D facilities include 25 research laboratories and a pilot production line. These capabilities have enabled us to resolve many difficulties in the commercialisation of liposome technology, such as crystallisation, uniformity of vesicle sizes and sterility assurance. We have also established one of China's first automated liposome production lines.

We established our liposome and targeted drug delivery technology platform in 1996 and developed one of our marketed products through this platform. As of 31 December 2013, we had generated over five product candidates through our liposome and targeted drug delivery platform, of which one had received CFDA approval for clinical trials. In addition, we believe there is significant potential for liposomal drugs in the international market. According to BCC Research, the global market size for liposomal drugs in 2012 was approximately US$1.5 billion and is expected to grow at a CAGR of 33.7% to reach US$6.6 billion by 2017.

As of 31 December 2013, we had been granted 20 patents in China and internationally based on R&D conducted through this platform. To support our long-acting and extended release technology and liposome and targeted drug delivery platforms, we also established the "State Key Laboratory of Long-acting and Targeting Drug Delivery System" (長效和靶向製劑國家重點實驗室) in 2010, which was the only state key laboratory focusing on long-acting and targeting technology approved by the Ministry of Science and Technology. The laboratory contains a full array of equipment, including extensive imported equipment. The laboratory's main research focus is long-acting and targeted delivery system, especially liposome and microsphere delivery systems. As of 31 December 2013, the laboratory was conducting more than ten research projects in long-acting formulations, four of which had received CFDA clinical approval.

New Compounds Platform

Our new compounds platform seeks to discover and develop new compounds through modifications to the chemical entities of recently marketed and pipeline pharmaceutical products in various stages of development. Our research platform seeks to improve existing compounds through rapid simulation, comparative research and deficiency reduction to selectively develop new proprietary compounds. In contrast to the traditional drug discovery and development method that focuses on original compound innovations for predetermined targets, our platform seeks an alternative route to shorten the development cycle and we believe it will reduce the required investments and risks in the discovery and development of new compounds. Our key product candidate based on this platform is Ansofaxine hydrochloride extended release tablets.

As of 31 December 2013, we had over ten early stage product candidates under development through our new compounds platform, of which one had received CFDA and FDA approval for clinical trials.

All of our R&D activities are conducted in the form of working group projects that enable us to commercialise our research.

We typically budget approximately 6.5% of our revenue for R&D cost. For 2011, 2012 and 2013, our total R&D costs were equal to RMB134.9 million, RMB134.4 million and RMB194.1 million, representing 7.6%, 6.3% and 7.7% of our total revenue for the respective period. Please refer to "Financial Information—Critical Accounting Policies, Estimates and Judgements—R&D Costs" for further details of accounting policies relating to R&D costs.

We have received various awards for our technological innovation and our proven capabilities of developing novel and improved pharmaceutical products. Please refer to "History and Development—Awards" for further details of our selected awards.

Collaboration with Research Partners

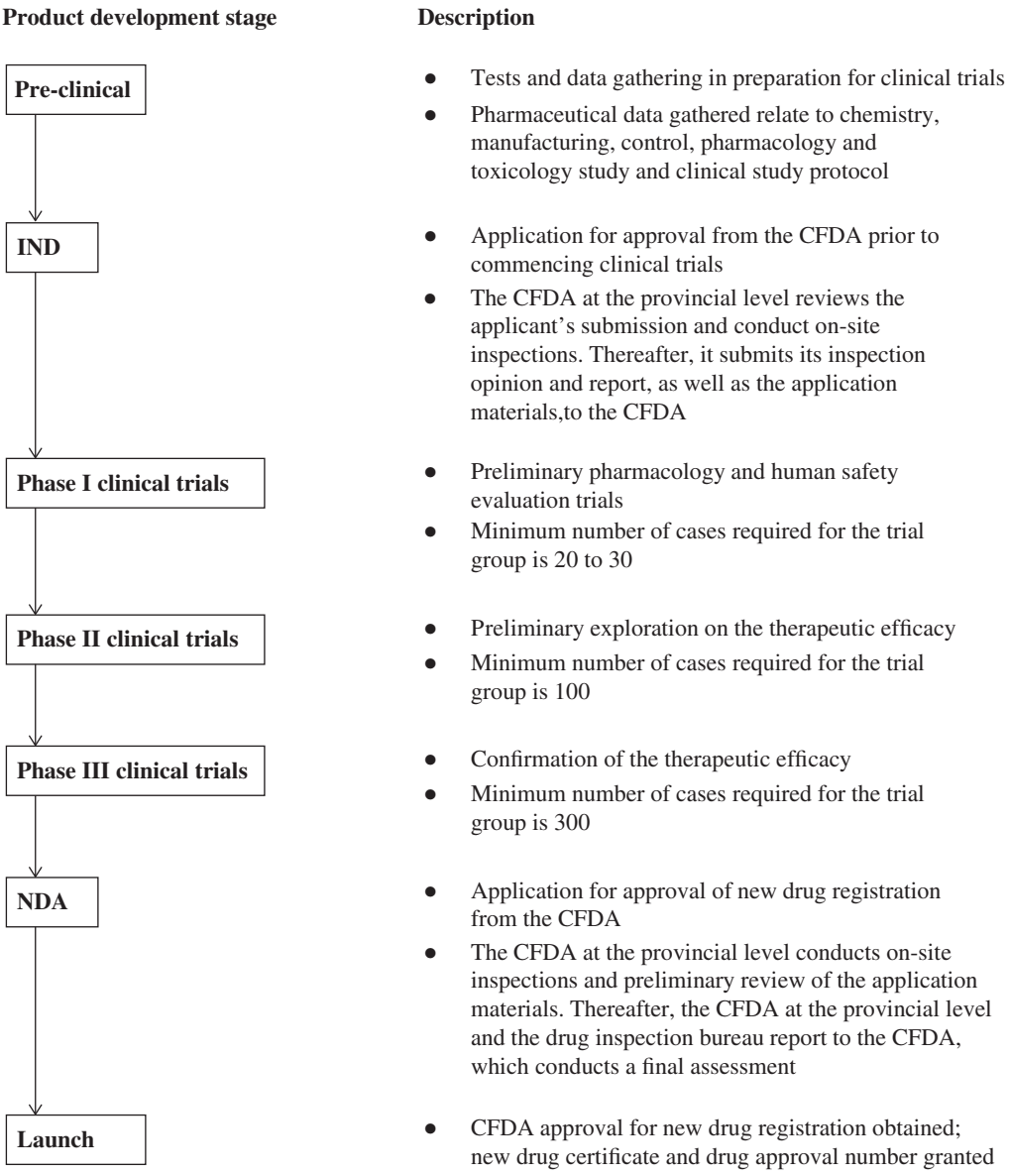
We have entered into collaboration arrangements with overseas pharmaceutical companies, research institutions and universities to jointly carry out R&D of new pharmaceutical products, as well as to enhance our own R&D capabilities. We collaborate with co-development partners to further broaden our access to proprietary products and leverage their established R&D platforms, thereby minimising the upfront costs and risks associated with early stage product development. Our research partners have included, among others, Dong-A Pharmaceutical Co. Ltd. in Korea, Academy of Military Medical Sciences, Peking University, Sichuan University, Jilin University, Shenyang Pharmaceutical University, Beijing University of Chinese Medicine, Yantai University, Zhejing University, East China Normal University and University of South Carolina School of Medicine.

The terms of our collaboration arrangements for research projects vary, depending on the subject and nature of the research and our commercial arrangements with our research partners. Our R&D team may take a leading role in the design and execution of the research projects and participate in the research work, including pre-clinical R&D, preparation and submission of applications for clinical trials, management of clinical trials, information collation and application for regulatory approvals. In addition to our participation in this R&D work, we generally also provide the funding for these joint R&D projects. We are typically entitled to receive a percentage of proceeds resulting from the successful development and commercialisation of the products and to co-own the research results as well as intellectual property rights.

We intend to continue our collaborations with external research partners and believe these collaborations will enable us to gain valuable know-how and further strengthen our R&D capabilities.

Our Products under Development

Our product development process from R&D to commercial launch typically involves the following milestone stages:



Please refer to "Regulations—PRC Laws and Regulations Relating to the Registration of Pharmaceutical Products" for further details the laws and regulations relating to the registration of pharmaceutical products in the PRC.

As of 31 December 2013, we had undertaken approximately 83 drug development programmes since 2008, six of which were terminated due to market conditions and seven of which were terminated for technical reasons, such as lack of ability of a compound to be used commercially as a pharmaceutical drug. The remainder of these programmes are on-going to various degrees. We are targeting that 17 product candidates will be approved for marketing and sale in China before 2018. Please refer to "—Our Competitive Strengths" above for further details of the product candidates that we believe will have the greatest impact on our competitive position during this period.

As of 31 December 2013, we had a pipeline of 22 PRC product candidates that we are targeting to launch by 2020, including 17 product candidates that we are targeting to launch by 2018. These product candidates included eight in oncology, four in alimentary tract and metabolism and ten in central nervous system.

The following table sets forth certain information relating to selected PRC product candidates by therapeutic area:

Therapeutic area	Product	Indications	Status[(1)]	Targeted launch year[(1)]
Oncology	Gemcitabine hydrochloride for injection (注射用吉西他濱)	Advanced or metastatic non-small cell lung cancer, partially advanced or metastatic pancreatic cancer	NDA	2015
	Vincristine sulphate liposome for injection (注射用硫酸長春新堿脂質體)	Acute lymphoblastic leukaemia, lymphoma	Phase III clinical trials	2016
	Doxorubicin hydrochloride liposome injection (鹽酸多柔比星脂質體注射液)	Kaposi's sarcoma, breast cancer, ovarian cancer and multiple myeloma	IND	2017
	Triptorelin acetate extended release microspheres for injection (注射用醋酸曲普瑞林緩釋微球)	Hormone-dependent prostate cancer, endometriosis and uterine fibroids, vitro fertilisation technique	IND	2017
	Mucoadhesive oral wound rinse (口腔潰瘍含漱液)	Mouth ulcers caused by chemotherapy and radiotherapy	Pre-launch application (medical device)	2014
	Goserelin acetate extended release microspheres for injection (注射用醋酸戈舍瑞林緩釋微球)	Prostate cancer and pre-menopausal and post-menopausal breast cancer, endometriosis	Pre-clinical	2019
	Irinotecan hydrochloride liposome injection (鹽酸伊立替康脂質體注射液)	Advanced colorectal cancer	Pre-clinical	2020
	Fulvestrant long acting injection (氟維司群長效注射液)	Metastatic breast cancer	Pre-clinical	2020

Therapeutic area	Product	Indications	Status[(1)]	Targeted launch year[(1)]
Central nervous system	Jinyukang® capsules (金玉康®膠囊)	Mild to moderate depression	NDA	2015
	Huperzine A sustained release tablets (石杉鹼甲緩釋片)	Memory impairment, age-related memory decline and mild to moderate Alzheimer's disease	Phase III clinical trials	2016
	Huperzine A sustained release microspheres for injection (注射用石杉鹼甲緩釋微球)	Memory impairment, age-related memory decline and mild to moderate Alzheimer's disease	Phase I clinical trials	2020
	Rotigotine extended release microspheres for injection (注射用羅替戈汀緩釋微球)	Parkinson's disease	Phase I clinical trials	2017
	Risperidone extended release microspheres for injection (注射用利培酮緩釋微球)	Schizophrenia and bipolar disorder	Phase I clinical trials	2016
	Ansofaxine hydrochloride extended release tablets (鹽酸安舒法辛緩釋片)	Moderate to severe depression	Phase I clinical trials	2018
	Laxymig (valproate semisodium extended release tablets) (樂舒蘋® (丙戊酸半納緩釋片))	Epilepsy	Import clinical trials	2016
	Ufree (levetiracetam sustained release tablets) (優飛 (左乙拉西坦緩釋片))	Epilepsy	Import clinical trial application	2017
	Pramipexole dihydrochloride tablets (鹽酸普拉克索片)	Parkinson's disease	Import clinical trial application	2016

Therapeutic area	Product	Indications	Status[(1)]	Targeted launch year[(1)]
	Pramipexole dihydrochloride extended release tablets (鹽酸普拉克索緩釋片)	Parkinson's disease	Pre-clinical	2018
Alimentary tract and metabolism	Evogliptin tartrate tablets (酒石酸艾格列汀片)	Diabetes	IND	2019
	Exenatide extended release microspheres for injection (注射用艾塞那肽緩釋微球)	Diabetes	IND	2017
	Thioctic acid tablets (硫辛酸片)	Diabetic multiple peripheral neuropathy	Pre-clinical	2017
	Reduced glutathione enteric capsules (還原型谷胱甘肽腸溶膠囊)	Liver protection for chronic hepatitis B patients	NDA	2015

Note:

(1) Status and targeted launch year are presented as of 31 December 2013.

Below is a description of our selected key product candidates:

Mucoadhesive Oral Wound Rinse (口腔潰瘍含漱液)

Mucoadhesive oral wound rinse is categorised within the oncology therapeutic area and is expected to be classified as a medical device by the CFDA. It is expected to be used for the treatment of oral mucositis or stomatitis that may be caused by radiotherapy, chemotherapy and other types of oral wounds, including aphthous ulcers, canker sores and traumatic ulcers. Oral mucositis occurs in 90% of patients undergoing head and neck radiation and 40% of patients receiving cycled chemotherapy.

Clinical studies showed that patients who used mucoadhesive oral wound rinse nanopolymer formula before chemotherapy or radiation treatments were often able to successfully prevent, delay, or significantly reduce oral mucositis symptoms. Patients treated with mucoadhesive oral wound rinse have shown a reduction in erythema, pain, and need for opiate analgesia and NGT/gastronomy use, shortened hospitalisation and improved quality of life. Further, mucoadhesive oral wound rinse is safe to use and presents no risk of adverse effects from drug interactions, which allows it to be used in conjunction with other pharmaceutical products.

We have commenced pre-clinical investigation for mucoadhesive oral wound rinse. We plan to submit application for approval for mucoadhesive oral wound rinse as a medical device, which we believe will expedite the approval process. There is also a substantially similar product approved for import and sale in the PRC market. We are targeting to obtain CFDA approval for the sale of mucoadhesive oral wound rinse in the second half of 2014.

Reduced Glutathione Enteric Capsules (還原型谷胱甘肽腸溶膠囊)

Reduced glutathione enteric capsules is reduced glutathione, a tripeptide, in enteric capsule form. Reduced glutathione enteric capsules are expected to be classified as a chemical medicine by the CFDA and to be approved as adjuvant treatment of liver dysfunction caused by viruses, drugs, alcohol and other chemicals.

We believe our formulation of reduced glutathione, by filling enteric capsules with reduced glutathione, allows the active pharmaceutical ingredients to be better preserved in the alimentary tract, which in turn will result in higher efficacy. Currently, reduced glutathione is available in oral tablet, the active pharmaceutical ingredients of which can be damaged by gastric acid, resulting in lower bioavailability. Results from our clinical trials have demonstrated that, compared with oral tablet, enteric capsule is more effective in the treatment of chronic hepatitis B.

According to IMS, the market size of reduced glutathione in the PRC in 2013 was approximately RMB2.2 billion, and grew at a CAGR of 16.4% from 2011 to 2013.

We have completed clinical trials and have filed an NDA with the CFDA. We are targeting to obtain CFDA approval for the manufacture and sale of reduced glutathione enteric capsules in 2015. Once approved, we expect reduced glutathione enteric capsules will be the first formulation of reduced glutathione in enteric capsules approved for sale in the PRC.

Risperidone Extended Release Microspheres for Injection (注射用利培酮緩釋微球)

Risperidone extended release microspheres for injection is our formulation of risperidone using our microsphere injection technology. Risperidone extended release microspheres for injection is expected to be classified as a chemical medicine by the CFDA and is expected to be approved for the treatment of schizophrenia and bipolar disorder.

We believe our formulation of risperidone in extended release injection has the same therapeutic properties as the currently marketed long acting risperidone product but, through the application of our microsphere technology, has a much faster onset of action and stable plasma concentration. Risperidone is currently available in regular release form, which was first launched in the United States in 1993, and in long-acting form, which was released in 2001. The long acting version of risperidone exhibits a delayed onset action when administered and therefore generally requires that the regular release form be administered in conjunction with the long acting version for a period of up to three weeks to ensure that adequate therapeutic plasma concentrations are maintained. We believe that our risperidone extended release microspheres for injection can be used without any additional risperidone supplements.

According to IMS, the market size of antipsychotics in the PRC in 2013 was RMB3.4 billion, and grew at a CAGR of 17.5% from 2011 to 2013.

We are concurrently conducting phase I and phase II clinical trials for our formulation of risperidone in the United States and phase I clinical trials in the PRC. We are targeting to obtain CFDA approval for the manufacture and sale of risperidone extended release microspheres for injection in 2016. We have also entered into an agreement with Midas Pharma GmbH in Germany pursuant to which Midas Pharma GmbH will assist us with the commercialisation of risperidone extended release microspheres for injection in the European markets.

Vincristine Sulphate Liposome for Injection (注射用硫酸長春新鹼脂質體)

Vincristine sulphate liposome for injection is our formulation of vincristine, a meiotic inhibitor, using an innovative liposome injection delivery vehicle. Vincristine sulphate liposome for injection is expected to be classified as a chemical medicine by the CFDA and is expected to be used for the treatment of certain cancers, including acute leukaemia, Hodgkin's disease, malignant lymphoma, breast cancer, bronchogenic carcinoma, soft tissue sarcoma and neuroblastoma.

Through the application of liposomal technology, we expect our formulation of vincristine in injectable form to demonstrate an enhanced safety profile in comparison with other marketed vincristine products, which are formulated as a powder injection and cause side effects such as peripheral neuropathy. Results from our phase I and phase II clinical trials in China for vincristine sulphate liposome for injection demonstrated a lower level of toxicity as compared to other marketed vincristine products, resulting in improved tolerance levels and an enhanced safety profile.

According to IMS, the market for oncology pharmaceutical products in the PRC in 2013 was RMB30.2 billion, and grew at a CAGR of 18.3% from 2011 to 2013.

We hold a preparation method patent and a chemical pharmaceutical composition patent for vincristine sulphate liposome for injection that are valid until 2024.

We commenced phase III clinical trials for our formulation of vincristine sulphate liposome for injection in June 2013. Subject to the outcome of phase III clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of vincristine sulphate liposome for injection in 2016, and it is anticipated to be the first vincristine in liposome formulation approved for sale in China.

Laxymig (valproate semisodium extended release tablets) (樂舒蘋®(丙戊酸半納緩釋片))

Laxymig is valproate semisodium extended release tablets, indicated for epilepsy, mental and mood conditions such as manic phase of bipolar disorder, and may prevent migraines. In 2010, we obtained exclusive PRC distribution rights for Laxymig pursuant to a registration and sales agreement with Lotus Pharmaceutical Co. Ltd. with a term of ten years and a five-year automatic renewal period.

Laxymig was proven to be bioequivalent to the original divalproex sodium extended release tablet that has been marketed in Taiwan since 2000, based on the results of clinical trials conducted by Lotus Pharmaceutical Co. Ltd. in Taiwan. It received approval in Taiwan as a generic divalproex sodium extended release tablet in 2007.

According to IMS, the market size for antiepileptics in the PRC in 2013 was approximately RMB1.4 billion, and grew at a CAGR of 24.6% from 2011 to 2013.

We are conducting clinical trials for Laxymig in China and, subject to the outcome of clinical trials, we are targeting to obtain CFDA approval for the sale of Laxymig in 2016. We believe that Laxymig, once approved, will be the first divalproex product approved for sale in China.

Triptorelin Acetate Extended Release Microspheres for Injection (注射用醋酸曲普瑞林緩釋微球)

Triptorelin acetate extended release microspheres for injection is our formulation of triptorelin acetate, a gonadotropin-releasing hormone agonist used as the acetate or pamoate salts, using our microspheres injection technology. Triptorelin acetate extended release microspheres for injection is expected to be classified as a chemical medicine by the CFDA and is expected to be approved for the treatment of hormone-responsive cancers such as prostate cancer, as well as precocious puberty, oestrogen-dependent conditions such as endometriosis or uterine fibroids, as well as treatment in assisted reproduction.

We expect triptorelin acetate extended release microspheres for injection will be a long-acting sustained release formulation. We expect that triptorelin acetate extended release microspheres for injection will have the same indications and the bioequivalence as the marketed triptorelin acetate microspheres based on our animal study data. We filed a PCT application for our triptoreline microsphere pharmaceutical composition in 2012 and expect to enter the national phase after completing the PCT application process in 2014.

According to IMS, the market size for gonadotropin-releasing hormone agonist products in the PRC in 2013 was approximately RMB1.7 billion, and grew at a CAGR of 29.0% from 2011 to 2013.

We have submitted clinical trial application for triptorelin acetate extended release microspheres for injection and await approval from the CFDA to commence clinical trials. Subject to the outcome of clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of triptorelin acetate extended release microspheres for injection in 2017.

Rotigotine Extended Release Microspheres for Injection (注射用羅替戈汀緩釋微球)

Rotigotine extended release microspheres for injection is our formulation of rotigotine, a dopamine agonist, using our microsphere injection technology. Rotigotine extended release microspheres for injection is expected to be classified as a chemical medicine by the CFDA and is expected to be approved for the treatment of Parkinson's disease.

The extended release formulation of rotigotine is currently marketed as transdermal patches and is used to treat the signs and symptoms of Parkinson's disease including shaking, stiffness, slowed movements and problems with balance. Rotigotine transdermal patches are also used to treat restless leg syndrome. We believe our formulation of rotigotine in extended release microspheres for injection will simplify the treatment regimen in order to improve patient compliance and reduce side effects, while providing the therapeutic benefits of continuous delivery of rotigotine and continuous dopaminergic stimulation, as compared with the currently marketed rotigotine transdermal patches. We hold five patents in China and internationally over the formulation and manufacturing process of rotigotine extended release microspheres for injection. The first formulation patent was granted in 2005 and is valid until 2025.

According to IMS, the market size of pharmaceutical products for the treatment of Parkinson's disease in the PRC in 2013 was RMB516.8 million, and grew at a CAGR of 24.3% from 2011 to 2013.

We are concurrently conducting phase I clinical trials in the United States and the PRC for our formulation of rotigotine. Subject to the outcome of the clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of rotigotine extended release microspheres for injection in 2017.

Exenatide Extended Release Microspheres for Injection (注射用艾塞那肽緩釋微球)

Exenatide extended release microspheres for injection is our formulation of exenatide, a glucagon-like peptide-1 agonist, based on microsphere injection technology. Exenatide extended release microspheres for injection is expected to be classified as a chemical medicine by the CFDA and is expected to be approved for the treatment of type 2 diabetes mellitus.

In vivo experiment demonstrated that, post administration, the plasma concentration of exenatide reached peak then subsided rapidly to a stable and near constant level within ten days, sustained for two to four weeks and remained detectable for up to six to ten weeks post dosage.

According to IMS, the market size of products for the treatment of diabetes in the PRC in 2013 was approximately RMB7.8 billion, and grew at a CAGR of 23.4% from 2011 to 2013.

We have submitted clinical trial application for exenatide extended release microspheres for injection and await CFDA approval to commence clinical trials. Subject to the outcome of clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of exenatide extended release microspheres for injection in 2017.

Ansofaxine Hydrochloride Extended Release Tablets (鹽酸安舒法辛緩釋片)

Ansofaxine hydrochloride extended release tablets is our exclusive ansofaxine hydrochloride, a serotonin-norepinephrine-dopamine triple reuptake inhibitor (SNDRI), in extended release tablet form. Ansofaxine hydrochloride extended release tablets is expected to be approved as a Class I New Chemical Drug and is expected to be approved for the treatment of major depressive disorder.

We believe our formulation of ansofaxine hydrochloride in extend release tablets, a new SNDRI investigational drug, will have higher efficacy and fewer side effects than traditional anti-depressants. Traditional anti-depressants such as SSRIs and SNRIs drugs are typically associated with disadvantages such as slow onset of action of over three weeks, anhedonia, sexual dysfunction and inability to improve cognitive impairment. Ansofaxine hydrochloride is expected to help preserve patients' sexual function, have a better safety profile and produce a more rapid onset and better efficacy than traditional antidepressants. In addition, since ansofaxine does not stimulate locomotor activity or stereotypies, risk of drug abuse could be mitigated. We hold eight patents in China and internationally over the chemical compound, crystal form and formulation of ansofaxine hydrochloride extended release tablets. The chemical compound patent was granted in 2006 and is valid until 2026.

According to IMS, the market size for anti-depressants in the PRC in 2013 was approximately RMB2.9 billion, and grew at a CAGR of 21.2% from 2011 to 2013.

We have commenced phase I clinical trials for ansofaxine hydrochloride extended release tablets. Subject to the outcome of the clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of ansofaxine hydrochloride extended release tablets in 2018.

Evogliptin tartrate tablets (酒石酸艾格列汀片)

Evogliptin tartrate tablets is a dipeptidyl peptidase IV (DPP IV) inhibitor, in tablet form. Evogliptin tartrate tablets is expected to be approved as a Class I New Chemical Drug and is expected to be approved for the treatment of type 2 diabetes mellitus. We hold an exclusive intellectual property licence from Dong-A Pharmaceutical Co. Ltd. to develop and commercialise evogliptin tartrate tablets in China, including the exclusive right to develop evogliptin tartrate tablets for manufacture and sale in our own name. The new drug certificate to be issued by the CFDA will be approved and registered under our own name.

Evogliptin is a patented new molecular entity in the United States and other international markets. Evogliptin tartrate tablets is being concurrently developed by Dong-A Pharmaceutical Co. Ltd. for the Korean market. Based on information released from a multi-centre, phase II, randomised, double-blind, placebo-controlled, therapeutic exploratory clinical trial conducted in Korea by Dong-A Pharmaceutical Co. Ltd. to investigate the efficacy and safety of evogliptin, evogliptin was proven to be effective in significantly lowering blood glucose levels in patients with type 2 diabetes. Data also show that the body weights of patients remain stable over the treatment period. In addition, evogliptin was proven to be safe and well tolerated with no severe adverse drug reactions observed during those phase II clinical trials. We believe evogliptin tartrate tablets will help reduce the burden of patients with moderate-to-severe renal impairment as pharmacokinetic study in animal model and healthy human volunteers showed low renal elimination.

The compound patent for evogliptin tartrate tablets in the PRC is valid until 2029 and we were licenced to use the patent pursuant to our agreement with Dong-A Pharmaceutical Co. Ltd.

According to IMS, the market size of products for the treatment of diabetes in the PRC in 2013 was approximately RMB7.8 billion, and grew at a CAGR of 23.4% from 2011 to 2013.

We have submitted clinical trial application for evogliptin tartrate tablets and expect to obtain the approval for clinical trial in mid-2014. Subject to the outcome of clinical trials, we are targeting to obtain CFDA approval for the manufacture and sale of evogliptin tartrate tablets in 2019.

International Research and Development

As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market. For overseas market product candidates, we will seek to maximise the potential value of our product candidates by pursuing flexible development, partnership and commercialisation strategies tailored to the target market. For example, in developed markets we may seek co-development partners for our product candidates. We have historically maintained on-going relationships with a number of overseas pharmaceutical companies, including Dong-A Pharmaceutical Co. Ltd. in Korea, in the development of new product candidates.

We believe we are one of the first Chinese pharmaceutical manufacturers to conduct clinical trials in international markets, including the United States. The four products being developed for approval in the U.S. market are currently at the clinical trial stage.

Xuezhikang. Xuezhikang is one of our current key cardiovascular system products in the PRC market. We have completed phase II clinical trials in the United States in collaboration with a number of international clinical study partners. We have submitted our IND application under the category for botanical drug products.

Rotigotine extended release microspheres for injection. Rotigotine extended release microspheres for injection is a key central nervous system product candidate being concurrently developed for the PRC market and is currently undergoing phase I clinical trials in the United States. We have submitted our IND application under Section 505(b)(2), which will enable us to rely on pre-existing third party data in respect of the product safety and efficacy and we believe this implicates a higher success rate and allows us to reduce costs and risks associated with the process.

Risperidone extended release microspheres for injection. Risperidone extended release microspheres for injection is a key central nervous system product candidate being concurrently developed for the PRC market and is undergoing concurrent phase I and phase II clinical trials in the United States. We have submitted our IND application under Section 505(b)(2), which will enable us to rely on pre-existing third party data in respect of the product safety and efficacy and we believe this implicates a higher success rate and allows us to reduce costs and risks associated with the process.

Ansofaxine hydrochloride extended release tablets. Ansofaxine hydrochloride extended release tablets is a key central nervous system product candidate being concurrently developed for the PRC market and is currently undergoing phase I clinical trials in the United States. We have submitted our IND application under the new drug registration route.

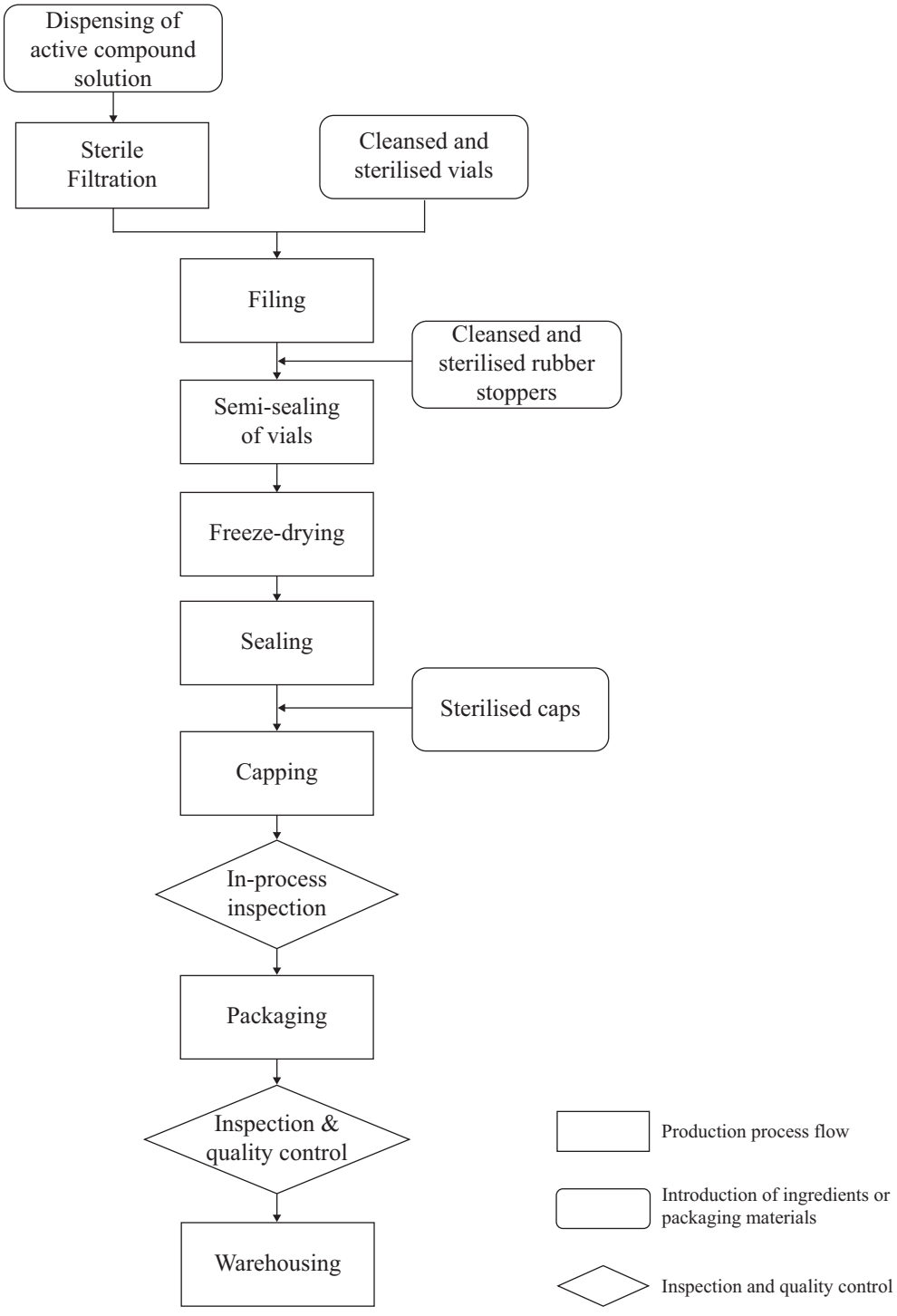
PRODUCTION

Production Process

We have obtained the GMP certification for the production of our products in all production lines, including injections, tablets, powders, granules, capsules, gels, liquids, active pharmaceutical ingredients and herbal extracts. The production processes used in the manufacture of our key products are set forth below. Please refer to "—Legal and Compliance—Licences and Permits" below for further details of our material certificates.

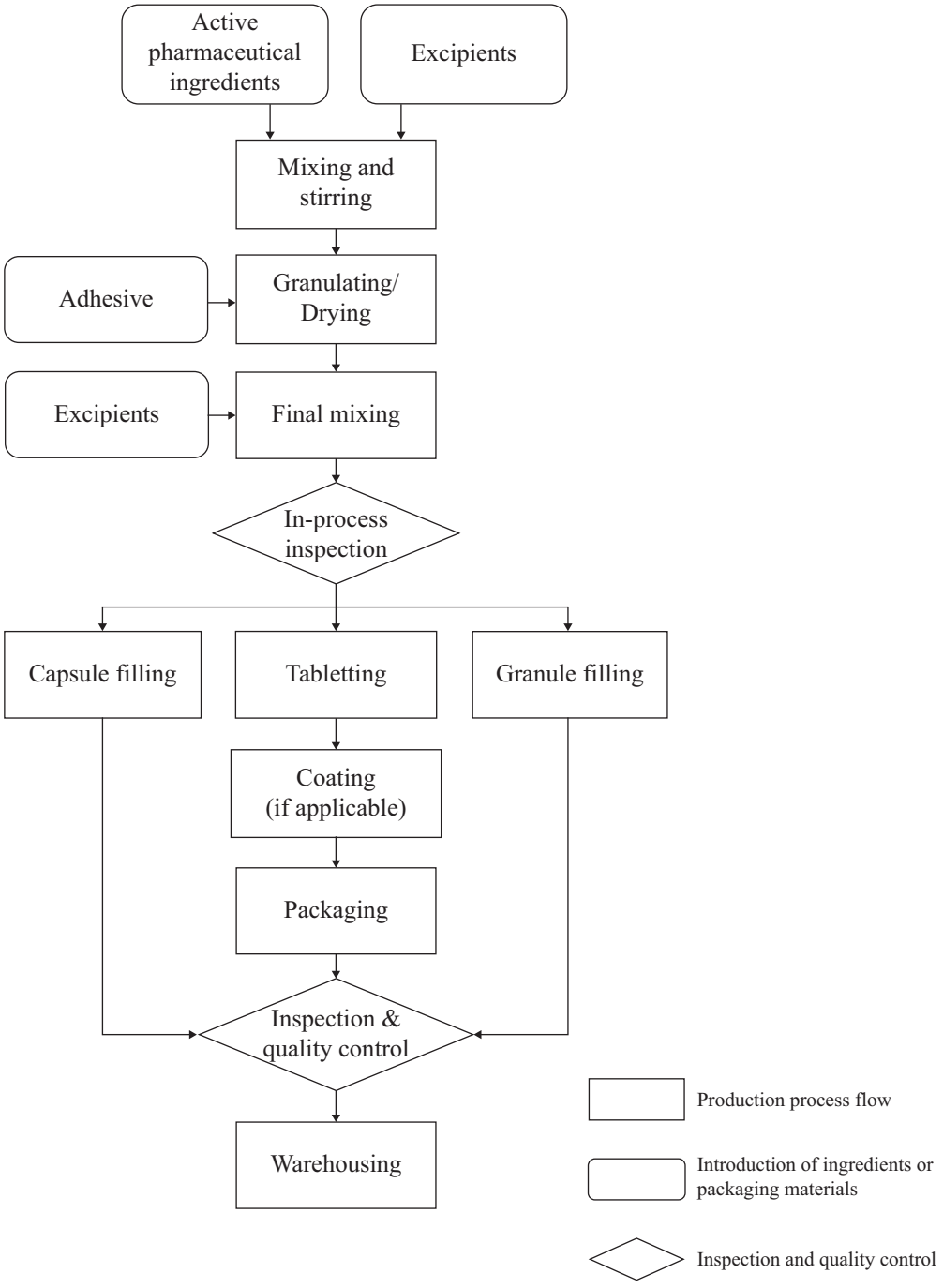
Production Process for Lyophilised Powder Injection

The following diagram summarises the production process for lyophilised powder injection. Our key products manufactured pursuant to the process below are Lipusu, Tiandixin, CMNa, Maitongna and Lutingnuo. The production time for the critical process, freeze-drying, typically ranges from 22 hours to 85 hours.



Production Process for Tablets, Capsules and Granules

The following diagram summarises the production process for tablets, capsules and granules. Our key products manufactured pursuant to the process below are Xuezhikang and Bei Xi. The production time for the critical process, granulating, typically ranges from six hours to 56 hours.



Our Production Facilities

Our production activities are currently carried out at five facilities, two located in Yantai, Shandong Province, one located in Nanjing, Jiangsu Province, one located in Beijing and one located in Luzhou, Sichuan Province.

As of 31 December 2013, our production facilities occupied an aggregate of approximately 326,351 square metres and had an aggregate gross floor area of approximately 155,478 square metres. As of 31 December 2013, we operated a total of 30 production lines at our facilities, five of which produced lyophilised powder injections, one of which produced powder injections, two of which produced both small volume liquid injections and lyophilised powder injections, 12 of which produced oral medications including capsules, tablets and granules and liquids, one of which produced gels and nine of which produce active pharmaceutical ingredients. As of the Latest Practicable Date, two of these production lines, one of which produced lyophilised powder injections and one of which produced both small volume liquid injections and lyophilised powder injections, were being upgraded and were expected to recommence production in the fourth quarter of 2015.

We own all of our production facilities and production lines. We have obtained drug production licences for all our production facilities, GMP certifications for all our production lines and manufacturing permits for all our products. We conduct regular maintenance and repair work in compliance with GMP certifications. The following table sets forth the designed production capacity, actual production volume and utilisation rates of our production lines as of the dates indicated:

		As of 31 December								
		2011			2012			2013		
Production line	Unit	Designed production capacity[1]	Production volume	Utilisation rate (%)	Designed production capacity[1]	Production volume	Utilisation rate (%)	Designed production capacity[1]	Production volume	Utilisation rate (%)
Injections[2]	10,000 vials	3,744	4,188	111.9[3]	4,265	397	93.1	5,765	5,207	90.3
Tablets[4]	10,000 pieces	44,000	5,458	12.4	44,000	5,682	12.9	44,000	5,792	13.2
Powders[5]	10,000 packets	5,000	780	15.6	5,000	962	19.2	5,000	1,038	20.8
Granules[6]	10,000 packets	13,000	6,483	49.9	13,000	2,720	20.9	13,000	1,576	12.1
Capsules[7]	10,000 pieces	80,000	52,513	65.6	80,000	56,862	71.1	80,000	77,392	96.7
Gels[8]	10,000 tubes	400	57	14.3	400	62	15.5	400	35	8.8
Liquids[9]	10,000 bottles	4000	363	9.1	4,000	367	9.2	4,000	537	13.4
API[10]	Kilograms	203,874	42,969	21.1	203,874	45,212	22.2	204,174	76,021	37.2

Notes:

(1) The designed production capacity for a production line is computed based on 260 effective production days a year and eight hours per day.

(2) Injections include lyophilised powder injections, powder injections and small volume liquid injections. Injections are produced at our Yantai Laishan facility, our Yantai Industrial Park facility and our Nanjing facility.

(3) The actual production activities for injection in 2011 were conducted occasionally over eight hours per day to meet the demand for the relevant products, in particular Maitongna. Therefore, the utilisation rate for injection in 2011 exceeded 100%.

(4) Tablets are produced at our Yantai Laishan facility, Beijing facility and Sichuan facility.
(5) Powders are produced at our Yantai Laishan facility.
(6) Granules are produced at our Yantai Laishan facility and Sichuan facility.
(7) Capsules are produced at our Yantai Laishan facility, Beijing facility and Sichuan facility.
(8) Gels are produced at our Yantai Laishan facility.
(9) Liquids include mixtures, alcoholic liquids and syrup. Liquids are produced at our Sichuan facility.
(10) Active pharmaceutical ingredients are produced at our Yantai Laishan facility and Nanjing facility.

All of our key products are injections or capsules. Our relatively low utilisation rates for other types of production lines primarily reflect our limited production of non-key products. The fluctuations in our utilisation rates generally reflect the level of demand for the corresponding products. The relatively significant decrease in our utilisation rate for granules primarily reflect the reduced production of less profitable granule products at our Sichuan facility.

Yantai Laishan Facility

Our Yantai Laishan facility occupies a site of approximately 58,433 square metres with a total gross floor area of approximately 26,352 square metres. It comprises manufacturing plants, offices, a laboratory building, a power building and a reception office located on three parcels of land. As of 31 December 2013, we operated 12 production lines at the Yantai Laishan facility, one of which produced lyophilised powder injections and one of which produced both small volume liquid injections and lyophilised powder injections, four of which produced oral medications including capsules, tablets, granules and powders, one of which produced gels and five of which produced active pharmaceutical ingredients. As of the Latest Practicable Date, we temporarily closed two production lines for injections to upgrade at our Yantai Laishan facility and expected to recommence their production in the fourth quarter of 2015. The key products produced at the Yantai Laishan facility are Maitongna, Lutingnuo and CMNa. These products are also produced at our Yantai Industrial Park facility.

Yantai Industrial Park Facility

Our Yantai Industrial Park facility is a newly constructed production facility, which commenced production in 2012. The facility occupies a site of approximately 132,850 square metres with a total gross floor area of approximately 43,242 square metres. It comprises a general plant, a microsphere plant, a quality control building and corridors located on a parcel of land. As of 31 December 2013, we operated three production lines at the Yantai Industrial Park facility, two of which produced lyophilised powders injection and one of which produced both small volume liquid injection and lyophilised powder injection. The key products produced at the Yantai Industrial Park facility are Maitongna, Lutingnuo and CMNa.

Nanjing Facility

Our Nanjing facility occupies a site of approximately 37,348 square metres with a total gross floor area of approximately 30,552 square metres. It comprises manufacturing plants, offices and a preparation building located on six parcels of land. As of 31 December 2013, we operated seven production lines at Nanjing facility, two of which produced lyophilised powders injection, one of which produced powders injection and four of which produced active pharmaceutical ingredients. Our key products manufactured at the Nanjing facility are Lipusu and Tiandixin.

Beijing Facility

Our Beijing facility occupies a site of approximately 48,154 square metres with a total gross floor area of approximately 32,961 square metres. It comprises manufacturing plants, a quality control centre, a preparation plant, an extraction plant, a research management building and a boiler room located on two parcels of land. As of 31 December 2013, we operated two production lines at Beijing facility, both of which produced capsules and tablets. Our key product manufactured at the Beijing facility is Xuezhikang.

Sichuan Facility

Our Sichuan facility occupies a site of approximately 49,566 square metres with a total gross floor area of approximately 22,371 square metres. It comprises manufacturing plants and offices located on four parcels of land. As of 31 December 2013, we operated six production lines at Sichuan facility, all of which produced oral medications, including capsules, tablets, granules and liquids. Our key product manufactured at the Sichuan facility is Bei Xi.

Future Expansion and Upgrade Plan

We plan to increase our production capacity by constructing new production lines, as well as to upgrade existing production lines and production facilities, to meet demand for our products. We adopt a phase by phase approach in our expansion plan, primarily taking into consideration our projected sales, and continually re-evaluate our capital expenditures and the timing of our projects based on market demand for our products, the progress of the development of our product candidates and technological developments that are relevant to our production process. We expect to complete our currently contemplated expansion and upgrade plan in 2016. The following table sets forth additional details of our expansion and upgrade plan in respect of each of our production facilities and the corresponding estimated capital expenditure for the periods indicated.

Production facility	Estimated capital expenditure through 2016	Description
Yantai Laishan and Yantai Industrial Park facilities	RMB583 million	Upgrades to two existing production lines involving lyophilised powder injection and small liquid injection products Construction of new production lines for microsphere injection
Beijing facility	RMB325 million	General production capacity expansion, including additional capsule filling and packaging capacity
Nanjing facility	RMB151 million	Upgrades to one existing injection production line
Sichuan facility	RMB51 million	General production capacity expansion, including additional capsule filling capacity Increase automation of manufacturing processes, including construction of a high-speed automatic packaging line for capsules
Total	**RMB1,110 million**	

Upon completion of our currently contemplated expansion and upgrade plan, we expect our annual production capacity for injections will reach approximately 128 million vials per year and our annual production capacity for capsules will reach approximately 2,200 million capsules per year. We believe the following factors substantiate sufficient market demand for the expected increase in our production capacity for injections and capsules:

- each of our seven key products are either injections or capsules. As of 31 December 2013, the utilisation rates of our injections and capsules production lines were 90.3% and 96.7%, respectively;

- the historical growth rates of our sales of key products;

- sales of certain of our key products and, in particular, Xuezhikang, have been historically constrained by limitations on our production capacity;

- for the past three years, we have been required to utilise a subcontracting manufacturer for the manufacture of Lutingnuo and Maitongna, and the proportion of subcontracted production of these products has steadily increased over the Track Record Period. We intend to transfer the subcontracted production of the products to our own facilities after completion of the relevant expansion plans;

- our pipeline of 22 PRC product candidates includes 13 products that are either injections or capsules, nine of which we are targeting to launch within approximately a year of completion of the current expansion plans. In addition, to complement our drug development programmes, we will continue to explore product-focused acquisitions and in-licencing opportunities for third party proprietary products; and

- our strategy to deepen our market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts.

In addition, we believe the contemplated upgrades to our production facilities would increase the efficiency of our production processes, equip us with new production technologies for our product candidates and allow us to continue to maintain an effective quality management system for our products.

We currently expect that our expansion and upgrade plan will require further capital expenditure subsequent to 31 December 2015. In 2014, 2015 and 2016, our estimated aggregate capital expenditure for the currently contemplated expansion and upgrade plan is expected to amount to approximately RMB1,110 million. We expect to incur these capital expenditures through a combination of operating cash flows and the net proceeds from the Global Offering. Please refer to "Future Plans and Use of Proceeds" for further details of our use of proceeds from the Global Offering in connection with capital expenditure projects to increase our production capabilities.

Subcontracting Arrangements

We have entered into subcontracting manufacturing agreements with an independent third party, Hangzhou Ausia Bio Tech Limited ("Ausia"), for the manufacture of Lutingnuo and Maitongna in the PRC. Ausia is a GMP certified contract manufacturing organisation established in 1993 specialising in aseptic manufacturing of lyophilised vials. We have utilised Ausia as a subcontracting manufacturer for three years.

Our selection of Ausia was based on its operating history, market reputation, track record, relevant expertise, internal quality control system, product quality, inspecting capability, state of technology used in production and GMP certification, production capacity, reliability in meeting delivery schedules, pricing, and the competence of its management.

Under our subcontracting manufacturing agreements with Ausia, we are responsible for providing raw materials and packaging materials and Ausia is responsible for manufacturing the products according to the GMP and our requirements. We inspect samples of the raw materials used by Ausia before they are used in the manufacture of our products, except for packaging materials, which are inspected by Ausia. Inspection of the finished products is carried out by Ausia and a verification process is carried out by us. We have the exclusive

rights to market and sell products manufactured by Ausia on our behalf. We are the owners of the intellectual property rights to the products and are entitled to all economic benefits from selling the products. The subcontracting fees are determined by mutual agreement and are calculated based on production volume and per unit fee. If Ausia carries out unauthorised manufacturing or sale of the products, cannot fulfil its obligations under the subcontracting agreements or breaches its confidentiality obligations, we have the right to terminate the agreements and seek compensation. Pursuant to applicable PRC regulations, our appointment or renewal of appointment of subcontractors are subject to annual approval by the relevant government agencies. Accordingly, our subcontracting manufacturing agreements with Ausia have a term concurrent with the expiry date of the relevant approval letter.

Ausia is required to adopt our production technology and comply with our quality standards, in addition to GMP and CFDA standards. We supervise and inspect the manufacturing process and the subcontractor is required to fully cooperate with our investigation for any quality defects in the products they manufacture. The subcontractor is also required to provide us all relevant permits and certificates.

Our subcontracting agreement with Ausia provides for a credit term of seven days. We intend to transfer the subcontracted production to our own facilities after the completion of our expansion plan for our two Yantai production facilities.

We also have certain subcontracting arrangements in respect of product filling for Lipascor capsules for sales to Singapore and Malaysia.

During the Track Record Period, a small portion of our revenue was derived from the sale of the products that were manufactured by subcontracting manufacturers. We did not experience any product quality issues in respect of the products manufactured by our subcontracting manufacturers on our behalf during the Track Record Period. We believe alternative subcontracting manufacturers meeting our quality standards at comparable prices are available.

Suppliers and Raw Materials

Our suppliers include suppliers of active pharmaceutical ingredients and raw materials, our subcontracting manufacturers and the manufacturer for our in-licenced product.

For 2011, 2012 and 2013, our purchases from our five largest suppliers were RMB63.2 million, RMB94.6 million and RMB137.0 million, respectively, accounting for approximately 39.5%, 45.3% and 48.9%, of our total purchases for the respective period. Our purchases from our largest supplier, Shanghai Kangjian Import and Export Co. Ltd., who is our supplier of glutathione for the manufacturing of Lutingnuo, were RMB31.5 million, RMB42.7 million and RMB57.3 million, accounting for approximately 19.6%, 20.5% and 20.5% of our total purchases for the respective period.

We have established an average of more than five years of relationship with our five largest suppliers. None of our Directors, their respective associates and any Shareholder who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company have any interest in any of our top five suppliers. We carefully select our suppliers based on various factors, including their product selection, quality, reputation and business scale. Our suppliers are not responsible for any quality defects in the products we manufacture unless the defects are directly caused by a quality problem of the raw materials supplied. During the Track Record Period, we did not experience any product recall or litigation in connection with product quality complaints.

The raw materials required for the production of our pharmaceutical products are generally readily available in the market through many suppliers. We believe we have alternative sources for our principal raw materials that can provide us with substitutes with comparable quality and prices. We have not experienced significant difficulties in maintaining reliable sources of supplies and expect to be able to maintain adequate sources of quality supplies in the future. We generally enter into supply agreements with a term of one year with our raw material suppliers. The purchase price of our raw materials is primarily based on the prevailing market prices for raw materials of similar quality. We generally contract with more than one supplier for each major type of raw material. We believe short-term agreements with raw material suppliers provide us with the flexibility to re-negotiate prices when there are fluctuations in our raw material prices. During the Track Record Period, we were able to partially pass on increases in purchase costs to our distributors. We do not believe we have experienced any discernible trends in raw material costs during the Track Record Period. Except as disclosed in the Prospectus, fluctuations in raw material costs have not had a material impact on our results of operations or gross profit margins during the Track Record Period. We may elect to enter into supply agreements with longer terms on a case-by-case basis.

Certain of our raw materials, including glutathione for Lutingnuo are imported from overseas suppliers. The import of these raw materials requires import drug licences. The import drug licence for glutathione, which was held by our overseas supplier, expired on 6 April 2014, and our overseas supplier applied to the CFDA for the renewal of the licence in October 2013. We have adopted a number of measures that we believe are adequate to prevent shortage of glutathione in the event there is any delay in the CFDA approval process, including accumulating additional inventory prior to the expiration of the licence and selecting an alternative domestic supplier. Our overseas supplier has also been granted a temporary import approval which allows us to make additional purchases of glutathione. Except for the supply agreement in respect of the purchase of glutathione for Lutingnuo, our supply agreements generally do not contain minimum purchase requirements. Pursuant to the supply agreement for glutathione, we are required to take remedial measures and compensate for losses in the event we fail to fulfil our contractual obligations. We were able to meet such minimum purchase requirement during the Track Record Period. As our purchases and revenues are primarily denominated in RMB, we do not engage in hedging transactions in our ordinary course of business.

Credit terms granted by raw material suppliers are generally up to six months. Some of our raw material suppliers require prepayments before they deliver their products to us.

Quality Management

We believe that an effective quality management system is critical to ensure the quality of our products and maintaining our reputation and success. We are required to adhere to the quality standards specified under our GMP certificate in China, and certain of our products and production lines have also obtained EU GMP certification. We have been granted ISO9001:2008 and ISO14001:2004 certificates for our quality management system and have received recognition from China National Accreditation Service for Conformity Assessment for our quality control laboratory.

We have established a systematic quality management system and standard operating procedures for our quality control and assurance functions. Our quality management department consists of quality assurance division and quality control division led by five quality managers. As of 31 December 2013, our quality assurance division had 97 employees, most of whom have pharmaceutical or related educational backgrounds. The quality assurance

division is responsible for formulating and implementing procedures under our quality management system in accordance with the GMP requirements and that our product supply chain and production processes are in compliance with stipulated standards and procedures. As of 31 December 2013, our quality control division had 88 employees, most of whom have pharmaceutical or related educational backgrounds. The quality control division is primarily responsible for the inspection of incoming active pharmaceutical ingredients and raw materials, semi-finished products and final products, as well as reviewing the stability of samples. Each of our production facilities has an integrated quality management team independent from the production team led by the general manager of the facility. We also conduct regular training so that our dedicated quality managers understand the regulatory requirements applicable to our operation of the production facilities. New employees at our production facilities receive training pertinent to their job duties, which cover topics such as pharmaceutical regulations, microbiological science, production safety knowledge, requirements under GMP certification, as well as procedures and protocols relating to quality control.

In order to satisfy requirements under GMP certification, we have established a systematic documentation system on quality management, which we believe helps us minimise risks of potential quality issues. We undertake quality inspections and document our quality control procedures at different stages of our production process from the procurement of raw materials to delivery of our products to our customers. The key aspects of our quality control procedures are as follows:

Active Pharmaceutical Ingredient and Raw Material Quality Control

We purchase active pharmaceutical ingredients and raw materials only from approved suppliers. All approved suppliers are selected by our quality assurance division, which conducts background checks on supplier candidates. Upon receiving satisfactory results of the checks, we order samples from the potential supplier to be inspected. Our quality control division inspects the quality of each batch of supplies for consistency.

Our quality management department examines our incoming active pharmaceutical ingredients and raw materials before sampling to confirm they are supplied from approved suppliers. Our warehousing personnel also inspect and verify the active pharmaceutical ingredients and raw materials by cross-checking the packaging information. Incoming active pharmaceutical ingredients and raw materials are stored in quarantined areas upon receipt until they are released for use following inspection. The quality management department subsequently selects samples for testing. Our warehousing personnel despatches active pharmaceutical ingredients and raw materials for use in our production processes that have passed the quality control tests. We adopt "first-in-first-out" and "first-expire-first-out" rules in our despatch process.

We have established a supply chain traceability system. Incoming active pharmaceutical ingredients and raw materials are required to have certificate of analysis from our manufacturers, as well as delivery sheets and purchase orders. We also assess our suppliers by carrying out on-site audits or off-site information assessment to ensure they comply with the relevant GMP requirements.

Production In-process Quality Control

Our quality assurance division is responsible for verifying that our manufacturing processes continuously accord with GMP standards. We require our production operators to adhere to standard operating and equipment operation procedures and the quality assurance

division regularly inspects our production processes on-site. After completion of each production process, we perform cleaning procedures to prevent contamination or cross contamination, and the quality control division verifies that the production line has been properly cleaned before we proceed to the next production process. All of our cleaning procedures have been tested before their implementation.

Our quality control division conducts sample testing on certain in-process products and semi-finished products at particular stages of production as required by approved procedures.

Final Product Quality Control

Each batch of our products is subject to a sample inspection by the quality control division. Before we deliver our final products to customers, the quality assurance division inspects the documentation relating to the quality of a product, including its batch records, laboratory control records, production process records and other information that may impact product quality. Authorised quality personnel conduct final review on all documents and make the final decision as to whether a specific product can be released for sale. Final products that do not meet our quality standards are destroyed or otherwise disposed of based on the judgements of our authorised quality personnel. Only final products that have passed all testing requirements can be released and sold to the market.

After-sales Service

Our quality assurance division verifies the transportation processes for our products annually. We test transportation conditions to ensure the transportation methods comply with storage and transportation requirements. Our quality assurance division also receives feedback from our distributors, hospitals, other medical institutions and end-users and handles any complaints with regard to the quality of our products. Quality complaints, both verbal and written, are documented and investigated pursuant to standard procedures. We have dedicated personnel who take compliant calls and regularly review and analyse the feedback received. We treat such feedback and complaints seriously. Upon receipt of a complaint, we conduct investigations and ensure necessary measures are taken. We have established product recall procedures and prescribed recall guidelines and processes, which specify responsible person to notify upon a recall and the handling procedure of recalled products. We carry out mock recall procedures once a year to ensure that our recall procedures are effective. As of the Latest Practicable Date, we had not recalled any of our products due to quality problems.

Inventory Management

Our inventory primarily consists of finished products and production materials, including raw materials, active pharmaceutical ingredients, excipients and other packaging materials. We have established an inventory management system that monitors each stage of the warehousing process. Warehousing personnel are responsible for receiving inspection, warehousing, storage and distribution of production materials and finished products. All materials and products are stored in different areas in warehouse according to their storage condition requirement, properties, usage and batch number. Warehousing personnel regularly check to ensure consistency among the raw material or product, logbook and material card. In 2012, we increased our target raw material inventory level to three months' stock. We increased our target inventory level in order to prevent shortages of raw materials as our production volumes increase. We provision for obsolete and slow-moving inventories on a case-by-case basis in accordance with IFRS. For 2011, 2012 and 2013, we made provision for impairment loss of our inventories in the amount of RMB1.2 million, RMB0.6 million and RMB1.8 million, respectively.

INTELLECTUAL PROPERTY RIGHTS

As of 31 December 2013, we had been granted 230 patents and had 84 pending patent applications in the PRC, and had been granted 75 patents and had 77 pending patent applications overseas. We also had 312 registered trademarks, nine registered domain names and 78 registered copyrights. Please refer to Appendix VI to this prospectus for further details of our material intellectual property rights.

We rely on intellectual property rights to protect our technologies, inventions and improvements that we believe are important to maintain the market share of our products. A substantial portion of our products, including six of our seven key products, have intellectual property rights relating principally to their delivery systems, compositions, preparation methods or production processes. Please refer to "—Our Products" above for further details of the intellectual property rights for our key products. Our patent-protected products sold in 2011, 2012 and 2013 included Lipusu, Tiandixin, CMNa, Xuezhikang, Maitongna, Lutingnuo, Okai, Olai, Keweijia, Sidinuo, Otong, Sailimai tablet, Ximingting, Nuosen capsule, Tiandida and Weilikang.

In order to protect our own intellectual property rights, we enter into confidentiality agreements with our research employees that provide that all relevant intellectual properties developed by our research staff during their employment with us become our intellectual properties and are treated as trade secrets. Our employees are required to refrain from disclosing trade secrets to any third party. Additionally, we also follow procedures to ensure that we do not infringe on the intellectual property rights of others and we are not engaged in the sale of counterfeit pharmaceutical products.

To date, we have not been sued on the basis of and have not undergone arbitration in respect of, nor have we received any notification from third parties claiming infringement of any intellectual property or sales of counterfeit pharmaceutical products. Further, to date, we have not been the subject of any adverse finding in an investigation or audit by any governmental authorities in respect of infringement of any intellectual property of third parties or sales of counterfeit pharmaceutical products. However, despite our internal control procedures, we are still subject to risks relating to intellectual property rights. Please refer to "Risk Factors—Risks Relating to Our Business and Industry—If we are unable to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly, which may have a material adverse impact on our business and results of operations." and "—If we become subject to intellectual property infringement claims, it could divert our management's attention, impair our ability to sell our products and expose us to costs and liabilities." for further details of risks relating to intellectual property rights.

COMPETITION

The pharmaceutical market in China is highly competitive and is characterised by a number of established, large pharmaceutical companies, as well as some smaller emerging pharmaceutical companies. We face competition from other pharmaceutical companies engaged in the research, development, production, marketing or sales of innovative pharmaceutical products.

Our products primarily compete with products that are indicated for similar conditions as our products on the basis of efficiency, price and general market acceptance by doctors and hospitals. The identities of our key competitors vary by product and, in certain cases, our competitors may have greater financial and R&D resources than us, may elect to focus these resources on developing, importing or in-licencing and marketing products in the PRC that are substitutes for our products and may have broader sales and marketing infrastructure with which to do so. Please refer to "—Our Products" above for further details of our major competitors in respect of our key products.

We believe that we compete primarily on the basis of brand recognition, R&D capabilities, promotion activities, sales network, product efficacy, safety, reliability and price. We believe our continued success will depend on our following capabilities: the capability to develop innovative products and advanced technologies; the capability to apply technologies to all production lines; the capability to develop an extensive product portfolio; the capability to maintain a highly efficient operational model; the capability to attract and retain talented technology development personnel; the capability to maintain high quality standards; the capability to obtain and maintain regulatory approvals; and the capability to effectively market and promote products.

LAND AND PROPERTIES

As of 31 December 2013, we owned 26 properties in the PRC ranging from a gross floor area of approximately 210 square metres to approximately 35,801 square metres, with a total gross floor area of approximately 155,478 square metres. Our owned properties are located at Yantai, Shandong Province, Nanjing, Jiangsu Province, Beijing and Luzhou, Sichuan Province, and are used as production facilities, ancillary facilities, administrative offices and R&D buildings. We had land use rights for 16 parcels of land for industrial use ranging from a site area of approximately 2,014 square metres to approximately 132,850 square metres, with a total site area of approximately 326,263 square metres on which our owned properties are constructed. As of 31 December 2013, none of our owned properties were subject to any encumbrance, mortgage, lien or pledge. The properties that are material to our Group are primarily our five production facilities. Please refer to "—Production—Our Production Facilities" above for further details of the size, use and location of each production facility.

We have obtained the building ownership certificates and the related land use right certificates for all our owned properties, except for the building ownership certificate in respect of a boiler room of our Beijing facility with a gross floor area of approximately 262 square metres. We have obtained the land use right certificate, planning permit for land use, planning permit for construction work and permit for commencement of construction work for this property. It is primarily used in relation to the air circulation and steam supply of our Beijing facility.

This property has passed the fire safety inspection by the relevant government authority as required under relevant local rules and regulations. The building ownership certificate in respect of this property is being processed. So far, we have not received any notice from the government authority raising any issues with respect to our application for the building ownership certificate for this property.

The reason that we have not obtained the building ownership certificate is due to the lead time for the government to process our application. The relevant government authority is still considering our application in its normal course of reviewing such application pending the conclusion of the completion inspection of the construction work.

As advised by our PRC legal adviser, it is not aware of any material legal impediment for us in obtaining the building ownership certificate in respect of the above property once we conclude the completion inspection of construction work and pay the requisite fees; further, in view of the fact that we have obtained all necessary approvals and licences for the construction of the property, there is no legal risk that the relevant government authorities will require us to demolish the property as a result of any violation of mandatory provisions under the relevant planning and construction laws and regulations in the PRC. On the basis of the above, our Directors believe that it is unlikely that we will not obtain the building ownership certificate. However, in the absence of the building ownership certificate, the boiler room at our Beijing facility is not permitted to be used as collateral for borrowings nor can it be bought or sold. In addition, as this property was put to use without obtaining the completion certificate for construction work, we are subject to a fine in the maximum amount of approximately RMB21,440, representing 4% of the construction cost for such property.

Further, we do not have the land use right certificate and the building ownership certificate for the employee quarters of our Nanjing facility with a gross floor area of approximately 2,779 square metres. We inherited the employee quarters when we acquired Nanjing Sike Pharmaceutical Co. Ltd. (now Nanjing Luye Sike) in 2007 and the building did not have a land use right certificate or a building ownership certificate at the time of our acquisition. As of 31 December 2013, the employee quarters was used as the dormitory for approximately 30 employees. We have obtained a certificate from Nanjing City High and New Technology Industry Development Zone Management Committee issued in March 2014 confirming that it is currently processing our application for the land use right certificate and the building ownership certificate, and it will not repossess the land or otherwise interfere with this property. In the unlikely event that we are ordered to demolish the employee quarters building, we intend to relocate the relevant employees to an alternative dormitory at a cost of approximately RMB100,000 within a reasonable period of time.

We do not expect a material difference between the valuation of our properties with title defects and the valuation that we would have attributed to these properties if they did not have such title defects. Please refer to "Risk Factors—Risks Relating to Our Business and Industry—We have not obtained the building ownership certificate in respect of a boiler room of our Beijing facility and we have not obtained title certificates for the employee quarters at our Nanjing facility." for further details of the risks with respect to our properties with title defects.

As of 31 December 2013, we leased ten properties in Yantai, Shandong Province, Nanjing, Jiangsu Province, Chengdu, Sichuan Province and Shanghai with a total gross floor area of approximately 5,923 square metres. Our leased properties are primarily used as administrative offices.

We do not engage in any property activities as defined in Rule 5.01 of the Listing Rules. The total carrying amounts of our property interests comprising buildings and construction in progress accounted for 13.9% of our total assets as of 31 December 2013, and, consequently, no single property interest had a carrying value exceeding 15% of our total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests, and, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

RISK MANAGEMENT

As a public company that was listed on the SGX-ST from 2004 to 2012, we believe we have established a sound corporate governance system and have implemented policies and procedures to manage our operational risks. In particular, we have formally established a set of internal regulations against bribery, corrupt and fraudulent activities (the "**Internal Regulations**") since 2006. The Internal Regulations provide that all employees are strictly prohibited from (i) using bribery measures to achieve performance goals, including in sales or purchases of products, (ii) providing kickbacks in sales or purchases of products, (iii) providing bonus cash or goods in commercial transactions (except for small amounts of gifts used as advertisements in accordance with customary business practice), and (iv) accepting or soliciting briberies. Employees who violate the International Regulations are subject penalties, including termination of employment. We also specify anti-bribery regulations and policies in our employee handbook and conduct on-going training programmes annually on anti-bribery law compliance to our employees. In addition, we have specified anti-bribery requirements in our contractual agreements with distributors and third party promoters.

To further enhance our anti-bribery practice, we newly adopted a code of conduct governing sales and promotional activities (the "**Code**") on 8 December 2013 that provides detailed guidelines in respect of a wide range of sales and promotion activities, including, among other things, interactions with doctors, the preparation of presentation materials, the participation in academic promotions and seminars and the provision of product samples and gifts. Our employees are required to sign a declaration at the end of the Code confirming that they have read the Code in detail and fully understand their obligations to comply with the Code requirements. Our employees also undertake in the declaration that they will bear all legal consequences for any violation of the Code. Employees who violate the Code are subject to penalties, including demotion and termination of employment. In order to prevent bribery-related activities to doctors for the purposes of influencing their acts or decisions, inducing them to do or omit to do any act in violation of their duties, or securing any improper advantage, the Code strictly prohibits (i) the use of selling and distribution expenses on doctors or medical practitioners for the purpose of securing their prescription, use or purchase of our products; (ii) the sponsorship or donation to individual doctors, medical practitioners or their departments within hospitals and medical institutions; and (iii) the offer of gifts to doctors or medical practitioners in any form of cash (including gift cards, coupons or cheques), assets (including computers, mobile phones, office equipment, furniture or employee benefits), electronic devices, lottery tickets, flight tickets unrelated to conference participation, and admission tickets for entertainment centres. The Code requires the use of accurate and objective information with supporting sources in promotion activities related to our products. Presentation materials related to promotion activities are required to be reviewed internally and contain appropriate disclaimers. The Code requires all levels of management to ensure that the actual spending of promotion expense strictly follow the annual budget, and prohibits the use of false documents to meet budget. In connection with sponsorship of conferences and academic exchange activities, the Code prohibits extravagant spending on food, catering and hospitality, and specifically requires our employees to avoid selecting places of interest as the conference destination. The Code also prohibits reimbursement of conference-related expenses to participants' accompanying guests. All samples provided are required to be clearly labelled to prevent potential misuse, and are prohibited to be used as payment for services or medical consultations. The Code prescribes that any party providing services to us is required to abide by all laws and regulations in the PRC, in particular, laws and regulations relating to the promotion of pharmaceutical products.

We believe these measures allow our employees who interact with distributors, third party promoters and KOLs to become well versed with the relevant requirements to ensure more effective management of anti-bribery compliance. We seek to ensure that our employees comply with the relevant requirements under the Internal Regulations and the Code by requiring our management to routinely monitor our employees and to provide guidance on compliance requirements. Our employee handbook contains whistleblower provisions that require our employees to report suspected bribery activities to our human resources and auditing departments. We also seek to ensure our anti-bribery regulations and policies, including our contractual requirements on anti-bribery compliance contained in distribution and promotion agreements, are communicated and emphasised to our distributors, third party promoters and KOLs. We conduct visits to our distributors and hospitals and other medical institutions covered by our third party promoters from time to time, which assists us in monitoring their compliance with anti-bribery requirements. Save for the clinical promotion incident discussed in detail under "Risk Factors—If our employees, distributors or third party promoters engage in corrupt practices, it could harm our reputation and expose us to regulatory investigations, costs and liabilities.", our Directors are not aware of any breaches of the Internal Regulations, the Code, or laws and regulations relating to the promotion and distribution of our pharmaceutical products.

In addition, we have formed an audit committee comprising three Independent Non-Executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. Our audit committee is chaired by Mr. Leung Man Kit, who has over 30 years of experience in project finance and corporate finance and has held directorships in a number of listed companies. We plan to continue strengthening our risk management policies, including anti-bribery compliances, by ensuring regular management review of relevant corporate governance measures and the implementation by each subsidiary and the corresponding departments.

LEGAL AND COMPLIANCE

Licences and Permits

As a PRC-based pharmaceutical company that develops, produces, markets and sells innovative pharmaceutical products, we are subject to regular inspections, examinations, audits and are required to maintain or renew the necessary permits, licences and certifications for our business. Our PRC legal adviser has advised that we have obtained all material requisite licences, permits and approvals for our operation.

The following table sets forth key licences, permits and certificates relating to our business and operations (apart from those pertaining to general business requirements), their respective purpose, issuing authority and expiry date:

Licence/Permit/ Certificate	Purpose	Issuing authority	Expiry date
Drug Production Licences	Production of pharmaceutical products by our Yantai Laishan facility and Yantai Industrial Park facility	Shandong Food and Drug Administration	31 December 2015
	Production of pharmaceutical products by our Beijing facility	Beijing Food and Drug Administration	23 December 2015
	Production of pharmaceutical products by our Nanjing facility	Jiangsu Food and Drug Administration	31 December 2015
	Production of pharmaceutical products by our Sichuan facility	Sichuan Food and Drug Administration	31 December 2015
Drug Trading Licence	Trading of pharmaceutical products	Shandong Food and Drug Administration	27 October 2014
GSP	Quality management of the supply of pharmaceutical products	Shandong Food and Drug Administration	23 May 2019
Medical Device Trading Licence	Trading of medical devices	Shandong Food and Drug Administration	19 December 2016
GMP (CN20120133)	Production of lyophilised powder injection at our Yantai Industrial Park facility[(1)]	CFDA	22 November 2017
GMP (SD20110009)	Production of tablets, granules, hard capsules, powders and gels at our Yantai Laishan facility	Shandong Food and Drug Administration	29 November 2016

Licence/Permit/ Certificate	Purpose	Issuing authority	Expiry date
GMP (Lu L0736)	Production of active pharmaceutical ingredient (diethylamine salicylate) at our Yantai Laishan facility	Shandong Food and Drug Administration	9 August 2015
GMP (Lu I0422)	Production of active pharmaceutical ingredient (montmorillonite) at our Yantai Laishan facility	Shandong Food and Drug Administration	31 December 2015
GMP (Lu J0484)	Production of active pharmaceutical ingredients (sodium aescinate and glycididazole) and gels at our Yantai Laishan facility[(2)]	Shandong Food and Drug Administration	31 December 2015
GMP (Lu M0798)	Production of tablets, granules, capsules, powders and active pharmaceutical ingredients (capsaicin) at our Yantai Laishan facility	Shandong Food and Drug Administration	15 February 2016
GMP (BJ20120024)	Production of tablets and hard capsules (including Chinese medicine extract) at our Beijing facility[(3)]	Beijing Food and Drug Administration	3 December 2017
GMP (CN20130523)	Production of lyophilised powder injection and powder injection at our Nanjing facility[(4)]	CFDA	22 December 2018
GMP (CN20130535)	Production of lyophilised powder injection at our Nanjing facility[(5)]	CFDA	22 December 2018

Licence/Permit/ Certificate	Purpose	Issuing authority	Expiry date
GMP (JS20120097)	Production of active pharmaceutical ingredients (lentinan, selegiline hydrochloride, amfebutamone hydrochloride) at our Nanjing facility	Jiangsu Food and Drug Administration	10 January 2018
GMP (SC20130002)	Production of tablets, capsules, granules, mixtures, alcoholic liquids, syrups (including extracts from pre-treated Chinese medicine) at our Sichuan facility(6)	Sichuan Food and Drug Administration	2 April 2018
GMP (CN20140076)	Production of lyophilised powder injection and small volume parenteral solution at our Yantai Industrial Park facility(7)	CFDA	17 February 2019

Notes:

(1) The production lines are used for the manufacture of Lutingnuo.

(2) The production lines are used for the manufacture of Maitongna and CMNa.

(3) The production lines are used for the manufacture of Xuezhikang.

(4) The production lines are used for the manufacture of Tiandixin.

(5) The production lines are used for the manufacture of Lipusu.

(6) The production lines are used for the manufacture of Bei Xi.

(7) The production lines are used for the manufacture of Maitongna and Lutingnuo.

The renewal procedures for the above key licences, permits and certificates are to be carried out six months prior to the expiration dates with the exception of GSP certificate, the renewal of which is to be carried out three months prior to its expiration date. Our Drug Trading Licence expires on 27 October 2014 and we submitted our application for renewal in May 2014. Our Directors are not aware of any reason that would cause or lead to the non-renewal of the licences, permits and certificates. Our PRC legal adviser confirmed that as of the Latest Practicable Date, there was no legal impediment for us to renew the licences, permits and certificates as long as we comply with the relevant requirements.

Please refer to "Regulations" for further details of the licences, permits and certificates required for our business.

Legal Proceedings

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or administrative proceedings of material importance and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of the Group.

As confirmed by our PRC legal adviser, we have complied in all material aspects with all applicable laws and regulations in the PRC during the Track Record Period.

EMPLOYEES

As of 31 December 2013, we had 3,289 full-time employees, of which 3,270 were located in China and 19 were located in Singapore and Malaysia. The table below sets forth a breakdown of our total number of employees by function as of 31 December 2011, 2012 and 2013:

	As of 31 December					
	2011		2012		2013	
	Number of employees	%	Number of employees	%	Number of employees	%
Department						
Manufacture	632	22.8	717	23.9	868	26.4
R&D	231	8.4	249	8.3	266	8.1
Quality management, quality control and quality assurance	139	5.0	167	5.6	190	5.8
Sales, marketing and promotion	1,200	43.3	1,323	44.0	1,372	41.7
Others	569	20.5	548	18.2	593	18.0
Total	**2,771**	**100.0**	**3,004**	**100.0**	**3,289**	**100.0**

Our employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. The PRC government requires us to provide work-related injury insurance for each of our employees who have entered into employment contracts with us. Our Directors consider that we maintain a good relationship with our employees.

The remuneration package for our employees generally includes salary and bonuses. We conduct periodic performance reviews for our employees, and their remuneration is performance-based. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. As required by applicable PRC regulations, we participate in various employee benefit plans that are organised by municipal and provincial governments, including housing funds, pension, medical, maternity and unemployment benefit plans.

We recruit our employees based on a number of factors, including their work experience, educational background and the needs of our vacancies. We provide regular training to employees. The training is designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about our Company and our products and sales, laws and regulations applicable to our operation, requirements under GMP certification, quality control, workplace safety and corporate culture. We evaluate our training results every year and adjust training programmes accordingly for the coming year. We believe that these programmes have enhanced the productivity of our employees.

Our Directors and PRC legal adviser confirmed that we have complied with applicable employment laws and regulations in all material respects and there have been no outstanding material labour related legal proceedings or disputes against us as of the Latest Practicable Date.

INSURANCE

We maintain property insurance covering our production facilities and equipment that we believe are sufficient in accordance with customary industry practice, as well as social welfare insurance in accordance with the relevant laws and regulations in the PRC. We do not carry any product liability insurance or business interruption insurance, which are not mandatory under PRC law as confirmed by our PRC legal adviser. Please refer to "Risk Factors—Our insurance coverage is limited; if we experience uninsured losses it could adversely affect our financial condition and results of operations." for further details of risks relating to our current insurance coverage. To minimise our product liability risk, we have instituted quality control measures in order to avoid or reduce the incidence of product defects. Please refer to "—Production—Quality Management" above for further details of our quality control system. Our Directors are of the view that our current insurance coverage is in line with industry practice and is adequate for our operations.

HEALTH AND OCCUPATIONAL SAFETY

We are subject to various PRC laws and regulations in respect of health and occupational safety. We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. We have adopted and maintained a series of rules, standard operating procedures and measures to maintain a healthy and safe environment for our employees, including those required under the GMP certification. For example, we construct and maintain all of our production facilities in accordance with the GMP certification. We also engage qualified inspectors each year to carry out on-site monitoring of our waste water, noise and boiler emission control, the results of which show that we have complied with relevant PRC laws and regulations. We require new employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures. In particular, we invite experts on fire control safety to conduct training sessions and regularly perform emergency evacuation drills to reduce risks associated with potential fire accidents. Additionally, we appoint qualified consulting firms to conduct on-site safety assessment and hazard identification, which help us enhance our overall health and safety management effectiveness. As of the Latest Practicable Date, we had not experienced any material accidents in the course of our operation and our Directors were not aware of any claims for personal or property damages in connection with health and occupational safety.

ENVIRONMENTAL MATTERS

Our business is subject to national, provincial and local environmental laws and regulations of the PRC. The relevant laws and regulations applicable to pharmaceutical productions in the PRC include provisions governing air emissions, water discharge, prevention and treatment of sewage and exhaust fumes and the management and disposal of hazardous substances and waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in new construction projects to ensure that the production processes meet the required environmental standards to treat wastes before the wastes are discharged. The relevant environmental laws and regulations empower certain governmental authorities to shut down any enterprise that materially violates such laws and regulations through the discharge of pollutants.

The main pollutants generated during our production process include waste water, waste gas and solid waste. We have established a pollution control system in order to comply with GMP, GSP, ISO9001:2008 and ISO14001:2004 certification requirements as well as other applicable laws and regulations. For solid waste, we generally contract with qualified sanitation companies or recycling companies for special treatment. We seek to reduce, treat and recycle the waste generated in our production process and improve our production technique to reduce the pollutants we discharge to the environment. For 2011, 2012 and 2013, our cost of compliance with applicable environmental rules and regulations was approximately RMB1.4 million, RMB4.6 million and RMB2.0 million. These costs do not include historical capital expenditure on property, plant and equipment that may be attributable to environmental compliance. We expect that our cost of compliance with applicable environmental rules and regulations will not materially deviate from the 2013 level. We believe we have maintained good relationship with the communities surrounding our production facilities.

During the Track Record Period, the level of chemical oxygen demand ("**COD**") of water discharged by Beijing WPU exceeded the prescribed standard applicable in Beijing. In 2011, Beijing Haidian Environmental Protection Bureau issued an order requesting Beijing WPU to reduce the level of COD within a prescribed deadline, and issued an administrative sanction decision imposing a fine of RMB42,462.96 on Beijing WPU. We settled the fine in full in July 2011 and rectified the COD level within the imposed deadline. The COD of water discharged by Beijing WPU has been reduced to and maintained at a level below the prescribed standard applicable in Beijing. Our Directors confirmed that the above administrative sanction did not have any material impact on the operations of Beijing WPU. Except as disclosed above, Beijing WPU was not a subject of any other administrative sanctions for any breach of environmental protection laws during the Track Record Period. Our PRC legal adviser confirmed that, except as disclosed in this prospectus, as of the Latest Practicable Date, we had fully complied with all applicable laws and regulations relating to production safety and environmental requirements in all material respects.

You should read the following discussion in conjunction with the consolidated financial statements included in the Accountants' Report and the notes thereto included in Appendix I to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with IFRS.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

The financial information extracted from our consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 included in this prospectus is audited. Financial information as of or for any period subsequent to 31 December 2013 included in this prospectus is derived from management accounts and is therefore unaudited.

OVERVIEW

We focus on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism. Our product portfolio consists of 29 products and centres around seven key products, six of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. Our sales of patent protected products accounted for 92.2%, 85.9% and 83.6% of our total revenue for 2011, 2012 and 2013, respectively. We have strong R&D and sales and marketing capabilities. We also have a proven track record of identifying, acquiring and integrating pharmaceutical companies with market-leading drugs and technologies.

All of our key products are competitively positioned in one of our three key therapeutic areas and have gained top-ranking market shares measured by revenue. For 2011, 2012 and 2013, our revenue from sales of our seven key products was RMB1,577.6 million, RMB1,864.6 million and RMB2,215.1 million, respectively, accounting for 88.9%, 87.3% and 88.1% of our total revenue for the respective period, representing a CAGR of 18.5% over the period.

We currently market and sell six oncology products, including three of our key products, and our product pipeline includes eight additional oncology product candidates that are in various stages of development. For 2011, 2012 and 2013, our revenue from sales of oncology products was RMB799.9 million, RMB940.8 million and RMB1,102.2 million, respectively, accounting for 45.1%, 44.1% and 43.8% of our total revenue for the respective period, representing a CAGR of 17.4% over the period. We currently market and sell six cardiovascular system products, including two of our key products. For 2011, 2012 and 2013, our revenue from sales of cardiovascular system products was RMB613.9 million, RMB630.7 million and RMB723.1 million, respectively, accounting for 34.6%, 29.5% and 28.7% of our total revenue for the respective period, representing a CAGR of 8.5% over the period. We currently market and sell eight alimentary tract and metabolism products, including two of our key products, and our product pipeline includes four additional alimentary tract and metabolism product candidates. For 2011, 2012 and 2013, our revenue from sales of alimentary tract and metabolism products was RMB280.0 million, RMB451.1 million and RMB575.2 million, respectively, accounting for 15.8%, 21.1% and 22.9% of our total revenue for the respective period, representing a CAGR of 43.3% over the period.

We primarily sell our products within the PRC. For 2011, 2012 and 2013, our revenue from sales to customers in the PRC was RMB1,754.2 million, RMB2,116.5 million and RMB2,495.1 million, respectively, accounting for 98.9%, 99.1% and 99.2% of our total revenue for the respective period. We also sell pharmaceutical products and active pharmaceutical ingredients to six other countries on a more limited basis.

We generate demand for our pharmaceutical products from hospitals and medical institutions through our sales and marketing activities, including academic promotion, and generate revenue by selling our pharmaceutical products to distributors who, in turn, sell our products to hospitals and other medical institutions, either directly or through their sub-distributors. Our sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 employees, over 500 third party promoters and over 800 distributors that collectively enabled us to sell our products to 30 provinces, autonomous regions and municipalities throughout the PRC and to over 8,000 hospitals in 2013.

We believe our ability to develop and commercialise innovative pharmaceutical products through our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. As of 31 December 2013, we had a pipeline of 22 PRC product candidates in various stages of development that we are targeting to launch by 2020. These candidates included eight oncology products and four alimentary tract and metabolism products, as well as ten products within the central nervous system therapeutic area. As of 31 December 2013, we had been granted 230 patents and had 84 pending patent applications in the PRC, and had been granted 75 patents and had 77 pending patent applications overseas.

Over the longer term, we intend to become a leading pharmaceutical company globally. We believe we are one of the first Chinese pharmaceutical manufacturers to conduct clinical trials in international markets, including the United States. As of 31 December 2013, we had a pipeline of seven product candidates for overseas markets, including four clinical-stage product candidates being developed for approval in the U.S. market.

Our production activities are carried out at five facilities, two located in Yantai, Shandong Province, one located in Nanjing, Jiangsu Province, one located in Beijing and one located in Luzhou, Sichuan Province. As of 31 December 2013, we operated a total of 30 production lines at these facilities.

For 2011, 2012 and 2013, our total revenue was RMB1,774.4 million, RMB2,135.9 million and RMB2,515.1 million, respectively, representing a CAGR of 19.1% over the period. For 2011, 2012 and 2013, our net profit was RMB166.2 million, RMB175.6 million and RMB327.9 million, respectively, representing a CAGR of 40.5% over the period. For 2011, 2012 and 2013, our gross profit margin was 83.0%, 83.5% and 83.6%, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations have been, or may expected to be in the future, significantly affected by a number of factors, many of which may be beyond our control. A discussion of certain of the key factors is set out below.

The Growth of the Pharmaceutical Market in the PRC

We believe that the overall growth of the PRC pharmaceutical market has significantly impacted, and will continue to significantly impact, our revenue growth. According to Espicom, the total pharmaceutical market in China grew from USD34.5 billion in 2008 to USD69.7 billion in 2012, representing a CAGR of 19.3%. Our total revenue increased by 41.7% from RMB1,774.4 million in 2011 to RMB2,515.1 million in 2013. Our revenue from sales of oncology, cardiovascular system and alimentary tract and metabolism products grew at a CAGR of 17.4%, 8.5% and 43.3% from 2011 to 2013, respectively.

According to Espicom, the pharmaceutical market in the PRC is expected to grow at a CAGR of 18.8% from 2013 to 2017. We believe we are well positioned to capture the expected growth within China's pharmaceutical market through our focus on oncology, cardiovascular system and alimentary tract and metabolism, which are three of the largest and fastest growing therapeutic areas in the PRC, as well as central nervous system, which we expect to become one of our key therapeutic areas following the planned launch of several product candidates that are currently in various stages of development. Please refer to "Industry Overview—Pharmaceutical Market in China" for further details of the expected growth of the PRC pharmaceutical market.

Our Development and Commercialisation of New Pharmaceutical Products

We believe our ability to develop innovative pharmaceutical products through our R&D capabilities will be the driving force behind our long-term competitiveness, as well as our future growth and development. Our market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas, with a focus on those candidates that have the potential for future commercialisation in global markets. We balance clinical development risk by strategically allocating our efforts between proprietary formulations of proven compounds and new chemical entities. We prioritise our R&D spend on product candidates that we believe have the greatest potential, and have increasingly focused our R&D spend on key product candidates within the central nervous system therapeutic area. For 2011, 2012 and 2013, our R&D costs were RMB134.9 million, RMB134.4 million and RMB194.1 million, respectively, accounting for 7.6%, 6.3% and 7.7% of our total revenue for the respective period.

As of 31 December 2013, we had a pipeline of 22 PRC product candidates that we are targeting to launch by 2020, including eight in oncology, four in alimentary tract and metabolism and ten in central nervous system. Among these 22 PRC product candidates, four are pending approval for production, seven are at various stages of clinical trials, six are pending approval to enter clinical trials and five are at pre-clinical stage. Please refer to "Business—Research and Development—Our Products under Development" for further details of our PRC product candidates.

We expect we will begin preparing for the marketing and promotion of each new product one year before its expected launch date to help maximise sales, but which also requires us to incur marketing and promotion expenses prior to the recognition of associated revenue. We expect accelerated growth in sales of our new products during the first three years after launch, followed by an extended period of steady growth. Consequently, based on our current pipeline of product candidates, we are targeting to begin to derive substantial revenue growth from the commercialisation of our current product candidates beginning in 2016.

We expect that our internal sales force will be the primary force for the marketing and promotion of our new products and, consequently, we will continue to increase the efficiency of our internal sales and marketing efforts. In order to successfully commercialise the central nervous system products that we expect to develop and launch, we intend to begin forming a dedicated sales team focused on central nervous system products from 2015 and will continue to expand the team in light of the expected development of our product candidates in this therapeutic area.

Our ability to successfully develop and commercialise our new pharmaceutical products and develop central nervous system as a key therapeutic area in the manner we contemplate and to achieve the sales we expect is subject to a number of risks and uncertainties, many of which are beyond our control. Please refer to "Risk Factors—New product development is time-consuming and costly, and the outcome is uncertain; if we fail to develop and commercialise new pharmaceutical products, our business prospects could be adversely affected." for further details of the risks relating to the development and commercialisation of new pharmaceutical products.

We also had a pipeline of seven product candidates for overseas markets as of 31 December 2013, including four clinical-stage product candidates being developed for approval in the U.S. market. For overseas market product candidates, we will seek to maximise the potential value of our product candidates by pursuing flexible development, partnership and commercialisation strategies tailored to the target market. In particular, for developed markets we may seek co-development partners for our product candidates. However, we may elect not to, or may be unable to, establish co-development relationships for our overseas product candidates. In the event we do not form such relationships, we expect that our R&D costs may substantially increase as a result of the progression of our R&D efforts for overseas product candidates, particularly as a result of the costs of U.S. clinical trials. Please refer to "Risk Factors—We may rely on third parties for aspects of the development and marketing of new pharmaceutical products overseas; if we are unable to establish or maintain such relationship with an appropriate partner, or if our partner is unable to deliver effectively or at all, our business prospects could be adversely affected." for further details of the risks and uncertainties involved.

The Inclusion of Our Products in the Medical Insurance Catalogues and the National List of Essential Drugs and Related PRC Price Controls

Under the national medical insurance programme in the PRC, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products listed in the Medical Insurance Catalogues or the National List of Essential Drugs. According to the PRC National Bureau of Statistics, approximately 536.4 million and 473.4 million people in China were enrolled in the national medical insurance programme as of 31 December 2011 and 2012, respectively. Consequently, the inclusion or exclusion of a pharmaceutical product in the Medical Insurance Catalogues or the National List of Essential Drugs will significantly affect the demand for the product in the PRC. As of the Latest Practicable Date, 19 of our pharmaceutical products were included in the national Medical Insurance Catalogue. These 19 products included five of our key products, Maitongna, Bei Xi, Xuezhikang, CMNa and Lutingnuo. For 2011, 2012 and 2013, our revenue from sales of these 19 products accounted for approximately 54.2%, 55.4% and 56.0% of our total revenue for the respective period. As of the Latest Practicable Date, an additional seven of our products were included in the relevant provincial Medical Insurance Catalogues. These seven products included two of our key products, Lipusu and Tiandixin. For 2011, 2012 and 2013, our revenue from sales of these seven products accounted for approximately 44.3%, 43.4% and 43.0% of our total revenue for

the respective period. We believe the inclusion of these products in the Medical Insurance Catalogues or the National List of Essential Drugs has significantly increased our sales volumes for these products. Our ability to maintain or increase our sales volumes for these products in the future, as well as to achieve the sales volumes we expect for new products we introduce in the PRC, will significantly depend on the inclusion of these products in the relevant Medical Insurance Catalogues or the National List of Essential Drugs.

However, our pharmaceutical products included in the Medical Insurance Catalogues or the National List of Essential Drugs are subject to price controls by the NDRC, either at the national level or the provincial level. Price controls are mainly in the form of fixed or maximum retail prices for pharmaceutical products, which indirectly limit the wholesale prices at which we can sell the relevant products to distributors. Retail prices of pharmaceutical products under price controls are determined based on a variety of factors including the profit margins that the relevant government authorities deem reasonable, the product's type, quality and production costs, as well as the prices of substitute pharmaceutical products.

In August and September 2011, the NDRC lowered the maximum retail prices of certain pharmaceutical products, including two of our key products, Maitongna and Bei Xi. For 2011, 2012 and 2013, revenue from the sale of both products collectively accounted for 15.7%, 20.6% and 22.8% of our total revenue. The NDRC reduced the maximum retail prices of both products by an average of 15%. Our average selling price of Maitongna decreased by approximately 3% in 2012, as compared to 2011. The lowering of the maximum retail price on Bei Xi did not have a discernible effect on our average selling price for Bei Xi.

In May 2012, the NDRC lowered the maximum retail prices of certain pharmaceutical products, including one of our key products, Lutingnuo. For 2011, 2012 and 2013, revenue from the sale of Lutingnuo accounted for 10.8%, 9.9% and 9.1% of our total revenue for the respective period. The NDRC reduced the maximum retail price of this product by approximately 19%. Our average selling price of Lutingnuo decreased by approximately 5% in 2012, as compared to 2011.

In October 2012, the NDRC introduced a maximum retail price for CMNa. Prior to this, there was no maximum retail price set by the NDRC for CMNa. Our average selling price of CMNa decreased by approximately 3% in 2013, as compared to 2012.

During the Track Record Period, the lowering of the maximum retail prices for those products affected by the NDRC price adjustments did not have a material adverse impact on our results of operations. For 2011, 2012 and 2013, our total revenue was RMB1,774.4 million, RMB2,135.9 million and RMB2,515.1 million, respectively, representing a CAGR of 19.1% over the period. For 2011, 2012 and 2013, our gross profit was RMB1,473.3 million, RMB1,784.1 million and RMB2,101.6 million, respectively, representing a CAGR of 19.4% over the period. For 2011, 2012 and 2013, our gross profit margin was 83.0%, 83.5% and 83.6%, respectively. However, controls over and adjustments to retail prices of pharmaceutical products, if significant, could have a corresponding impact on the prices at which we sell such products to our distributors, and consequently our gross profits and gross profit margins. Please refer to "Risk Factors—The retail prices of certain of our products, including most of our key products, are subject to price controls, including periodic downward adjustments, by the PRC government authorities." for further details of risks associated with price controls.

To mitigate the risks associated with potential price control measures imposed on our products and to lessen the potential impact on our business and results of operations, we will seek to continue to expand our product portfolio to reduce our reliance on any single product or small group of products. We will also continue to monitor and adjust our product portfolio with targeted focus on higher margin products to mitigate the potential impact of future price control measures on our overall profitability.

The Centralised Tender Processes for Sales to PRC Public Medical Institutions

A substantial portion of the products we sell to our customers are then sold to public hospitals and other medical institutions owned or controlled by government authorities in China. Each public medical institution must make substantially all of their purchases of pharmaceutical products through a centralised tender process. We submit bids in a tender process to supply our products to these institutions at specified prices. Our bids are generally considered on the basis of price relative to substitute products and their clinical effectiveness, as well as the quality of our products and services among other things. If we are successful in winning bids in a centralised tender process, the relevant products will be sold to the public medical institutions at the bid prices, which in part determine the prices at which we sell our products to our distributors. The centralised tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our bidding strategy generally focuses on differentiating our products instead of competing solely based on pricing. Thus, our sales volumes and profitability depends on our ability to successfully differentiate our products and price our bids in a manner that enables us to succeed in the centralised tender processes at profitable levels.

If we are unable to differentiate our products or are otherwise not successful in winning bids in the centralised tender processes at profitable levels in the future, we will lose the revenue associated with the sale of the affected pharmaceutical products to the relevant public hospitals and other medical institutions. Please refer to "Risk Factors—Risks Relating to Our Business—If we are unable to win bids to sell our products to PRC public hospitals through the centralised tender processes, we will lose market share and our revenues and profitability could be adversely affected." for further details of the risks associated with the centralised tender process.

Our Acquisitions of Pharmaceutical Products and Pharmaceutical Companies

Acquisitions of pharmaceutical products and pharmaceutical companies have significantly contributed to our historical growth and expansion into new therapeutic areas. We hold the rights to five of our seven key products as a result of acquisitions, and acquisitions have formed the basis of our entry into two of our three key therapeutic areas. In general, we integrate acquired companies by: (i) streamlining their sales and marketing, R&D, operations and finance functions using our industry experience and business models; (ii) restructuring their sales and marketing models by leveraging our existing sales and marketing infrastructure so as to increase the direct marketing and promotion of these products; (iii) providing access to our extensive network of hospitals and other medical institutions coverage; and (iv) upgrading their production facilities to improve efficiency.

During the Track Record Period, we acquired Sichuan Luye, which allowed us to enter the field of diabetes and add new products in gastroenterology, and turned alimentary tract and metabolism into a key therapeutic area for us. We have consolidated the accounts of Sichuan Luye into our accounts since 1 July 2011. The key product we acquired through our acquisition

of Sichuan Luye is Bei Xi. Prior to our acquisition, Bei Xi was marketed using a third party promotional model. Following our acquisition, we began to also market and promote Bei Xi using our internal sales and marketing infrastructure. Our revenue from sales of Bei Xi was RMB153.7 million in 2012, the first full financial year following its acquisition, and has increased to RMB238.9 million in 2013, representing growth of 55.4%.

We intend to continue to accelerate our business growth through selective acquisitions of suitable pharmaceutical companies. However, our ability to successfully consummate acquisitions and grow our business through such acquisitions is subject to a number of risks and uncertainties, many of which are beyond our control. Please refer to "Risk Factors—We intend to grow our business in part through acquisitions; if we fail to successfully complete acquisitions or enhance post-acquisition performance in the future, it could have an adverse effect on our business prospects." for further details of the risks and uncertainties involved.

Our Preferential Tax Treatments

We currently benefit from a number of preferential tax treatments, as well as tax concessions and tax allowances. In particular, four of our five principal PRC operating subsidiaries, Shandong Luye, Nanjing Luye Sike, WPU and Sichuan Luye, qualified as High and New Technology Enterprises over the Track Record Period and have benefited from a preferential PRC income tax rate of 15%, rather than the 25% income tax rate generally applicable to PRC tax resident enterprises under the EIT Law. For 2011, 2012 and 2013, our tax liabilities were reduced by RMB25.0 million, RMB29.5 million and RMB37.7 million, respectively, as a result of such preferential tax treatments. For 2011, 2012 and 2013, our tax liabilities were reduced by RMB30.4 million, RMB38.4 million and RMB49.5 million, respectively, as the cumulative effect of the preferential tax treatments, tax concessions and tax allowances we received.

Our tax rates directly impact our profitability, and we expect that our results of operations will continue to be positively affected by preferential tax treatments, tax concessions and tax allowances, including that these four operating subsidiaries will continue to qualify as and benefit from being High and New Technology Enterprises. However, qualification as a High and New Technology Enterprises is re-evaluated every three years. The qualifications of these four operating subsidiaries as High and New Technology Enterprises will expire during 2014. Each of these operating subsidiaries will only continue to receive the High and New Technology Enterprises preferential tax treatment if the relevant authorities determine that these subsidiaries continue to qualify, which depends on a number of factors, including whether the subsidiary has its own independent, core intellectual property rights, whether the subsidiary's products fall within the scope of supported high and new technology, whether the subsidiary's R&D expenses as a percentage of revenue reaches certain threshold percentages and whether the subsidiary's R&D staff as a percentage of total number of staff reaches certain threshold percentages.

Our preferential tax treatments, tax concessions and tax allowances may fail to be renewed, change, terminate, or otherwise become unavailable to us due to many factors, many of which are beyond our control. Please refer to "Risk Factors—Risks Relating to our Business and Industry—If our preferential tax treatments, tax concessions and tax allowances are not received, become unavailable or otherwise change or terminate, it could adversely affect our profitability." for further details of the risks and uncertainties involved.

Our Efforts to Improve Profitability

We have begun to implement measures to increase our efficiency in various aspects of our business that we believe will increase our profitability. Our net profit margin increased to 13.0% in 2013, as compared to 8.2% and 9.4% in 2012 and 2011, respectively.

With respect to our production operations, we have increased our production capacity, enhanced our automation and regularly upgraded our production facilities. We believe the investment we have made in these improvements will lead to a reduction in our per unit manufacturing costs as we begin to increase our utilisation rates in response to increasing demands for our products. We intend to continue to enhance the automation of our production capabilities, control inflation of our manufacturing costs and continuously upgrade our existing production facilities in order to increase our production efficiency.

With respect to our sales and marketing activities, we began a study of our selling and distribution expenses in mid-2012 and are undertaking a series of changes and initiatives to adjust our marketing and promotion spend away from regions and products where marketing and promotion expenditure has lower returns and increase our overall sales efficiency. As a result, our selling and distribution expenses as a percentage of revenue decreased to 54.8% in 2013, as compared to 56.6% and 55.2% in 2012 and 2011, respectively. We intend to continue to focus our marketing efforts on more profitable regions and products, and reduce or eliminate our sales and marketing spend on those that are less profitable. We also believe the increasing use of internal sales teams will help us achieve greater sales efficiency.

We also believe the continued expansion of our product portfolio will enable us to achieve significant operational efficiencies that will further drive our profitability. In particular, we believe an expanded product portfolio will enable us to achieve greater sales efficiency by leveraging the existing relationships of our internal sales force within their respective therapeutic areas to drive additional revenues through our existing sales channels. We also believe an expanded portfolio will enable us to fully maximise our production capacity and increase our returns on our investment in our production facilities.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared in accordance with IFRSs to this prospectus. Preparation of our individual and consolidated financial information requires us to make estimates and judgements in applying certain critical accounting policies which may have a significant impact on our consolidated results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. The following discussion provides supplemental information on our critical accounting policies, certain of which require estimates and assumptions from our Directors.

Revenue Recognition on the Sale of Pharmaceutical Products

We recognise revenue from the sale of pharmaceutical products when we transfer to the buyer, typically one of our distributors, the significant risks and rewards of ownership, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. When we sell our products to distributors, they are typically required to inspect the pharmaceutical products on delivery, and must notify us and obtain our written consent before damaged products can be returned or exchanged. Any products that have been accepted on delivery are not eligible for returns. Consequently, we typically recognise revenue from the sale of pharmaceutical products at the invoice price once our distributors have accepted our products for delivery. Please refer to Note 2.3 "Summary of Significant Accounting Policies—Revenue Recognition" to the Accountants' Report included in Appendix I to this prospectus for further details of our revenue recognition accounting policy.

Acquired Goodwill and Impairment of Acquired Goodwill

We initially measure goodwill in connection with our acquisitions at cost—the excess of the aggregate of the consideration we pay over the identifiable assets we acquire and liabilities we assume. After initial recognition, we measure acquired goodwill at cost less any accumulated impairment losses. We test goodwill for impairment annually at 31 December or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, we allocate acquired goodwill to each of our cash-generating units, or groups of cash-generating units, that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

We test for impairment by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, we recognise an impairment loss. Impairment testing requires us to estimate the value in use of the cash-generating units or group of cash-generating units to which we have allocated the goodwill. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In order to estimate our expected future cash flows from the cash-generating units we are required to make assumptions regarding the future gross margins and operating expenses of the cash-generating units, as well as the expected growth rate of the cash generating units. We estimate gross margins based on the average gross margins achieved in the year immediately before the budgeted year, and such margins are increased over the budget period for anticipated efficiency improvements. Our estimates on operating expenses reflect our past experience and our commitment to maintain operating expenses at an acceptable level. Our assumptions on growth rates are based on published industry research, and for periods beyond five years we have assumed a growth rate of 3%. The pre-tax discount rates we use are before tax and reflect specific risks relating to the relevant unit. As of 31 December 2011, 2012 and 2013 we used a pre-tax discount rate of 14%, 14% and 15%, respectively.

As of 31 December 2013, the carrying value of our acquired goodwill was RMB347.4 million, including RMB159.1 million recognised in 2011 in connection with our acquisition of Sichuan Luye, and we did not recognise impairment losses against acquired goodwill during the Track Record Period. However, the estimates and assumptions that we use in impairment testing of acquired goodwill are subject to change and may prove inaccurate as a result of a number of factors, including changes in the growth rates, margins and operating expenses of the relevant cash-generating units or our budgets with respect thereto. If our estimates and assumptions adversely change as a result of these or other factors, it could require us to recognise an impairment loss in respect of acquired goodwill in future periods. We do not reverse impairment losses on goodwill in subsequent periods. Although we have generally achieved the growth rates and margins forecast by our budgets, we periodically adjust these assumptions, as well as our discount rate, in response to market conditions.

Please refer to Note 2.3 "Summary of Significant Accounting Policies—Investment in an Associate and—Business Combination and Goodwill", Note 3 "Significant Accounting Judgements, Estimates and Assumptions—Estimation and Assumptions—Impairment of Goodwill" and Note 16 "Goodwill" to the Accountants' Report included in Appendix I to this prospectus for further details of accounting policies for goodwill and goodwill impairment, the estimations and assumptions involved therein, and the components of our acquired goodwill during the Track Record Period.

Impairment of Trade and Other Receivables

We regularly monitor our overdue trade and other receivables and assesses at the end of each reporting period whether there is objective evidence that our trade and other receivables are impaired. We deem trade and other receivables to be impaired if there is objective evidence of impairment as a result of events that have occurred after initial recognition of the receivable, and that such events impact on the recoverability of the receivable. Our assessment of recoverability requires us to make judgements and estimates based on indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that such debtors will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decreased recoverability, such as changes in arrears or economic conditions that correlate with defaults. These judgements and estimations are, by their nature, subject to considerable uncertainty. Our assessment of recoverability may change as further development occurs, and if we are required to revise our estimates or the actual amount recovered on our trade and other receivables is different from our original estimate, such differences will require us to revise the carrying values of the trade and other receivables and possibly recognise further impairment losses in the period in which our estimate is revised or the actual recoverability determined.

Please refer to Note 3 "Significant Accounting Judgements, Estimates and Assumptions—Estimation and Assumptions—Impairment of Trade and Other Receivables"; Note 22 "Trade and Notes Receivables"; and Note 23 "Prepayments, Deposits and Other Receivables" to the Accountants' Report included in Appendix I to this prospectus for further details of estimations and assumptions for impairment of trade and other receivables and the components of our trade and other receivables during the Track Record Period.

Useful Lives and Impairment of Property, Plant and Equipment

Our property, plant and equipment primarily consist of our production and R&D-related buildings, as well as other facilities and related equipment (including construction in progress). We state property, plant and equipment, other than construction in progress, at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment generally comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. We depreciate property, plant and equipment on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. We estimate the useful lives of property, plant and equipment as follows:

Buildings	10 – 40 years
Machinery and equipment	5 – 10 years
Motor vehicles	5 – 10 years
Computer and office equipment	3 – 10 years

Within these parameters, we determine the estimated useful lives and related depreciation charges for property, plant and equipment based on our historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We review and adjust, if appropriate, the useful lives and the depreciation method for property, plant and equipment at least at each financial year end. Our reviews could cause our useful life estimates to change significantly, particularly as a result of technical innovations and competitor actions in response to severe industry cycles. If we estimate the useful lives of property, plant and equipment to be shorter than previously estimated lives, we are required to increase depreciation charges and to write off or write down technically obsolete or non-strategic assets that have been abandoned.

We assess whether there are any indicators of impairment for our property, plant and equipment only when there are indicators that the carrying amounts for such assets may not be recoverable. An impairment exists when the carrying value of the relevant asset or, if the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the relevant cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, we estimate future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to do so, we must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. If we recognise an impairment loss, it is charged to our income statement in the period in which it arises in expense categories consistent with the function of the impaired asset. We assess at the end of each reporting period whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, we again estimate the recoverable amount and we reverse a previously recognised impairment loss only if there has been a change in the estimates we used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

We generally conduct an extensive analysis of the expected future cash generation capacity of our investment in plant, property and equipment at the time we make the relevant capital expenditure, and consequently, we have not had material instances of impairment to plant, property and equipment due to obsolesce or otherwise during the Track Record Period.

Please refer to Note 2.3 "Summary of Significant Accounting Policies—Impairment of Non-financial Assets and—Property, Plant and Equipment and Depreciation"; Note 3 "Significant Accounting Judgements, Estimates and Assumptions—Estimation and Assumptions—Impairment of Non-financial Assets (Other than Goodwill) and—Estimation and Assumptions—Useful Lives of Property, Plant and Equipment"; Note 14 "Property, Plant and Equipment"; and Note 17 "Other Intangible Assets" to the Accountants' Report included in Appendix I to this prospectus for further details of accounting policies for impairment of other non-financial assets and for property, plant and equipment, the estimations and assumptions involved therein, and the components of our non-financial assets and our property, plant and equipment during the Track Record Period.

R&D Costs

During the Track Record Period, all of our expenditure on our drug development programmes has been recognised as an expense, with the exception of certain capitalised R&D expenditure relating to drug development programmes we acquired in connection with our acquisition of Sichuan Luye in 2011 and the continued capitalisation of the expenses of those programmes during the remainder of 2011. However, our accounting policies permit us to capitalise the R&D costs relating to a drug development programme as an internally-generated intangible asset arising if we demonstrate:

- the technical feasibility of completing the drug development programme so that the new pharmaceutical product will be available for use or sale;
- the intention to complete programme and to use or sell the new pharmaceutical product;
- how the new pharmaceutical product will generate probable future economic benefits;
- the availability of the resources to complete the drug development programme; and
- the ability to measure reliably the expenditure attributable to the new pharmaceutical product during its development programme.

Typically, a drug development programme will not meet these criteria until the completion of clinical trials for the product candidate. We generally did not capitalise any of our other R&D costs during the Track Record Period because we did not have any late-stage drug development programmes meeting these criteria.

As of 31 December 2013, we had a pipeline of 22 PRC product candidates in various stages of development that we expect to launch by 2020. Among these 22 PRC product candidates, four are pending approval for production, seven are at various stages of clinical trials, six are pending approval to enter clinical trials and five are at pre-clinical stage. We may in the future capitalise our the expenses of our drug development programmes for these product candidates to the extent they meet the required criteria under our accounting policy.

Please refer to Note 2.3 "Summary of Significant Accounting Policies—Intangible Assets (Other than Goodwill)" included in Appendix I to this prospectus for further details of our accounting policies for R&D costs.

Government Grants

We receive government grants in the form of subsidies for the purpose of compensating us for expenses arising from research expenses and our improvement of our manufacturing facilities on special projects. We initially record the receipt of such grants as liabilities on our balance sheet. We recognise government grants at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied, typically when we have completed the relevant project and passed the final assessment of the relevant government authorities. We recognise grants related to expense as other income directly in our income statement over the periods that the costs for which they are intended to compensate us are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge. In practice, the recognition of a government grant to our income statement occurs when we receive from the government authority a final assessment report for the relevant project, which may be subject to delays beyond on our control. Because we have limited control over the timing of the release of grants to our income statement, our recognition of such grants may not directly correspond to the timing of our incurrence of the relevant expenses or depreciation charges.

RESULTS OF OPERATIONS

The following table sets forth our consolidated income statement data and each item as a percentage of our total revenue for the periods indicated derived from our consolidated statements of comprehensive income set out in the Accountants' Report included in Appendix I to this prospectus.

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	1,774,390	100.0	2,135,943	100.0	2,515,111	100.0
Cost of sales	(301,121)	(17.0)	(351,813)	(16.5)	(413,506)	(16.4)
Gross profit	1,473,269	83.0	1,784,130	83.5	2,101,605	83.6
Other income and gains	25,934	1.5	12,717	0.6	35,902	1.4
Selling and distribution expenses	(980,111)	(55.2)	(1,209,717)	(56.6)	(1,378,061)	(54.8)
Administrative expenses	(151,566)	(8.5)	(157,906)	(7.4)	(146,508)	(5.8)
Other expenses	(147,307)	(8.3)	(145,522)	(6.8)	(206,669)	(8.2)
Finance costs	(19,636)	(1.1)	(29,145)	(1.4)	(24,091)	(1.0)
Share of profit of an associate	545	0.0	894	0.0	990	0.0
Profit before tax	201,128	11.4	255,451	11.9	383,168	15.2
Income tax expense	(34,902)	(2.0)	(79,862)	(3.7)	(55,224)	(2.2)
Profit for the year	166,226	9.4	175,589	8.2	327,944	13.0
Attributable to:						
Owners of the parent	155,752	8.8	169,032	7.9	310,498	12.3
Non-controlling interests	10,474	0.6	6,557	0.3	17,446	0.7

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF INCOME

Revenue

We generate substantially all of our revenue from our sales of pharmaceutical products. We manage our business by type of products. We divide our major types of products sold into four segments by therapeutic area. The following table sets forth a breakdown of our revenue, by amount and as a percentage of our total revenue, from the sale of products by therapeutic area for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Therapeutic Area						
Oncology	799,921	45.1	940,830	44.1	1,102,165	43.8
Cardiovascular System	613,926	34.6	630,654	29.5	723,079	28.7
Alimentary Tract and Metabolism	280,038	15.8	451,086	21.1	575,237	22.9
Other Therapeutic Areas	80,505	4.5	113,373	5.3	114,630	4.6
Total	1,774,390	100	2,135,943	100	2,515,111	100

Our current product portfolio centres around seven key products. The following table sets forth a breakdown of our revenue, by amount and as percentage of our total revenue, from the sale of our key products for the periods indicated as well as the CAGR of our revenue and sales volume for our key products from 2011 to 2013:

	For the year ended 31 December						Revenue CAGR	Sales Volume CAGR
	2011		2012		2013			
	RMB'000	%	RMB'000	%	RMB'000	%	(%)	(%)
Key Product								
Oncology								
Lipusu (力撲素)	584,160	32.9	699,912	32.8	847,155	33.7	20.4	20.1
Tiandixin (天地欣)	162,630	9.2	181,673	8.5	185,757	7.4	6.9	5.2
CMNa (希美納)	34,072	1.9	36,891	1.7	43,330	1.7	12.8	16.0
Cardiovascular System								
Xuezhikang (血脂康)	326,228	18.4	295,887	13.9	338,453	13.5	1.9	2.6
Maitongna (麥通納)	244,131	13.8	285,859	13.4	333,532	13.3	16.9	18.9
Alimentary Tract and Metabolism								
Bei Xi (貝希)	34,621	1.9	153,653	7.1	238,919	9.4	55.4[(1)]	53.5[(1)]
Lutingnuo (綠汀諾)	191,775	10.8	210,711	9.9	227,910	9.1	9.0	13.4
Key Product Subtotal	1,577,617	88.9	1,864,586	87.3	2,215,056	88.1		
Other Products	196,773	11.1	271,357	12.7	300,055	11.9		
Total	1,774,390	100	2,135,943	100	2,515,111	100		

Notes:

(1) The percentage represents growth rate from 2012, the first full financial year following our acquisition of Bei Xi, to 2013.

(2) None of our key products were registered as generic drugs (drugs that had been previously approved by the CFDA for marketing and sale and had existing national standards for production). We developed Maitongna and launched the product for manufacture and sale in 1995. We acquired the proprietary rights to manufacture and sell Lutingnuo in 2001 from an independent third party, and launched the product in 2003 when it was first approved by the CFDA for manufacture and sale in the PRC. We added our other key products to our portfolio through acquisitions from companies that either developed or acquired these products.

For 2011, 2012 and 2013, our sales of patent-protected products accounted for 92.2%, 85.9% and 83.6% of our total revenue, respectively. For 2011, 2012 and 2013, our sales from products that we registered with the CFDA as generic drugs (drugs that had been previously approved by the CFDA for marketing and sale and had existing national standards for production) accounted for 0.5%, 0.8% and 1.0% of our total revenue, respectively. These generic drugs were four of our non-key products: Sailimai, Tiandijia, Glucosamine tablet and Loratadine capsule.

We also generate revenue from the sale of R&D results as a result of the conduct of R&D on behalf of third parties. We no longer contract for such activity, and our continued recognition of revenue from the sale of R&D results represents run-off business under existing contracts.

Our revenues are stated net of revenue-related business tax and government surcharges for which we are responsible for the payment to the relevant government authority.

Cost of Sales

Our cost of sales primarily consists of:

- for pharmaceutical products, the cost of inventories sold, which primarily consists of raw materials costs, staff costs for personnel involved in production activity, amortisation of trademarks, patents and technology, depreciation costs for property, plant and equipment used in the production of our pharmaceutical products and other manufacturing overhead such as utilities; and

- for sales of R&D results, the cost of services provided, which primarily consists of staff costs for personnel involved in conducting the relevant R&D.

The following table sets forth a breakdown of our cost of sales, by amount and as a percentage of our total cost of sales, for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Cost of Sales						
Raw materials	152,516	50.6	176,537	50.2	199,711	48.3
Staff costs	51,542	17.1	68,967	19.6	80,784	19.5
Amortisation of other intangible assets	42,432	14.1	38,608	11.0	37,299	9.0
Depreciation	17,453	5.8	19,739	5.6	39,807	9.6
Other manufacturing overhead	36,528	12.2	47,676	13.5	55,663	13.5
Cost of inventories sold[(1)]	300,471	99.8	351,527	99.9	413,264	99.9
Cost of services provided	650	0.2	286	0.1	242	0.1
Total	301,121	100	351,813	100	413,506	100

Note:

(1) Cost of sales includes the write down of inventories to net realisable value of RMB1,195,000, RMB584,000 and RMB1,757,000 for 2011, 2012 and 2013, respectively.

Our cost of raw materials primarily consists of:

- basic and active pharmaceutical ingredients and pharmaceutical intermediate products, and

- packaging and other materials, including glass vials for injection products, blister packs for capsule products, external packaging materials and printed instructions.

Our cost of basic and active pharmaceutical ingredients and pharmaceutical intermediate products for our seven key products accounted for between approximately 23% and approximately 26% of our total cost of sales during the Track Record Period.

Generally, each of our key products require distinct raw materials in the form of basic and active pharmaceutical ingredients and pharmaceutical intermediate products specific to the relevant product or specific packaging requirements. Consequently, the cost of our raw materials, and movements in such raw material costs, have occurred in response to a variety of specific factors over the Track Record Period rather than in response to overall industry trends, and there were no overall discernible trends in raw material costs during the Track Record Period. For our seven key products, the per-unit cost of raw materials in the form of basic and active pharmaceutical ingredients and pharmaceutical intermediate products used for CMNa and Lutingnuo increased from 2011 to 2012 and decreased from 2012 to 2013, while the per-unit cost of such raw materials for Lipusu and Bei Xi decreased from 2011 to 2012 and increased from 2012 to 2013. The per-unit cost of raw materials in the form of basic and active pharmaceutical ingredients and pharmaceutical intermediate products for Tiandixin, Maitongna and Xuezhikang increased from 2011 to 2013. However, changes in our cost of raw materials in the form of basic and active pharmaceutical ingredients and pharmaceutical intermediate products did not have a discernible impact on our cost of sales during the Track Record Period. Our overall cost of raw materials as a percentage of our cost of sales decreased during the Track Record Period from 50.6% in 2011 to 48.3% in 2013. Our gross profit margin increased during the Track Record Period from 83.0% in 2011 to 83.6% in 2013.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Our gross profit margin represents our gross profit as a percentage of our revenue. For 2011, 2012 and 2013, our gross profit was RMB1,473.3 million, RMB1,784.1 million and RMB2,101.6 million, respectively, and our gross profit margin was 83.0%, 83.5% and 83.6% for the respective period.

Other Income and Gains

Our other income and gains primarily consist of government grants, bank interest income, investment income and other income and gains, including reversal of provision for restoration costs, gain on stock count, gain on disposal of items of property, plant and equipment. The following table sets forth a breakdown of our other income and gains for the periods indicated:

	For the year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other Income and Gains			
Government grants	17,519	5,469	30,839
Bank interest income	4,823	3,858	3,030
Investment income	1,499	763	1,008
Others	2,093	2,627	1,025
Total	25,934	12,717	35,902

Please refer to "—Critical Accounting Policies, Estimates And Judgements—Government Grants" for further details of our accounting policy for government grants.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of:

- promotion expense, which primarily consists of the cost of our in-house promotional activity and promotional fees paid to our third party promoters;
- travelling expense, which primarily consists of the travel costs of our in-house marketing and promotion staff that is directly related to the promotion of pharmaceutical products;
- staff cost, which primarily consists of the salaries, wages, bonus and other compensation and benefits for our in-house marketing and promotion staff;
- advertising expense, which primarily consists of the cost of advertising our products;
- conference expense, which primarily consists of the costs of sponsorship and attendance at conferences for our in-house marketing and promotion staff; and
- other selling and distribution expenses, which primarily consist of office expenses, transportation expenses, operating lease expenses and certain other expenses that are directly related to our marketing and promotion activity.

The following table sets forth a breakdown of our selling and distribution expenses, by amount and as a percentage of our total selling and distribution expenses, for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Selling and Distribution Expenses						
Promotion expense	346,558	35.4	502,146	41.5	688,124	49.9
Travelling expense	213,489	21.8	232,397	19.2	209,443	15.2
Staff cost	112,745	11.5	141,743	11.7	167,682	12.2
Advertising expense	123,241	12.6	123,526	10.2	121,007	8.8
Conference expense	106,341	10.8	136,150	11.3	117,329	8.5
Other	77,737	7.9	73,755	6.1	74,476	5.4
Total	980,111	100	1,209,717	100	1,378,061	100

Administrative Expenses

Our administrative expenses primarily consist of:

- staff cost, which primarily consists of compensation for management and administrative staff, as well as directors' fees;
- general operating expense, which primarily consists of operating lease and office expenses;
- conference and entertainment expense, which primarily consists of conference expenses, entertainment expenses and corporate advertising expenses;
- travel and transportation expense, which primarily consists of our general travel and transportation expenses that are not allocated to selling and distribution expenses;
- depreciation, amortisation and impairment loss; and
- other administrative expenses, which primarily consist of auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses.

The following table sets forth a breakdown of our administrative expenses, by amount and as a percentage of our administrative expenses, for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Administrative Expenses						
Staff cost	60,492	39.9	72,025	45.6	72,932	49.8
General operating expense	18,962	12.5	20,793	13.2	13,955	9.5
Conference and entertainment expense	24,718	16.3	12,559	8.0	10,557	7.2
Travel and transportation expense	18,115	12.0	11,296	7.2	10,551	7.2
Depreciation, amortisation and impairment loss	5,804	3.8	17,270	10.9	10,001	6.8
Other	23,475	15.5	23,963	15.2	28,512	19.5
Total	151,566	100	157,906	100	146,508	100

Other Expenses

Our other expenses primarily consist of our R&D costs, and also includes foreign exchange losses, donations, loss on disposals of property, plants and equipment, capital gains taxes and miscellaneous expenses. For 2011, 2012 and 2013, our R&D costs were RMB134.9 million, RMB134.4 million and RMB194.1 million, which accounted for 91.6%, 92.3% and 93.9% of our total other expenses for the respective period. For 2011, 2012 and 2013, our R&D costs were equal to 7.6%, 6.3% and 7.7% of our total revenue for the respective period.

Finance Costs

Our finance costs primarily consist of the interest we pay on our general short-term borrowings, our long-term secured bank loan and our U.S. dollar secured loans. Please refer to Note 28 "Interest-bearing loans and borrowings" to the Accountants' Report included in Appendix I to this prospectus for further details of our interest-bearing loans and borrowings. The following table sets forth a breakdown of our finance costs for the periods indicated:

	For the year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Finance Costs			
Interest on bank loans	22,789	34,425	26,519
Less: Interest capitalised	(3,536)	(5,796)	(2,596)
	19,253	28,629	23,923
Finance charges payable under a hire purchase contract	32	33	32
Total interest expense	19,285	28,662	23,955
Unwinding of discount on provision	139	–	–
Bank charges and others	212	483	136
	19,636	29,145	24,091

Share of profit of an Associate

Our share of profit of an associate consists of our proportional share of the profits of Steward Cross in respect of our 36% interest. We hold our interest in Steward Cross through AsiaPharm Biotech Pte. Ltd., which we acquired in 2007. At the time of the acquisition, Steward Cross conducted promotion and distribution activities in Malaysia and Singapore for us and third parties. As of 31 December 2013, Steward Cross only acted as our distributor in Singapore, and also conducted promotion and distribution activities for third parties.

Our share of profit of Steward Cross increased by RMB349,000, or 64.0%, from RMB0.5 million in 2011 to RMB0.9 million in 2012, and by RMB96,000, or 10.7%, to RMB1.0 million in 2013.

Income Tax Expense

Our income tax expense consists of current tax and deferred tax. We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

The following table sets forth a breakdown of our income tax expense for the periods indicated:

	For the year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Income Tax Expense			
Current tax:			
Income tax charge	73,313	57,599	87,053
Adjustments in respect of income tax of previous year	25	5,058	1,612
Deferred tax	(38,436)	17,205	(33,441)
Total tax charge for the year	34,902	79,862	55,224

Please refer to "—Factors Affecting Our Results of Operations—Our Preferential Tax Treatments" above and Note 10 "Income Tax Expense" to the Accountants' report included in Appendix I to this prospectus for further details of applicable tax rate and the preferential tax treatments we receive during the Track Record Period.

SEGMENT RESULTS

We manage our businesses by type of products. We divide our major types of products sold into four segments: oncology, cardiovascular system, alimentary tract and metabolism and other therapeutic areas. We present our segment results as segment revenue less cost of sales and selling and distribution expenses allocated to the segment. We do not allocate any expenses to segments other than cost of sales and selling and distribution expenses.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenue

Our total revenue increased by RMB379.2 million, or 17.8%, from RMB2,135.9 million in 2012 to RMB2,515.1 million in 2013, primarily as a result of increased sales volumes across all three of our key therapeutic areas. Overall, pricing levels for our key pharmaceutical products were relatively stable, with the exception of CMNa, which was impacted by the full year effect of the introduction of a maximum retail selling price by the NDRC in October 2012, and Lutingnuo, which was impacted by the full year effect of a reduction in the maximum retail selling price by the NDRC in May 2012.

Oncology. Our revenue from sales of oncology products increased by RMB161.3 million, or 17.1%, from RMB940.8 million in 2012 to RMB1,102.2 million in 2013, primarily driven by increased sales volumes of CMNa and Lipusu, partially offset by the lower selling price for CMNa.

- Our revenue from sales of Lipusu increased by RMB147.3 million, or 21.0%, from RMB699.9 million in 2012 to RMB847.2 million in 2013, primarily as a result of increased sales volumes. We believe our marketing and promotion of Lipusu encouraged more widespread acceptance of its clinical benefits as compared to other paclitaxel and taxanes-based products marketed in China among medical professionals. Lipusu is priced competitively relative to certain of its competing products and we were able to maintain relatively stable pricing levels for Lipusu in 2013, as compared to 2012.

- Our revenue from sales of Tiandixin increased by RMB4.1 million, or 2.3%, from RMB181.7 million in 2012 to RMB185.8 million in 2013 resulting from small increases in both sales volumes and pricing levels. Our revenue growth for Tiandixin was adversely affected by competition and its non-inclusion in the national Medical Insurance Catalogues, however, we intend to seek its inclusion in the national Medical Insurance Catalogue in order to increase its sales volumes, which may have an adverse effect on its pricing levels.

- Our revenue from sales of CMNa increased by RMB6.4 million, or 17.3%, from RMB36.9 million in 2012 to RMB43.3 million in 2013, primarily as a result of increased sales volumes driven by CMNa's competitive positioning as the only CFDA approved sensitiser for cancer radiotherapy in China. The increased sales volumes were partially offset by decreased pricing levels primarily due to the full year effect of a maximum retail price for CMNa, which was introduced by the NDRC in October 2012. CMNa is currently subject to certain limitations on its eligibility for reimbursements under the national Medical Insurance Catalogue, and we intend to seek to have the limitations removed to increase sales volumes.

Cardiovascular system. Our revenue from sales of cardiovascular system products increased by RMB92.4 million, or 14.7%, from RMB630.7 million in 2012 to RMB723.1 million in 2013, primarily as a result of increased sales volumes of Maitongna and Xuezhikang. Our revenue from sales of Maitongna increased by RMB47.6 million, or 16.6%, from RMB285.9 million in 2012 to RMB333.5 million in 2013. Our revenue from sales of Xuezhikang increased by RMB42.6 million, or 14.4%, from RMB295.9 million in 2012 to

RMB338.5 million in 2013. Pricing levels for both products remained relatively stable in 2012 and 2013. We believe Maitongna and Xuezhikang are competitively positioned to resist pricing pressures. Our revenue growth for Xuezhikang was adversely affected by limited raw material processing capacity until October 2013. In 2011, we commenced a project to increase our production capacity for Xuezhikang in order to enable us to capture the anticipated long-term growth in demand; however, the project required us to reduce our production capacity over the short-term.

Alimentary tract and metabolism. Our revenue from sales of alimentary tract and metabolism products increased by RMB124.2 million, or 27.5%, from RMB451.1 million in 2012 to RMB575.2 million in 2013, primarily as a result of increased sales volumes for Bei Xi.

- Our revenue from sales of Bei Xi increased by RMB85.2 million, or 55.4%, from RMB153.7 million in 2012 to RMB238.9 million in 2013, primarily as a result of increased sales volumes driven by the continued impact of our marketing and promotion efforts following our acquisition of the product in 2011. Following our acquisition, we began to market and promote Bei Xi using our internal sales and marketing infrastructure, which provides the product with access to our extensive coverage of hospitals and other medical institutions. Pricing levels for Bei Xi remained relatively stable in 2012 and 2013.

- Our revenue from sales of Lutingnuo increased by RMB17.2 million, or 8.2%, from RMB210.7 million in 2012 to RMB227.9 million in 2013, primarily as a result of increased sales volumes resulting from increased marketing and promotion efforts. Our revenue growth for Lutingnuo was adversely affected by competition from other reduced glutathione products in China. The increase in sales volumes was partially offset by a relatively small decrease in pricing levels that primarily resulted from the full year effect of the reduction of the maximum retail price for Lutingnuo by the NDRC in May 2012.

Other therapeutic areas. Our revenue from sales of other therapeutic area products increased by RMB1.3 million, or 1.1%, from RMB113.4 million in 2012 to RMB114.6 million in 2013, which reflected higher sales volumes generated by focusing our marketing and promotional activities on our more profitable non-key products.

Cost of Sales, Gross Profit and Gross Profit Margin

Our total cost of sales increased by RMB61.7 million, or 17.5%, from RMB351.8 million in 2012 to RMB413.5 million in 2013. The primary driver of our increased cost of sales was increased sales volumes during 2013, as compared to 2012. On a per unit basis, our overall manufacturing costs for our key products were generally higher in 2013 as compared to 2012. The primary driver of our higher manufacturing costs were higher allocation of depreciation that resulted from our capital expenditure projects to bring our Yantai Industrial Park facility into full production capacity, to increase our production capacity for Xuezhikang at our Beijing facility and to upgrade our other production facilities, which resulted in higher manufacturing costs for Tiandixin, Maitongna, Xuezhikang, Bei Xi and Lutingnuo. Our total gross profit increased by RMB317.5 million, or 17.8%, from RMB1,784.1 million in 2012 to RMB2,101.6 million in 2013, which was broadly in line with our revenue growth and, consequently, our overall gross profit margin remained relatively stable at 83.5% in 2012 and 83.6% in 2013.

Selling and Distribution Expenses and Segment Results

Our selling and distribution expenses increased by RMB168.3 million, or 13.9%, from RMB1,209.7 million in 2012 to RMB1,378.1 million in 2013, primarily as a result of increased promotional activity for our products. However, as a percentage of revenue, our selling and distribution expenses decreased from 56.6% in 2012 to 54.8% in 2013, primarily as a result of the full year effect of more efficient promotional spending on oncology products and cardiovascular products. In mid-2012 we began undertaking a series of changes and initiatives to adjust our marketing and promotion spend away from regions and products where marketing and promotion expenditure has lower returns. With respect to alimentary tract and metabolism products, the effects of more efficient promotional spending were partially offset by our use of our internal sales teams for a larger portion of our sales of the Bei Xi in 2013, as compared to 2012. With respect to other therapeutic area products, our selling and distribution expenses were focused on our more profitable and away from our less profitable products, including less profitable products we acquired through our acquisition of Sichuan Luye in 2011. We began to discontinue Sichuan Luye's less profitable products in mid-2012.

Our aggregate segment results, which represent our total gross profit less our total selling and distribution expenses, increased by RMB149.1 million, or 26.0%, from RMB574.4 million in 2012 to RMB723.5 million in 2013. Our segment results for oncology products increased by RMB81.1 million, or 26.6%, from RMB305.3 million in 2012 to RMB386.5 million in 2013. Our segment results for cardiovascular system products increased by RMB46.4 million, or 26.1%, from RMB177.6 million in 2012 to RMB224.0 million in 2013. Our segment results for alimentary tract and metabolism products increased by RMB8.4 million, or 9.8%, from RMB85.4 million in 2012 to RMB93.7 million in 2013. Our segment results for other products increased by RMB13.2 million, or 218.3%, from RMB6.1 million in 2012 to RMB19.3 million in 2013.

Other Income and Gains

Our other income and gains increased by RMB23.2 million, or 182.3%, from RMB12.7 million in 2012 to RMB35.9 million in 2013, primarily as a result of a higher level of recognition of government grants in our income statement in 2013. Our government grants recognised as income were RMB30.8 million in 2013, as compared to RMB5.5 million in 2012. Our higher level of recognition of government grants primarily related to the timing of our receipt from the government authority of the final assessment report for the relevant project, rather than the timing of receipt of the grant or our incurrence of the relevant expenses or depreciation charges. As we seek to expand our R&D activities, we generally expect to continue to apply for a higher level of government grants. Our government grants reflected on our balance sheet as current and non-current liabilities (prior to recognition as income) increased from an aggregate of RMB111.8 million as of 31 December 2012 to an aggregate of RMB153.1 million as of 31 December 2013.

Administrative Expenses

Our administrative expenses decreased by RMB11.4 million, or 7.2%, from RMB157.9 million in 2012 to RMB146.5 million in 2013, primarily as a result of economies of scale resulting from our increased revenue, decreased depreciation expenses and our overall efforts to restrict cost inflation. In 2012, our depreciation expenses were higher because certain production and R&D assets were not being put to use and, consequently, depreciation expense on the relevant assets were charged to administrative expenses rather than cost of sales and R&D expenses respectively. As a percentage of revenue, our administrative expenses decreased from 7.4% in 2012 to 5.8% in 2013.

Other Expenses

Our other expenses increased by RMB61.2 million, or 42.1%, from RMB145.5 million in 2012 to RMB206.7 million in 2013, primarily due to increased R&D costs. Our R&D costs, which are the primary component of our other expenses, increased 44.4% from RMB134.4 million in 2012 to RMB194.1 million in 2013. As a percentage of revenue, our R&D costs increased from 6.3% in 2012 to 7.7% in 2013. We typically budget approximately 6.5% of our revenue for R&D costs. During 2013, we increasingly focused our R&D spend on key product candidates within the central nervous system therapeutic area.

Finance Costs

Our finance costs decreased by RMB5.0 million, or 17.2%, from RMB29.1 million in 2012 to RMB24.1 million in 2013, primarily as a result of the availability of lower interest rates on our bank borrowings. For most of 2013, our overall borrowing levels were relatively consistent with borrowing levels in 2012. However, our outstanding balance of other interest bearing loans and borrowings, which consisted of our general short-term borrowings and our long-term secured term loan in 2012, increased from RMB444.9 million as of 31 December 2012 to RMB735.9 million as of 31 December 2013. The increase in our year end borrowing level primarily reflected two new U.S. dollar secured loans equivalent to RMB304.8 million taken in December 2013 in order for our Company to partially fund a loan to Luye Investment, our immediate holding company, in order for Luye Investment to pay off its US$80 million term loan from CITIC Bank International Limited that originally funded the privatisation of our Company in 2012. Please refer to "History and Development—Prior Listing on SGX-ST" for further details of the privatisation of our Company. We intend that our loan to Luye Investment will be settled before Listing. Please refer to "—Indebtedness" below for further details of our bank borrowings.

Income Tax Expense

Our income tax expense decreased by RMB24.7 million, or 30.9%, from RMB79.9 million in 2012 to RMB55.2 million in 2013, primarily as a result of the absence in 2013 of an RMB30.9 million deferred tax provisions we made in 2012 in respect of 10% subsidiary-level PRC withholding taxes on upstream dividends paid to our Company by our subsidiaries. The primary purpose of the dividends from our subsidiaries to our Company was also to enable our Company to partially fund the loan to Luye Investment discussed above. Excluding the 2012 deferred tax provision, our income tax expense increased by RMB6.2 million, or 12.7%, from RMB49.0 million in 2012 to RMB55.2 million in 2013. Excluding the 2012 deferred tax provision, our effective income tax rate, calculated as income tax (less, in the case of 2012, the deferred tax provision) divided by profit before tax, decreased from 19.2% in 2012 to 14.4% in 2013. The decrease primarily resulted from our utilisation of prior period tax losses in 2013 and the absence in 2013 of a one-time adjustment in respect of previous years' income tax we made in 2012.

Profit for the Year

Our profit for the year increased by RMB152.3 million, or 86.7%, from RMB175.6 million in 2012 to RMB327.9 million in 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

Our total revenue increased by RMB361.5 million, or 20.4%, from RMB1,774.4 million in 2011 to RMB2,135.9 million in 2012, primarily as a result of increased sales volumes across all three of our key therapeutic areas. Our overall pricing levels for our key pharmaceutical products remained relatively stable in 2012, as compared to 2011, despite changes to NDRC price controls that lowered the maximum retail prices of three of our key products during the second half of 2011 and the first half of 2012.

Our 2012 revenue also benefited from the full year effect of our acquisition of Sichuan Luye on 1 July 2011 and, as a result, our key product Bei Xi. In 2011, our partial year revenue from sales of Bei Xi was RMB34.6 million, as compared to a full year revenue from sales of Bei Xi of RMB153.7 million in 2012. Excluding the revenue contribution from Bei Xi, our total revenue increased by RMB242.5 million, or 13.9%, from RMB1,739.8 million in 2011 to RMB1,982.3 million in 2012.

Oncology. Our revenue from sales of oncology products increased by RMB140.9 million, or 17.6%, from RMB799.9 million in 2011 to RMB940.8 million in 2012, primarily driven by revenue growth from Lipusu.

- Our revenue from sales of Lipusu increased by RMB115.7 million, or 19.8%, from RMB584.2 million in 2011 to RMB699.9 million in 2012, primarily as a result of increased sales volumes and, to a lesser extent, higher pricing levels resulting from decreased competition from substitute products that drove demand for Lipusu while enabling us to maintain our pricing levels.

- Our revenue from sales of Tiandixin increased by RMB19.0 million, or 11.7%, from RMB162.6 million in 2011 to RMB181.7 million in 2012, also primarily as a result of increased sales volumes attributable to growth in the PRC market for lentinan products. As in 2013, revenue growth for Tiandixin in 2012 was adversely affected by increased competition and its non-inclusion in the national Medical Insurance Catalogue.

- Our revenue from sales of CMNa increased by RMB2.8 million, or 8.2%, from RMB34.1 million in 2011 to RMB36.9 million in 2012, as a result of increased sales volumes primarily attributable to increased demand for radio therapy treatment and the competitive positioning of CMNa as the only CFDA approved sensitiser for cancer radiotherapy in China. The increase in sales volume was partially offset by a decrease in selling prices for CMNa that primarily resulted from the partial year effect of the introduction of a maximum retail price for CMNa by the NDRC in October 2012.

Cardiovascular system. Our revenue from sales of cardiovascular system products increased by RMB16.7 million, or 2.7%, from RMB613.9 million in 2011 to RMB630.7 million in 2012, primarily as a result of increased sales volumes for Maitongna, which was partially offset by decreased sales volumes for Xuezhikang.

- Our revenue from sales of Maitongna increased by RMB41.8 million, or 17.1%, from RMB244.1 million in 2011 to RMB285.9 million in 2012, primarily as a result of increased sales volumes attributable to deeper market penetration in those

provinces in which we had successfully bid in the centralised tender processes for sales to PRC medical institutions and, we believe, more effective marketing and promotion efforts. The increase in sales volumes was partially offset by decreased pricing levels for Maitongna that primarily resulted from the reduction of the maximum retail price for Maitongna by the NDRC in August 2012. Our average selling price for Maitongna experienced a reduction of approximately 3% in 2012, as compared to 2011.

- Our revenue from sales of Xuezhikang decreased by RMB30.3 million, or 9.3%, from RMB326.2 million in 2011 to RMB295.9 million in 2012, primarily as a result of decreased sales volumes attributable to our limited raw material processing capacity for Xuezhikang during 2012 while we were engaged in the project to increase our production capacity for Xuezhikang at our Beijing facility that required us to reduce our production capacity over the short-term. Pricing levels for Xuezhikang also slightly decreased in 2012, as compared to 2011, primarily as a result of our pricing strategy for the product.

Alimentary tract and metabolism. Our revenue from sales of alimentary tract and metabolism products increased by RMB171.0 million, or 61.1%, from RMB280.0 million in 2011 to RMB451.1 million in 2012, primarily as a result of the full year effect of sales of Bei Xi, which we acquired through our acquisition of Sichuan Luye on 1 July 2011. Excluding the revenue contribution from sales of Bei Xi, our revenue from sales of alimentary tract and metabolism products increased by RMB52.0 million, or 21.2%, from RMB245.4 million in 2011 to RMB297.4 million in 2012, primarily as a result of increases in sales volumes for Lutingnuo, which was competitively priced relative to substitute products, as well as non-key alimentary tract and metabolism products.

- Our revenue from sales of Bei Xi increased from RMB34.6 million in the period from 1 July 2011 to 31 December 2011 to RMB153.7 million in 2012, primarily as a result of the full year effect of sales of Bei Xi, as well as sales to new provinces provided by our network of coverage of hospitals and other medical institutions through our internal sales teams. Selling prices for Bei Xi materially increased in 2012, as compared to 2011, which largely reflected the use of our internal sales teams for a larger portion of our sales of the product. Prior to our acquisition of Sichuan Baoguang Pharmaceutical Co. Ltd., Bei Xi was marketed using a third party promotional model. Following our acquisition, we began to market and promote Bei Xi primarily using our internal sales and marketing infrastructure, which permits us to price Bei Xi at higher levels because we do not need to allow for margins for third party promoters.

- Our revenue from sales of Lutingnuo increased by RMB18.9 million, or 9.9%, from RMB191.8 million in 2011 to RMB210.7 million in 2012, primarily as a result of market growth. Our revenue growth was adversely affected by competition from other reduced glutathione products in China. The increased sales volumes were partially offset by decreased pricing levels that primarily resulted from the reduction of the maximum retail price for Lutingnuo by the NDRC in May 2012. Our average selling price for Lutingnuo experienced a reduction of approximately 5% in 2012 compared to 2011.

Other therapeutic areas. Our revenue from sales of other therapeutic area products increased by RMB32.9 million, or 40.8%, from RMB80.5 million in 2011 to RMB113.4 million in 2012, primarily as a result of selective promotional efforts for competitively positioned non-key products.

Cost of Sales, Gross Profit and Gross Profit Margin

Our total cost of sales increased by RMB50.7 million, or 16.8%, from RMB301.1 million in 2011 to RMB351.8 million in 2012. The primary driver of our increased cost of sales was increased sales volumes during 2012, as compared to 2011. Variations in our manufacturing costs for our key products were mixed, with Lipusu and Tiandixin benefiting from significant reductions in manufacturing costs in 2012 as a result of lower raw material costs, and Xuezhikang, CMNa and Maitongna experiencing significant increases in raw material costs. Our total gross profit increased by RMB310.9 million, or 21.1%, from RMB1,473.3 million in 2011 to RMB1,784.1 million in 2012. Our overall gross profit margin remained relatively stable at 83.0% in 2011 and 83.5% in 2012.

Selling and Distribution Expenses and Segment Results

Our selling and distribution expenses increased by RMB229.6 million, or 23.4%, from RMB980.1 million in 2011 to RMB1,209.7 million in 2012, primarily as a result of increased costs resulting from our full year ownership of Sichuan Luye and the cost of increased sales staff headcount resulting from our efforts to build an internal sales and marketing infrastructure for Bei Xi, which offset the effects of our mid-2012 changes and initiatives to adjust our marketing and promotion spend away from regions and products where marketing and promotion expenditure has lower returns. As a percentage of revenue, our selling and distribution expenses increased from 55.2% in 2011 to 56.6% in 2012.

Our aggregated segment results increased by RMB81.2 million, or 16.5%, from RMB493.2 million in 2011 to RMB574.4 million in 2012. Our segment results for oncology products increased by RMB61.9 million, or 25.4%, from RMB243.4 million in 2011 to RMB305.3 million in 2012. Our segment results for cardiovascular system products increased by RMB5.4 million, or 3.1%, from RMB172.2 million in 2011 to RMB177.6 million in 2012. Our segment results for alimentary tract and metabolism products increased by RMB19.3 million, or 29.2%, from RMB66.1 million in 2011 to RMB85.4 million in 2012. Our segment results for other therapeutic area products decreased by RMB5.4 million, or 47.0%, from RMB11.5 million in 2011 to RMB6.1 million in 2012, primarily as a result of less profitable products we acquired through our acquisition of Sichuan Luye on 1 July 2011.

Other Income and Gains

Our other income and gains decreased by RMB13.2 million, or 51.0%, from RMB25.9 million in 2011 to RMB12.7 million in 2012, primarily as a result of a lower level of recognition of government grants in 2012. Our government grants reflected on our balance sheet as current and non-current liabilities (prior to recognition as income) increased from an aggregate of RMB88.8 million as of 31 December 2011 to an aggregate of RMB111.8 million as of 31 December 2012.

Administrative Expenses

Our administrative expenses increased by RMB6.3 million, or 4.2%, from RMB151.6 million in 2011 to RMB157.9 million in 2012, primarily as a result of increased costs associated with our acquisition of Sichuan Luye and the overall expansion of our business. However, economies of scale associated with our expanded business enabled us to reduce our administration expenses as a percentage of revenue from 8.5% in 2011 to 7.4% in 2012.

Other Expenses

Our other expenses remained relatively stable at RMB147.3 million in 2011 and RMB145.5 million in 2012, as our R&D costs, the primary component of our other expenses, remained relatively stable at RMB134.9 million in 2011 and RMB134.4 million in 2012. As a percentage of revenue, our R&D costs decreased from 7.6% in 2011 to 6.3% in 2012, which is relatively consistent with our budgeted R&D spend of approximately 6.5% of revenue. During 2012, we focused our R&D spend on our U.S. product candidates, including U.S. clinical trials for Xuezhikang and rotigotine extended release microspheres for injection.

Finance Costs

Our finance costs increased by RMB9.5 million, or 48.5%, from RMB19.6 million in 2011 to RMB29.1 million in 2012, primarily as a result of higher average borrowing levels, including the full year effects of increased borrowing to finance our acquisition of Sichuan Luye, in a higher interest rate environment during 2012. In April 2012, we borrowed RMB40.2 million under a new secured term loan in order to refinance the short-term borrowings that we originally used to acquire Sichuan Luye in July 2011. Please refer to "—Indebtedness" below for further details of our bank borrowings. Our outstanding balance of interest bearing loans and borrowings increased from RMB455.8 million as of 31 December 2011 to RMB470.8 million as of 31 December 2012.

Income Tax Expense

Our income tax expense increased by RMB45.0 million, or 128.9%, from RMB34.9 million in 2011 to RMB79.9 million in 2012, primarily as a result of the RMB30.9 million deferred tax provisions we made in 2012 in respect of 10% subsidiary-level PRC withholding taxes on upstream dividends paid to our Company by our subsidiaries to enable our Company to partially fund the loan to Luye Investment. Excluding the 2012 deferred tax provision, our income tax expense increased by RMB14.1 million, or 40.4%, from RMB34.9 million in 2011 to RMB49.0 million in 2012. Excluding the 2012 deferred tax provision, our effective income tax rate, calculated as income tax expense (less, in the case of 2012, the deferred tax provision) divided by profit before tax, increased from 17.4% in 2011 to 19.2% in 2012, primarily as a result of adjustments in respect of our previous year's income taxes.

Profit for the Year

Our profit for the year increased by RMB9.4 million, or 5.7%, from RMB166.2 million in 2011 to RMB175.6 million in 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary uses of cash are to fund working capital and other recurring expenses and to fund acquisitions. During the Track Record Period, we funded our cash requirements principally from cash generated from operations and bank borrowings.

Cash Flow

The following table is a condensed summary of our consolidated cash flow statements and analysis of balances of cash and cash equivalents for the periods indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	313,420	152,902	439,626
Net cash flows used in investing activities	(608,112)	(135,130)	(554,376)
Net cash flows from financing activities	144,963	91,517	87,320
Net (decrease)/increase in cash and cash equivalents	(149,729)	109,289	(27,430)
Cash and cash equivalent at beginning of year	400,135	251,501	364,031
Cash and cash equivalent at end of the year	251,501	364,031	333,150

Cash Flows from Operating Activities

During the Track Record Period, we derived our cash inflows from operating activities primarily from the receipt of payments from our distributors for the sale of our pharmaceutical products. Our primary cash outflows from operating activities primarily relate to purchases of raw materials and active pharmaceutical ingredients, selling and distribution expenses, administrative expenses, interest paid on our short-term borrowings used for working capital purposes and taxes. Our cash flows from operating activities can be significantly affected by factors such as the timing of receipt of trade receivables from our distributors and our payments of trade payables to suppliers during the regular course of business.

In 2013, our net cash generated from operating activities was RMB439.6 million, consisting of RMB505.9 million of cash generated from operations before working capital adjustments and positive net working capital adjustments of RMB38.1 million, interest paid on short-term borrowings of RMB26.4 million and income taxes paid of RMB78.0 million. Our positive working capital adjustments primarily consisted of (i) an RMB77.3 million increase in other payables and accruals that primarily related to higher operating expense and tax payables associated with the expansion of our business; (ii) an RMB36.9 million increase in amounts due to related parties that primarily resulted from an advance payment we received in respect of our sale of R&D-related inventory to the Shandong Biological Technology group; (iii) an RMB15.9 million increase in government grants; and (iv) and an RMB15.0 million increase in trade and notes payables that primarily resulted from increases in raw materials we purchased as part of our intentional accumulation of inventory in preparation for the temporary closure of two production lines at our Yantai Laishan facility in order to commence an upgrade in January 2014 and our cash management measures to retain cash longer. These positive working capital adjustments were primarily offset by (i) an RMB92.0 million increase in inventory that primarily related to the expansion of our business and our intentional accumulation of inventory in preparation for the closure of our Yantai Laishan facility; and (ii) an RMB21.3 million increase in trade and notes receivables that primarily related to our increased sales but which was partially offset by our cash management measures to accelerate our collection of receivables.

In 2012, our net cash generated from operating activities was RMB152.9 million, consisting of RMB363.9 million of cash generated from operations before working capital adjustments less negative net working capital adjustments of RMB106.0 million, interest paid on short-term borrowings of RMB34.2 million and income taxes paid of RMB70.8 million. Our negative working capital adjustments primarily consisted of (i) an RMB58.9 million increase in trade and notes receivables that primarily related to increase in sales but which was partially offset by our cash management measures to accelerate our collection of receivables; (ii) an RMB36.4 million increase in inventory that primarily related to the expansion of our business and an increase in our target inventory level to three months' stock of raw materials; and (iii) an RMB35.9 million decrease in other payables and accruals that primarily related to the settlement of deferred payments in connection with our acquisition of Sichuan Luye. These negative working capital adjustments were primarily offset by (i) an RMB20.1 increase in trade and notes payables that primarily resulted from increases in raw materials corresponding to our new inventory target levels and our cash management measures to retain cash longer; and (ii) an RMB13.6 million increase in government grants.

In 2011, our net cash generated from operating activities was RMB313.4 million, consisting of RMB294.3 million of cash generated from operations before working capital adjustments and positive net working capital adjustments of RMB101.4 million less interest paid on short-term borrowings of RMB22.8 million and income taxes paid of RMB59.5 million. Our positive working capital adjustments primarily consisted of (i) an RMB163.8 million increase in other payables and accruals that primarily consisted of acquired payables as a result of our acquisition of Sichuan Luye; (ii) an RMB29.8 million increase in government grants; and (iii) an RMB23.4 million decrease in prepayments, deposits and other receivables that primarily related to the settlement of prepaid taxes. These positive working capital adjustments were primarily offset by an RMB99.0 million increase in trade and notes receivables that primarily resulted from increases in sales prior to the adoption of our cash management measures.

Cash Flows used in Investing Activities

During the Track Record Period, our cash flow used in investing activities primarily related to our capital expenditure in order to bring our Yantai Industrial Park facility to full production capacity, to increase our production capacity for Xuezhikang at our Beijing facility and for other upgrades to our other production facilities, as well as our acquisition of Sichuan Luye in 2011 and our loan to Luye Investment in 2013.

In 2013, our net cash used in investing activities was RMB554.4 million. Our primary uses of cash for investing activities in 2013 were an RMB302.6 million increase in amount due from Luye Investment and RMB265.0 million in purchases of property, plant and equipment and construction in progress. Our loan to Luye Investment was primarily for the purpose of enabling it to pay off its US$80 million term loan from CITIC Bank International Limited that originally funded the privatisation of our Company in 2012. Our purchases of property, plant and equipment were primarily capital expenditure for the purpose of bringing our Yantai Industrial Park facility to full production capacity, increasing our production capacity for Xuezhikang at our Beijing facility and for upgrades to our other production facilities.

In 2012, our net cash used in investing activities was RMB135.1 million. Our primary uses of cash for investing activities in 2012 were RMB146.2 million in purchases of property, plant and equipment and construction in progress. Our purchases of property, plant and equipment were primarily capital expenditure for the purpose of bringing our Yantai Industrial Park facility into initial operation and upgrades to our other production facilities.

In 2011, our net cash used in investing activities was RMB608.1 million. Our primary uses of cash for investing activities in 2011 were RMB297.3 million in purchases of property, plant and equipment and construction in progress and RMB271.9 to acquire Sichuan Luye. Our purchases of property, plant and equipment were primarily capital expenditure for the purpose of bringing our Yantai Industrial Park facility into initial operation and for upgrades at our other production facilities.

Cash Flows from Financing Activities

During the Track Record Period, our cash flows relating to financing activity primarily related to our receipt and repayment of borrowings under our short-term borrowings and our secured term loan and our receipt of borrowings under our U.S. dollar secured loans. Please refer to "—Indebtedness" below for further details of our borrowings.

For 2013, our cash from financing activities was RMB87.3 million, primarily as a result of a net increase in borrowings and, in particular, new borrowings under our U.S. dollar secured loans. We also recorded cash flows relating to financing as a result of our pledges and releases of short-term bank deposits used to secure our borrowings.

For 2012, our cash from financing activities was RMB91.5 million, primarily as a result of a decrease in secured borrowings that resulted in the release of our pledged short-term deposits. We increased our use of unsecured borrowings in order to capitalise on favourable lending terms for unsecured borrowings.

For 2011, our cash from financing activities was RMB145.0 million, primarily as a result of a net increase in borrowings and, in particular, new borrowings to initially finance our acquisition of Sichuan Luye.

NET CURRENT ASSETS

The following table sets forth our current assets and current liabilities as of the balance sheet dates indicated:

	As of 31 December			As of 30 April
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Inventories	106,272	142,686	234,733	239,583
Trade and notes receivables	455,326	514,258	535,562	602,345
Prepayments, deposits and other receivables	36,178	35,092	46,413	91,523
Due from related parties	3,755	12,212	314,209	532,451
Pledged short-term deposits	79,009	2,464	177,485	230,394
Available-for-sale investments	–	–	10,000	–
Cash and cash equivalents	251,501	364,031	333,150	319,197
	932,041	1,070,743	1,651,552	2,015,493
Non-current assets held for sale	–	17,825	818	–
	932,041	1,088,568	1,652,370	2,015,493
Current liabilities				
Trade and notes payables	34,331	54,403	69,369	52,176
Other payables and accruals	325,619	313,127	351,913	271,129
Interest-bearing loans and borrowings	453,815	444,863	735,921	1,081,157
Government grants	28,310	45,218	74,436	74,056
Tax payable	32,010	26,589	34,488	57,890
Due to related parties	4,902	–	36,856	755
	878,987	884,200	1,302,983	1,537,163
Net current assets	53,054	204,368	349,387	478,330

We had net current assets of RMB349.4 million as of 31 December 2013, compared to net current assets of RMB204.4 million as of 31 December 2012. The increase in current assets was primarily due to an increase in amount due from related parties primarily related to our loan to Luye Investment, an increase in inventories primarily related to our intentional accumulation of inventory in preparation for the temporary closure of two production lines at our Yantai Laishan facility commencing in January 2014 and an increase in pledged short-term deposits primarily related to our increased use of secured borrowings, in particular secured borrowings under our U.S. dollar secured loans. The increase in current assets was partially offset by an increase in our current liabilities, which primarily consisted of an increase in our loans and borrowings resulting from the incurrence of our U.S. dollar secured loans and an increase in other payables and accruals related to higher operating expense and tax payables associated with the expansion of our business.

We had net current assets of RMB204.4 million as of 31 December 2012, compared to net current assets of RMB53.1 million as of 31 December 2011. The increase was primarily due to an increase in inventories related to an increase in our target raw material inventory level to three months' stock and an increase in trade and notes receivables related to the increase in our sales. We increased our target inventory level in order to prevent shortages of raw materials as our production volumes increase. These increases were partially offset by a decrease in pledged short-term deposits related to our increased use of unsecured borrowings in order to capitalise on favourable lending terms for unsecured borrowings and an increase in trade and notes payables related to our cash management measures to retain cash longer.

As of 30 April 2014, being the latest practicable date for the purpose of our net current asset position, our net current assets increased from RMB349.4 million as of 31 December 2013 to RMB478.3 million as of 30 April 2014.

As of 30 April 2014, our trade and notes receivable increased to RMB602.3 million, from RMB535.6 million as of 31 December 2013, which primarily reflected our revenue growth during the four months ended 30 April 2014.

As of 30 April 2014, our outstanding interest-bearing loans and borrowings increased to RMB1,081.9 million and our cash and cash equivalents decreased to RMB319.2 million, primarily reflecting our use of additional short-term secured borrowings and cash on hand to provide funds to Luye Investment in order for Luye Investment to pay off its US$80 million term loan from CITIC Bank International Limited that originally funded the privatisation of our Company in 2012. As a result, our amounts due from related parties increased to RMB532.5 million as of 30 April 2014.

Inventories

Our inventories consist of raw materials we purchase from suppliers, our work in progress and our finished goods, which include products we manufacture at our production facilities, products we purchase from our subcontracting manufacturers and stock of our in-licenced product.

Inventories are valued at the lower of net realisable value and cost. For raw materials, cost represents purchase cost on a weighted average basis; for finished goods and work in progress, cost represents cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity excluding borrowing costs. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. Please refer to Note 2.3 "Summary of Significant Accounting Policies—Inventories" to the Accountants' Report included in Appendix I to this prospectus for further details of our accounting policies on inventories.

The following table sets forth our inventories as of the balance sheet dates indicated and the average inventory turnover days for the periods indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials	34,039	50,901	95,854
Work in progress	40,503	53,883	81,523
Finished goods	31,730	37,902	57,356
	106,272	142,686	234,733

	For the year ended 31 December		
	2011	2012	2013
Average inventory turnover days[(1)]	109.4	129.1	166.6

Note:

(1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of sales for the period and multiplied by 365 days for a year in respect of the periods indicated.

We currently target to maintain three months' stock of raw materials in our inventory. Each year, we adopt a raw material purchase plan that includes projected purchase volumes for each month. We regularly review each product's sales performance, production progress, inventory level and projected sales, and adjust our purchase plans accordingly. We have also established an inventory management system that monitors each stage of the warehousing process. Please refer to "Business—Production—Inventory Management" for further details of our inventory management.

Our inventory balance increased from RMB142.7 million in 2012 to RMB234.7 million in 2013 primarily reflecting the growth of our business and our intentional accumulation of inventory and, in particular, raw materials, in preparation for the temporary closure of two production lines for injections to upgrade at our Yantai Laishan facility commencing in January 2014 and to prevent shortages of raw materials as our production volumes increase. Our Yantai Laishan facility is expected to recommence production in the fourth quarter of 2015.

Our inventory balance increased from RMB106.3 million in 2011 to RMB142.7 million in 2012 primarily reflecting the growth of our business and an increase in our target inventory level to maintain three months' stock of raw materials.

For 2011, 2012 and 2013, our inventory turnover days were 109.4 days, 129.1 days, and 166.6 days. The increases primarily reflected the increases in our inventory levels for the reasons described above.

Trade and Notes Receivables

Our trade receivables primarily represent the balances due from our distributors. We generally grant our distributors credit terms of between 30 and 90 days, with longer terms granted to selected distributors whom we have built good relationships with. We take into consideration a number of factors in determining the credit term of a distributor, in particular its previous payment history. We screen and select our distributors based on various criteria, including their cash flow conditions and creditworthiness. Please refer to "Business—Sales, Marketing and Distribution—Distribution" for further details of our distributor management. Our notes receivables primarily represent bank notes received from our distributors in lieu of cash payments.

The following table sets forth the total amounts of our trade and notes receivables as of the balance sheet dates indicated and the average trade receivables turnover days for the periods indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables	313,792	339,525	393,459
Notes receivables	144,880	176,806	144,295
	458,672	516,331	537,754
Less: Other receivables	(3,346)	(2,073)	(2,192)
	455,326	514,258	535,562

	For the year ended 31 December		
	2011	2012	2013
Average trade receivables turnover days[(1)]	57.9	55.8	53.2

Note:

(1) Calculated using the average of the beginning and ending trade receivables balances of the period, divided by revenue for the period and multiplied by 365 days for a year in respect of the periods indicated.

Our trade receivables balances as of 31 December 2011, 2012 and 2013 were RMB313.8 million, RMB339.5 million and RMB393.5 million. The increases primarily reflected increases in our sales during the respective period.

For 2011, 2012 and 2013, our trade receivables turnover days were 57.9 days, 55.8 days, and 53.2 days. The decreases primarily reflected our cash management measures to accelerate our collection of receivables. We seek to maintain strict control over outstanding receivables and ensure overdue balances are regularly reviewed. For any unsettled long-term receivables or overdue balances identified, we instruct the corresponding sales personnel who are responsible for the relevant distributors to closely follow up for payment. In addition, distributors who make early payments are granted discounts of the stated contractual price. These incentive policies also contributed to earlier payments by our distributors.

The following table sets forth the ageing analysis of our trade receivables as of the balance sheet dates indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Less than 3 months	268,824	311,934	370,021
Between 3 and 6 months	36,622	12,316	18,139
Between 6 and 12 months	4,009	9,956	2,346
Between 1 and 2 years	2,570	3,743	813
Over 2 years	1,767	1,576	2,140
	313,792	339,525	393,459

The following table sets forth the ageing analysis of our trade receivables that are neither individually nor collectively considered to be impaired as of the balance sheet dates indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	246,049	315,009	386,232
Less than 3 months past due	52,710	10,401	2,817
Over 3 months past due	11,687	12,042	2,218
	310,446	337,452	391,267

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, our Directors are of the view that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral or other credit enhancements over these balances.

Our notes receivables are generally due within seven months. We discounted notes receivables of RMB4.9 million and RMB7.7 million as of 31 December 2011 and 2012, and the proceeds received have been accounted for as short-term loans. No notes receivables were discounted as of 31 December 2013.

Trade and Notes Payables

Our trade payables primarily consist of the balances due to our suppliers of raw materials and active pharmaceutical ingredients, the manufacturer for our in-licenced product and our subcontracting manufacturers. Our trading terms with suppliers vary depending on a number of factors, in particular the type of products. Our notes payables primarily represent the balances due to our suppliers in bank notes in lieu of cash payments.

The following table sets forth the total amounts of our trade and notes payables as of the balance sheet dates indicated and the average trade payables turnover days for the periods indicated:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade payables	34,331	50,049	56,266
Notes payables	–	4,354	13,103
	34,331	54,403	69,369

	For the year ended 31 December		
	2011	2012	2013
Average trade payables turnover days[(1)]	33.1	43.8	46.9

Note:

(1) Calculated using the average of the beginning and ending trade payables balances of the period, divided by cost of sales for the period and multiplied by 365 days for a year in respect of the periods indicated.

Our trade payables balances as of 31 December 2011, 2012 and 2013 were RMB34.3 million, RMB50.0 million and RMB56.3 million. The increases primarily reflected increases in raw materials corresponding to our new inventory target levels and as part of our efforts to accumulate inventory in 2013 in respect of the temporary closure of two production lines at our Yantai Laishan facility, as well as our cash management measures to retain cash longer in order to match our payment with the increase of our inventory turnover days.

For 2011, 2012 and 2013, our trade payables turnover days were 33.1 days, 43.8 days, and 46.9 days. The increases primarily reflected the increase in our payables described above and our cash management measures.

The following table sets forth the ageing analysis of our trade and notes payables as of the balance sheet dates indicated, based on the invoice date:

	As of 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	25,007	44,436	66,073
3 to 6 months	8,076	7,507	2,023
6 to 12 months	996	2,021	765
1 to 2 years	156	310	142
Over 2 years	96	129	366
	34,331	54,403	69,369

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

As at 31 December 2012 and 2013, our notes payables of RMB4.2 million and RMB4.6 million were secured by notes receivables with a carrying amount of RMB4.2 million and RMB4.6 million, respectively. Our notes payables are generally due within six months.

WORKING CAPITAL

Taking into account cash from operating activities, borrowings available to our Group and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

As of 31 December 2013, we had aggregate bank loans of RMB745.3 million, consisting of RMB724.4 million of secured bank loans, RMB20.0 million of unsecured bank loans, and RMB0.9 million of finance lease payables.

As of 30 April 2014, being the latest practicable date for the purpose of this indebtedness statement, the balance of our bank loans was RMB1,081.9 million, consisting of RMB1,044.2 million of secured bank loans and RMB36.9 million of unsecured bank loans, and RMB0.8 million of finance lease payables. The increase in our secured bank loans as of 30 April 2014 primarily resulted from a net increase in secured short-term borrowings used to further fund our loan to Luye Investment, and for working capital purpose. Our secured short-term borrowings incurred during the four months ended 30 April 2014 bore interest rates ranging from 5.04% per annum to 6.77% per annum. Except as aforesaid and apart from intra-group liabilities, we did not have, as of 30 April 2014, any other outstanding loan issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Secured Loans

As of 31 December 2013, we had an aggregate of RMB724.4 million in secured bank loans. As of 31 December 2013, the loans were secured by pledged short-term deposits of RMB163.6 million and pledged notes receivable of RMB73.2 million.

Secured Short-term Borrowings

As of 31 December 2013, we had an aggregate of RMB410.9 million in general secured short-term borrowings. For 2013, these borrowings bore a weighted average effective interest rate of 5.7% per annum. Certain of our short-term borrowings are guaranteed by our subsidiaries. Our secured short-term borrowing agreements contain certain covenants that, among other things, require our subsidiaries to obtain prior written consent prior to incurring additional debt, and engaging in certain transactions such as mergers and acquisitions, investments and asset sales.

Secured Term Loan

As of 31 December 2013, we had RMB8.6 million outstanding under a secured term loan. The term loan agreement was entered into by Shandong Luye on 23 March 2012 with the Yantai Branch of Industrial and Commercial Bank of China in order to refinance the short-term borrowings used to acquire Sichuan Luye in 2011. For 2013, the term loan bore a weighted average effective interest rate of 6.8% per annum. The term loan is guaranteed by Nanjing Luye Sike. The loan matures on 28 April 2015. The term loan agreement contains covenants that require Shandong Luye to obtain prior written consent from the bank prior to taking certain actions such as incurring additional indebtedness, paying dividends, or engaging in certain transactions such as mergers and acquisitions, investments and asset sales.

U.S. Dollar Secured Loans

As of 31 December 2013, we had an aggregate amount equivalent to RMB304.8 million outstanding under two U.S. dollar secured loans. For 2013, the U.S. dollar secured loans bore a weighted average effective interest rate of 2.5% per annum. The purpose of the U.S. dollar

secured loans was to enable us to partially fund a loan to Luye Investment in order for Luye Investment to pay off its US$80 million dollar term loan from CITIC Bank International Limited that originally funded the privatisation of our Company in 2012. One U.S. dollar loan matures on 15 December 2014 and is secured by a letter of credit of RMB231 million. The loan agreement contains a covenant that limits the ability of the Company, its direct or indirect shareholders or its affiliates to provide security for similar loans from a third party, as well as a covenant that requires mutual agreement on the continuation of the loan and its new terms should there be any change in the Company's shareholders or change of control in the Company. The other U.S. dollar loan matures on 19 December 2014 and is secured by a letter of guarantee. The loan agreement contains covenants that require the Company to obtain the lender's prior written consent prior to taking certain actions such as disposal of majority or material assets and setting up new subsidiaries, or engaging in certain transactions such as mergers and acquisitions and share transfers.

Unsecured Loans

As of 31 December 2013, we had RMB20.0 million outstanding under an unsecured short-term loan. For 2013, this borrowing bore a weighted average effective interest rate of 5.6% per annum. Our secured short-term borrowing agreement contains certain covenants that, among other things, require our subsidiaries to obtain prior written consent prior to incurring additional debt, and engaging in certain transactions such as mergers and acquisitions, investments and asset sales.

We do not have plans to materially change our borrowing levels. However, we may seek additional borrowings in the future in connection with acquisitions.

OFF-BALANCE SHEET ARRANGEMENTS

As of 30 April 2014, being the latest practicable date for determining our indebtedness, we did not have any off-balance sheet arrangements.

CAPITAL EXPENDITURES

For 2011, 2012 and 2013, our capital expenditures were RMB376.2 million, RMB171.1 million and RMB215.7 million. We have historically funded our capital expenditures through cash generated from our operations. Our capital expenditures primarily consisted of the construction of our Yantai Industrial Park facility, our project to increase our production capacity for Xuezhikang at our Beijing facility and upgrades to our other four production facilities.

We expect to incur capital expenditures of approximately RMB881 million in 2014 and 2015. Our expected capital expenditures in 2014 and 2015 are primarily for our continued expansion and upgrade plan, which involves all five of our production facilities and centres on increasing our production capacities in anticipation of the expected demand for the relevant products. Please refer to "Business—Production—Future Expansion and Upgrade Plan" and "Future Plans and Use of Proceeds" for further details of our current expansion and upgrade plan. We expect to finance our capital expenditures through a combination of operating cash flows and the net proceeds from the Global Offering. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL OBLIGATIONS

Our long-term debt obligations, capital lease obligations, operating lease obligation, purchase obligations and other long-term liabilities, including certain maturity profile information relating thereto, is set out in Note 28, Note 29, Note 38 and Note 39 to the Accountants' Report included in Appendix I to this prospectus, respectively.

CERTAIN FINANCIAL RATIOS

The following table sets forth certain financial ratios as of the dates indicated:

	As of/for the year ended 31 December		
	2011	2012	2013
	%	%	%
Return on equity[(1)]	11.8	11.1	17.3
Return on total assets[(2)]	6.8	6.6	9.7
Current ratio[(3)]	106.0	123.1	126.8
Debt to equity ratio[(4)]	14.5	6.7	21.7
Gearing ratio[(5)]	18.7	17.6	22.0

Notes:

(1) Return on equity ratio is profit for the year as a percentage of total equity as of year-end.

(2) Return on total assets ratio is profit for the year as a percentage of total assets as of year-end.

(3) Current ratio is total current assets as of year-end as a percentage total current liabilities as of year-end.

(4) Debt to equity ratio is net debt as of year-end as a percentage of total equity as of year-end. Net debt equals total borrowings as of year-end less cash and cash equivalents as of year-end.

(5) Gearing ratio is total borrowings as of year-end as a percentage of total assets as of year-end.

Return on Equity

As of 31 December 2011, 2012 and 2013, our return on equity was 11.8%, 11.1% and 17.3%, respectively. The variations in our return on equity are primarily derived from changes in our profit levels for the corresponding year. The primary driver of changes to our total equity over the Track Record Period have been retained earnings. In 2011, our retained earnings were adversely affected by withholding taxes in respect of subsidiary-level PRC withholding taxes on upstream dividends paid to our Company by our subsidiaries. The significant increase in our return on equity in 2013 primarily resulted from our increased profits for the year.

Return on Total Assets

As of 31 December 2011, 2012 and 2013, our return on total assets was 6.8%, 6.6% and 9.7%, respectively. The primary driver of our total assets growth over the Track Record Period has been capital expenditure on our production facilities, and the increase in our return on total assets reflects our increasing returns on those investments. The significant increase in our return on total assets in 2013 primarily resulted from our increased profits for the year.

Current Ratio

As of 31 December 2011, 2012 and 2013, our current ratio was 106.0%, 123.1% and 126.8%, respectively. Please refer to "—Net Current Assets" above for further details of changes in our current assets and current liabilities over the Track Record Period.

Debt to Equity Ratio

As of 31 December 2011, 2012 and 2013, our debt to equity ratio was 14.5%, 6.7% and 21.7%, respectively. The primary driver of changes to our indebtedness during the Track Record Period were increases in our borrowing levels to finance our acquisition of Sichuan Luye in 2011, to partially fund our loan to Luye Investment in 2013, as well as to fund the growth of our business. The impact of increases in indebtedness were partially offset by

increases in our cash and cash equivalents, which generally grew in line with our business, except in 2013. In 2013, we pledged a substantial portion of our cash position to secure our borrowings. The primary driver of changes to our total equity over the Track Record Period have been retained earnings. In 2011, our retained earnings were adversely affected by withholding taxes in respect of subsidiary-level PRC withholding taxes on upstream dividends paid to our Company by our subsidiaries.

Gearing Ratio

As of 31 December 2011, 2012 and 2013, our gearing ratio was 18.7%, 17.6% and 22.0%, respectively. The primary driver of our total assets growth over the Track Record Period was capital expenditure on our production facilities. The primary driver of changes to our indebtedness during the Track Record Period was increases in our borrowing levels to finance our acquisition of Sichuan Luye in 2011, to partially fund our loan to Luye Investment in 2013, as well as to fund the growth of our business.

MARKET RISKS

We are exposed to various types of financial and market risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Our board of directors reviews and agrees policies for managing each of these risks.

Interest Rate Risk

Interest rate risk arises from the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates. Our exposure to the interest rate risk primarily to our debt obligations with floating interest rates.

In order to mitigate interest rate risk, we adopt a policy to manage interest cost using a combination of fixed and floating rate debts. We seek to maintain between 30% and 80% of our interest-bearing loans and borrowings at fixed interest rates. We did not enter into any hedging transactions in respect of interest rate risk during the Track Record Period.

Please refer to Note 43 "Financial Risk Management Objectives and Policies—Interest Rate Risk" to the Accountants' Report included in Appendix I to this prospectus for further details of the interest rate risk we face, including a sensitivity analysis of our exposure to changes in the RMB interest rate.

Foreign Currency Risk

We primarily operate in the PRC and are exposed to foreign currency risk arising from fluctuations in exchange rates between RMB and other currencies in which we conduct our business. We are subject to foreign currency risk attributable to our bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. We seek to limit our exposure to foreign currency risk by minimising our net foreign currency position. We did not enter into any hedging transactions in respect of foreign currency risk during the Track Record Period.

Please refer to Note 43 "Financial Risk Management Objectives and Policies—Foreign Currency Risk" to the Accountants' Report included in Appendix I to this prospectus for further details of the foreign currency risk we face, including a sensitivity analysis of our exposure to changes in foreign currency exchange rates.

Credit Risk

Credit risk arises mainly from the risk that counterparties may default on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged short-term deposits, available-for-sale financial assets, other receivables and amounts due from related parties represent our maximum exposure to credit risk in relation to financial assets.

In respect of trade receivable, we conduct credit verification procedures on all customers who wish to trade on credit terms. Our finance team monitors receivable balances on a monthly basis, and, in case of trade receivables, will refer questionable balances to the relevant sales representation to pursue collections. For transactions that are not denominated in the functional currency of the relevant operating subsidiary, we do not offer credit terms without the specific approval of our senior management. As we mainly trade with recognised and creditworthy third parties after conducting credit verification procedures, we do not require collateral from our customers.

We manage concentrations of credit risk by customer or counterparty and by geographical region. We have no significant concentrations of credit risk as our customer bases are widely dispersed across diverse geographic regions.

Please refer to Note 43 "Financial Risk Management Objectives and Policies—Credit Risk"; Note 22 "Trade and Notes Receivables" and Note 23 "Prepayments, Deposits and Other Receivables" to the Accountants' Report included in Appendix I to this prospectus for further details of the credit risk we face, including quantitative disclosure of our credit risk.

Liquidity Risk

We monitor risks of funding shortage using a recurring liquidity planning tool, which takes into consideration the maturity of both our financial investments and financial assets and projected cash flows from operations. We have maintained a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

Please refer to Note 43 "Financial Risk Management Objectives and Policies—Liquidity Risk" to the Accountants' Report included in Appendix I to this prospectus for further details of the liquidity risk we face, including quantitative disclosure of our liquidity risk.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table of our unaudited pro forma adjusted consolidated net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our net tangible assets as of 31 December 2013 as if it had taken place on that date. The table of unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net tangible assets had the Global Offering been completed as of 31 December 2013 or at any future date.

The unaudited pro forma adjusted consolidated net tangible assets set out below are calculated based on our audited consolidated net assets attributable to owners of our Company as of 31 December 2013, as shown in the Accountants' Report, the text of which is included in Appendix I to this prospectus, and is adjusted as described below:

	Consolidated net tangible liabilities of our Group attributable to the owners of our Company as of 31 December 2013[1]	Estimated net proceeds from the Global Offering[2]	Pro forma net tangible assets of our Group attributable to the owners of our Company as of 31 December 2013[3][4]	Pro forma net tangible assets of our Group attributable to the owners of our Company per Share as of 31 December 2013[3][4][5][6]	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$5.38 per Offer Share	1,285,385	2,737,347	4,022,732	1.21	1.51
Based on an Offer Price of HK$5.92 per Offer Share	1,285,385	3,016,824	4,302,209	1.30	1.62

Notes:

(1) The consolidated net tangible assets of our Group attributable to owners of our Company as of 31 December 2013, was determined as follow:

	RMB'000
Audited consolidated net assets of our Group as set out in Appendix I	1,897,695
Less: Non-controlling interests as set out in Appendix I	(128,653)
Less: Goodwill as set out in Appendix I	(347,356)
Less: Other intangible assets as set out in Appendix I	(136,301)
Consolidated net tangible assets attributable to owners of our Company	1,285,385

(2) The estimated net proceeds from the Global Offering are based on 667,540,000 Offer Shares of an indicative Offer Prices of HK$5.38 (equivalent to RMB4.31) and HK$5.92 (equivalent to RMB4.74) per Offer Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.8010 to HK$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a dividend of US$52,865,878 (equivalent to approximately RMB324,339,000 using an exchange rate of RMB6.1351 per US$1.00) declared by our Company to Luye Investment and a repurchase of 51,932,992 shares from Luye Investment for a total consideration of RMB200,000,000 in May 2014. Had the dividend and repurchase of shares been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK$1.32 (assuming an Offer Price of HK$5.38 per Share) and HK$1.42 (assuming an Offer Price of HK$5.92 per Share), respectively.

(4) No adjustment has been made to the pro forma adjusted net tangible liabilities of our Group attributable to owners of our Company as of 31 December 2013 to reflect any trading result or other transaction of our Group entered into subsequent to 31 December 2013.

(5) The pro forma adjusted net tangible assets of our Group attributable to owners of our Company as of 31 December 2013 per Share is arrived at after the adjustments referred to in note 2 in the preceding paragraph and on the basis that 3,321,073,843 Shares were in issue assuming the Capitalisation Issue and the Global Offering had been completed on 31 December 2013. It takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.

(6) For the purpose of this pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.8010 to HK$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and applicable Bermuda Law. While our Directors have the discretion to declare and pay any interim dividends, any declaration of final dividends would require the approval of our Shareholders in a general meeting. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves, and such statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

MATERIAL RELATED PARTY TRANSACTIONS

Details of our transactions with related parties during the Track Record Period are set out in Note 40 to the Accountants' Report included in Appendix I to this prospectus.

As of 31 December 2013, we had amounts due from Luye Investment, our immediate holding company, of RMB308.7 million, which represented a loan we made to Luye Investment in order for Luye Investment to pay off its US$80 million term loan from CITIC Bank International Limited that originally funded the privatisation of our Company in 2012. As of 31 March 2014, our amounts due from Luye Investment increased to RMB524.3 million. The increase represented additional funds we provided to Luye Investment for the same purpose. In May 2014, we declared dividends of US$52,865,878 (equivalent to approximately RMB324.3 million using a rate of RMB6.1351 per US$1.00) and repurchased 51,932,992 Shares from Luye Investment for consideration of RMB200 million, and Luye Investment used the dividends and the consideration from the share repurchase to settle the loan. Consequently, the settlement did not have an impact on our cash position. The settlement resulted in a

reduction in our assets in an amount equal to the settled loan amount, an aggregate reduction in our Company's issued capital and share premium in an amount equal to the consideration for the share repurchase, and an aggregate reduction in our retained earnings and share premium in an amount equal to the amount of the dividend.

As of 31 December 2013, we had amounts due from Shandong Biological Technology, a non-wholly owned subsidiary of Luye Investment Group, which is in turn owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian as to 70%, 15% and 15%, of RMB12.9 million. These amounts due consisted our RMB12.0 million partial prepayment of the consideration for our purchase of two buildings from Shandong Biological Technology (please refer to "Connected Transaction" for further details of the property sale and purchase agreement) and RMB953,000 in consideration due as a result of our sale of materials to Shandong Biological Technology. Pursuant to the property sale and purchase agreement, the buildings will be delivered at the end of 2014, upon which the prepayments will be fully settled. The outstanding balance due from Shandong Biological Technology relating to the sale of materials was fully settled in the first quarter of 2014.

As of 31 December 2013, we had amounts due from Steward Cross, in which we hold a 36% interest, of RMB2.3 million. The amounts reflected on-going trading in the normal course of our business. As of 31 March 2014, RMB1.87 million of the amounts due from Steward Cross had been settled. The remaining RMB0.43 million was settled in the second quarter of 2014.

As of 31 December 2013, we had amounts due from AsiaPharm (Singapore) Pte. Ltd., which is controlled by Mr. Liu Dian Bo, of RMB2.0 million and amounts due to AsiaPharm (Singapore) Pte. Ltd. of RMB0.9 million. The net amount was settled in the second quarter of 2014.

As of 31 December 2013, we had amounts due from AsiaPharm Holdings, a holding company of our Company, and Luye Holdings, an intermediate holding company of our Company, of RMB0.2 million and RMB32,000, respectively. These amounts were settled by the relevant entity in the second quarter of 2014.

As of 31 December 2013, we had amounts due to Shandong Biological Technology of RMB36.0 million, reflecting an advance payment we received in respect of our sale of R&D-related inventory to the Shandong Biological Technology group. The transaction was completed in the first quarter of 2014, upon which the outstanding balance due to Shandong Biological Technology was fully settled.

We do not believe the settlement of the amounts due from and to related parties will have a material impact on our financial position.

Our Directors confirm that any material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

DISTRIBUTABLE RESERVES

As of 31 December 2013, we had distributable reserves of RMB97.5 million available for distribution to our Shareholders.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

Assuming an Offer Price of HK$5.65 per Share (being the mid-point of the indicative offer price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, which are payable by us are estimated to amount in aggregate to be approximately RMB144.0 million. We did not incur listing expenses during the Track Record Period. We expect to charge approximately RMB37.6 million of the estimated listing expenses to profit or loss during 2014 and to capitalise approximately RMB106.4 million following the Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since 31 December 2013, being the date of our consolidated financial statements as set out in the Accountants' Report included in Appendix I to this prospectus.

CONTROLLING SHAREHOLDER

Immediately after the completion of the Capitalisation Issue and the Global Offering, and assuming that the Over-allotment Option is not exercised, Mr. Liu Dian Bo, our Executive Chairman and Chief Executive Officer, will be interested in and control indirectly through Luye Investment approximately 45.4% of our issued share capital and will remain as our controlling shareholder under the Listing Rules. Luye Investment is wholly owned by Luye International which in turn is wholly owned by Luye Holdings. The entire issued ordinary share capital of Luye Holdings is held by AsiaPharm Holdings which in turn is owned as to 70% by Ginkgo Trust Limited as trustee of the Liu Family Trust and 15% by each of Mr. Yang Rong Bing and Mr. Yuan Hui Xian (each an Executive Director). The principal activities of Luye Investment, Luye International, Luye Holdings and AsiaPharm Holdings are investment holding.

WUHU LUYE

Background

Separately from his interest in our Group, Mr. Liu Dian Bo is interested in the equity interest of Wuhu Luye. Wuhu Luye is a company with limited liability established in the PRC on 16 April 2001. It is owned as to 90% by Luye Investment Group and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party. Luye Investment Group is owned by the Founding Shareholders as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang Rong Bing and Mr. Yuan Hui Xian (each an Executive Director). Wuhu Luye is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology. Based on the audited financial statements of Wuhu Luye prepared in accordance with PRC general accepted accounting principles, for the years ended 31 December 2011, 2012 and 2013, Wuhu Luye recorded revenue of RMB121.6 million, RMB114.9 million and RMB123.8 million, respectively and a net profit of RMB6.7 million, RMB9.3 million and RMB3.1 million, respectively.

In preparation of the Listing, our Directors have considered whether or not to acquire Luye Investment Group's interest in Wuhu Luye. However, after careful consideration and for the reasons set out below, our Directors have decided that it is not in the best interest of our Company to include the business of Wuhu Luye as part of our Group.

Since its establishment in 2001, Wuhu Luye has been primarily focused on the production and sale of non-patented Chinese medicine developed from herbal extracts based on basic technology. Whereas our Group's key products are chemical drugs except for Xuezhikang which is a multiple-patent protected Chinese medicine based on advanced technology. Wuhu Luye and our Group employ different models of operations and management in terms of development and production of pharmaceutical products as well as formulation of procurement, sales and marketing strategies. The key products of Wuhu Luye and our Group, as approved by the CFDA, are indicated for treatment of different illnesses and are registered under different classification. For these reasons, the two lines of business of our Group and Wuhu Luye have been operated separately since their establishment in 1994 and 2001, respectively.

In around 2004 when we prepared for our listing on SGX-ST, our Company had the opportunity to consider whether to include Wuhu Luye within our Group, but decided not to as our Directors were then of the view that the business of Wuhu Luye was neither complementary to nor did it compete against with our business. Accordingly, at the time our Company was listed on SGX-ST, our Group did not include the business of Wuhu Luye. Subsequently, following the privatisation and delisting of our Company from SGX-ST, our shareholders (including the Existing Investors) took the opportunity to re-evaluate the business structure of our Group with the aim to improve the efficiency of our business and ensure all interests of the shareholders are aligned. Nevertheless, our shareholders concluded that it was not in the best interest of our Company to acquire Wuhu Luye's business and to include it as part of our Group given that Wuhu Luye effectively operates in a different sphere of market and its business is not expected to generate synergies within our Group. Therefore, Wuhu Luye has never been part of our Group and it will not form part of our Group following the completion of the Global Offering. Luye Investment Group does not have any present intention to inject its interest in Wuhu Luye to our Group. However, in the interest of our Shareholders, Luye Investment Group has granted a pre-emptive right to our Company if Luye Investment Group intends to transfer its interest in Wuhu Luye. Please refer to "—Future Plan" below for further details of our arrangements with Wuhu Luye.

We believe that there is clear delineation between our Group and Wuhu Luye on the following basis:

- Wuhu Luye and our Group have different business focus. Wuhu Luye is primarily focused on the production and sale of traditional Chinese medicine. The three key products of Wuhu Luye, namely Ginkgo Biloba capsule (銀杏葉膠囊), Yinao capsule (益腦膠囊) and Yiganling soft capsule (益肝靈軟膠囊), which accounted for approximately 53%, 17% and 8% of the total revenue of Wuhu Luye for 2013, respectively, are all classified by CFDA under its Chinese medicine catalogue in the lower categories. Ginkgo Biloba capsule is a Type 4 Chinese medicine (being new application and dosage of an existing ingredient) registered in 1990's, and both Yinao capsule and Yiganling soft capsule are classified as Type 9 Chinese medicines (being replicates of existing Chinese medicine). The composition and manufacturing process of Wuhu Luye's key products are based on basic technology. Wuhu Luye's key products have no exclusivity in the market and face fierce competition from other manufacturers who produce similar products. According to the CFDA, as of 20 June 2014, there were 122, 48 and 118 valid manufacturing permits issued to multiple manufacturers, including Wuhu Luye, for the manufacturing of Ginkgo Biloba, Yinao and Yiganling pharmaceutical products, respectively, in the PRC. In addition, Wuhu Luye does not engage in R&D activities.

- Compared to our Group, except for Xuezhikang, all the key products of our Group are chemical drugs (not Chinese medicine). Although Xuezhikang is a Chinese medicine, it is classified in a higher category under the CFDA's Chinese medicine catalogue as a Type 3 Chinese medicine (being new replacement of an ingredient). Xuezhikang is patent-protected, listed in the Medical Insurance Catalogue and the National List of Essential Drugs, and enjoys exclusivity in China—according to CFDA, we are the only manufacturer of Xuezhikang in the PRC. Unlike the products of Wuhu Luye, most of our products are developed based on advanced technology and protected by single or multiple patents. Our sales of patent-protected products accounted for 92.2%, 85.9% and 83.6% of our total revenue for 2011, 2012 and 2013, respectively. Our key products and those of Wuhu Luye are indicated for treatment of different illnesses, and their markets do not overlap. Our Directors are

of the view that there is no competition between the products of our Group and those of Wuhu Luye. Although Ginkgo Biloba capsule, the key product of Wuhu Luye, can be classified as a product in the cardiovascular therapeutic area, being the same therapeutic area as Xuezhikang, Xuezhikang and Ginkgo Biloba capsule do not compete with each other for the following reasons:

Product	Targeted illness	Indication	CFDA classification	Patent-protected	Total number of manufacturing permits issued in the PRC as of 20 June 2014
Xuezhikang. . .	Hyper-cholesterolaemia	Reduce total blood cholesterol, triglycerides and low density lipoprotein (bad cholesterol), increase high density lipoprotein (good cholesterol), inhibit atherosclerotic plaque formation, protect vascular endothelial cells and inhibit lipid deposition in the liver	Type 3 Chinese medicine (being new replacement of an ingredient)	Yes—We hold patents over our compositions, separation methods, inspection methods, preparation methods as well as packaging & design of Xuezhikang in the PRC	One for Xuezhikang
Ginkgo Biloba capsule	Coronary heart disease and angina	Help improve blood flow to the brain and reduce blood stagnation that can lead to multiple diseases including chest pain, stroke, paralysis or even Myocardial infarction	Type 4 Chinese medicine (being new application and dosage of an existing ingredient)	No	122 for Ginkgo Biloba pharmaceutical products

- The key licences, permits and certificates relating to the business and operations of Wuhu Luye and our Group (including the drug production licence, GSP, GMP and the product manufacturing permit) are issued in their respective names, independent from each other.

- Wuhu Luye and our Group are managed by different management teams. The daily operation of Wuhu Luye is supervised by its senior management team led by Mr. Zhao Jian, the general manager, who has been working for Wuhu Luye for over seven years. Mr. Zhao Jian is not an employee of our Group. Although two of our Directors, Mr. Liu Dian Bo and Mr. Yang Rong Bing, are also directors of Wuhu Luye, they are appointed as representatives from Luye Investment Group, a shareholder of Wuhu Luye, and they only participate in the high level strategic decisions of Wuhu Luye at board meetings. They are not involved in the daily operation of Wuhu Luye.

- Wuhu Luye and our Group are operated independently and at arm's length from each other. The production of Wuhu Luye and our Group is carried out at different and separate production facilities. Our Group and Wuhu Luye have their own respective procurement teams to source raw materials and suppliers. The sales and marketing activities of Wuhu Luye are devised and carried out independently. During the Track Record Period, our Group did not have any transactions with Wuhu Luye.

- Wuhu Luye and our Group have independent financial and accounting systems, which are reviewed by their respectively internal audit teams and external auditors separately.

Future Plan

As set out in "Non-compete Undertaking" below, Mr. Liu Dian Bo has provided a deed of non-compete undertaking in favour of our Company for itself and as trustee for other members of our Group, pursuant to which Mr. Liu Dian Bo will refrain from engaging in activities that may compete with our Group except for the existing business (as defined therein) on the terms of that deed.

Further, Luye Investment Group has executed an undertaking dated 20 June 2014 in favour of our Company conditional upon Listing, whereby if Luye Investment Group intends to transfer its interest in Wuhu Luye to a party other than its shareholders or any of their associates, subject to the relevant laws, regulations and governmental approvals and also subject to any existing prior right of first refusal of any party granted by Wuhu Luye's shareholder or by operation of law, Luye Investment Group will notify our Company of such intention in writing. If we decide not to take up such interest or do not respond to such notice within 30 days from the notice, Luye Investment Group may transfer such interest to a third party on terms not more favourable than those offered to our Company in any material respects at any time within 12 months following the expiry of the 30 days' notice period. When deciding whether to acquire interest in Wuhu Luye, the Founding Shareholders will abstain from deliberation at the relevant Board meeting. If we decide to acquire interest in Wuhu Luye, it will be a connected transaction and we will comply with all the applicable requirements under the Listing Rules.

Shandong Luye has granted a licence to Wuhu Luye to use our Luye trademark for a period of three years starting from 24 March 2014 for an annual licence fee of RMB50,000. Wuhu Luye has undertaken to indemnify us for any losses or damages we may suffer as a result of Wuhu Luye's use of the trademark.

Luye Investment Group's obligations under the above arrangement is in addition to Mr. Liu's obligations under the deed of non-compete undertaking as described below under "Non-compete Undertaking", and Mr. Liu and his associates will not interfere with any decision to be made by our Company under this arrangement.

Our Directors including the Independent Non-executive Directors believe that the above arrangements would effectively reduce any potential competition issue between our Group and Wuhu Luye and the interest of our Shareholders would be protected.

INDEPENDENCE FROM CONTROLLING SHAREHOLDER

Management Independence

Although the Executive Directors and Non-Executive Directors are also directors of Luye Investment, Luye International and Luye Holdings, and the Founding Shareholders are the directors of AsiaPharm Holdings, these companies are investment holding companies and other than the interest in our Company (and in these holding companies), these holding companies do not have any other business. Therefore the time required for the Executive Directors and Non-Executive Directors to attend to the affairs of Luye Investment, Luye International, Luye Holdings and AsiaPharm Holdings is limited. Further, the day-to-day management of our business is primarily rested with our Board of Directors as well as other members of our senior management team referred to in "Directors and Senior Management—Senior Management". We consider that our Board and other members of our senior management team will function independently from our controlling shareholder because:

- each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;

- none of our non-director senior management team holds any position in Luye Investment, Luye International, Luye Holdings and AsiaPharm Holdings; and

- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director are obliged to declare and fully disclose such potential conflict of interest and shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Operational Independence

Our Company (through our subsidiaries) holds all relevant licences and owns intellectual properties and production and research and development facilities necessary to carry on our business of developing, producing, marketing and selling innovative pharmaceutical products. We also have sufficient capital, facilities, equipment and employees to operate our business independently from our controlling shareholder.

To the best knowledge of our Directors, all our suppliers, third party promoters and distributors are independent third parties.

Financial Independence

Our Company has historically had, and will following completion of the Global Offering, continue to have, our own internal control and accounting systems, our own finance department responsible for discharging the treasury function for cash and receipts and payments, accounting, reporting and internal control functions independent from Mr. Liu Dian Bo. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on the controlling shareholder.

In light of the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, Mr. Liu Dian Bo and his associates after the Listing.

NON-COMPETE UNDERTAKING

Undertaking by Mr. Liu Dian Bo

Our controlling shareholder, Mr. Liu Dian Bo, has executed a deed of non-compete undertaking dated 19 June 2014 in favour of our Company for itself and as trustee for other members of our Group. Pursuant to the deed of non-compete, Mr. Liu has undertaken to our Company that conditional upon Listing, he will not carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any member of our Group in relation to developing, producing, marketing and selling innovative pharmaceutical products (the "**Restricted Business**").

Notwithstanding the foregoing, Mr. Liu may:

- carry on, engage, invest, participate or otherwise be interested in such Restricted Business where the opportunity to carry on, engage, invest, participate or otherwise be interested in such Restricted Business has first been offered or made available to our Company, and our Company, after review and approval by our Independent Non-Executive Directors or Shareholders as required under relevant laws and regulations, has declined such opportunity, provided that the principal terms by which Mr. Liu or any of his associates subsequently engages, invests, participates or otherwise is interested in such Restricted Business are not more favourable in any material aspect than those offered or made available to our Company;

- has interests in shares or other securities representing not more than 10% of a company conducting any Restricted Business whose shares are listed on the Stock Exchange or any other stock exchange provided that Mr. Liu is not in a position to control the board of directors of such company and that Mr. Liu is not the single largest shareholder of such company; and

- continue to hold his interests in any of those companies in which he has an interest as of the date of the non-compete undertaking and as disclosed in this section of the prospectus, provided that these companies do not expand to carry on the Restricted Business.

The non-competition undertakings will terminate on the earlier of the date on which (i) Mr. Liu and his associates in aggregate cease to hold 30% or more of our entire issued share capital or otherwise ceases to be a controlling shareholder, and (ii) the Shares cease to be listed and traded on the Stock Exchange.

Corporate Governance Measures

We will adopt the following corporate governance measures to consider new business opportunities referred to us, to manage any potential conflicts of interest arising from any future potential competing business of our controlling shareholder and to safeguard the interests of our Shareholders:

- Our Independent Non-Executive Directors will review, at least on an annual basis, the compliance with the non-competition undertakings by Mr. Liu and any decisions in relation to new business opportunities referred to us.

- Our Independent Non-Executive Directors will be responsible for deciding, without attendance by any Executive Director (except as invited by our Independent Non-Executive Directors to assist them or provide any relevant information but in no circumstances shall the Executive Directors participate in such meeting be counted towards the quorum or allowed to vote in such meeting), whether or not to take up a new business opportunity referred to us under the terms of the non-competition undertakings.

- Our Independent Non-Executive Directors may employ an independent financial adviser as they consider necessary to advise them on the terms of any new business opportunity.

- Mr. Liu Dian Bo has undertaken to us to provide all information necessary for the annual review by our Independent Non-Executive Directors and the enforcement of the non-competition undertakings.

- We will disclose the review by our Independent Non-Executive Directors relating to the compliance with, and the enforcement of, the non-competition undertakings in our annual report.

- Mr. Liu Dian Bo will make an annual declaration of his compliance with the non-competition undertakings in our annual reports.

In the event that our Company decides not to proceed with any business opportunities referred to us and that Mr. Liu or any of his associates decides to proceed with such business opportunity, we will disclose such decision in our annual reports to Shareholders setting out the basis for us not taking the business opportunity.

Our Group has entered into the transaction described below which, after Listing, will become a connected transaction pursuant to the provisions of the new Chapter 14A of the Listing Rules which come into effect from 1 July 2014 ("New Chapter 14A").

ACQUISITION OF PROPERTIES

On 20 December 2013, Shandong Luye entered into a property sale and purchase agreement with Shandong International Biological Technology Co. Ltd. ("Shandong Biological Technology"), pursuant to which Shandong Biological Technology agreed to sell and Shandong Luye agreed to purchase two buildings located in Yantai, Shandong Province, the PRC for a total consideration of RMB117,863,262. Shandong Biological Technology is principally engaged in the business of developing Shandong International Biological Technology Park located in the High-Tech Zone, Yantai, Shandong Province, the PRC. The address of Shandong Biological Technology is No. 39 Technology Revenue, High-Tech Zone, Yantai, Shandong Province, the PRC.

The properties comprise two buildings located in Shandong International Biological Technology Park, No. 39 Technology Revenue, High-Tech Zone, Yantai, Shandong Province, the PRC. The properties are currently under construction and are expected to have a total planned gross floor area of approximately 24,251.70 square metres upon completion. The properties are scheduled for delivery by end of 2014.

The total consideration for the acquisition of the properties is RMB117,863,262, which was arrived at after arm's length negotiation between the parties based on the prevailing market price for similar properties in the areas transacted around the time of the negotiation. The consideration is to be satisfied by instalment payments as follows, except that on the occurrence of the Listing, the entire outstanding balance of the consideration shall become payable within six months from the date of Listing:

Timing	Accumulative payment amount
Within 15 days after signing of the agreement. . . .	RMB50 million
By 30 June 2014	RMB70 million
By 30 June 2015	RMB90 million
By 30 June 2016	RMB110 million
By 30 June 2017	The balance of the consideration

We intend to settle the consideration for the acquisition using our own internal resources.

The properties will be used by our Group for research and development activities. As our business continues to grow, we need more space to accommodate our expanding R&D team. After searching for possible sites, we believe Shandong International Biological Technology Park is a good venue for this purpose, as we understand that Shandong International Biological Technology Park, when completed, will be an important research and development hub in the region and most of the other occupants will be research institutes.

Our Directors, including our Independent Non-Executive Directors, are of the view that the terms and conditions of this acquisition are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

Shandong Biological Technology is a non-wholly owned subsidiary of Luye Investment Group, which is in turn owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian as to 70%, 15% and 15%, respectively. As such, Shandong Biological Technology will be a connected person of our Group upon Listing and this acquisition will constitute a connected transaction of our Group.

Since the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules calculated with reference to this acquisition are over 0.1% but less than 5%, this connected transaction is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76 of the New Chapter 14A.

A resolution of the Board approving and ratifying this acquisition was passed on 19 June 2014. Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, having material interest in the transaction, would have been required under the Listing Rules to abstain from voting if our Company were listed. All of them abstained from voting on the resolution approving the acquisition.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalisation Issue and the Global Offering:

Authorised Share Capital

Number of Shares	Aggregate nominal value of Shares (US$)
10,000,000,000	200,000,000

Issued Share Capital

Number of Shares	Description of Shares	Aggregate nominal value of Shares (US$)	Approximate % of the issued share capital
440,831,908	Shares in issue as of the date of this prospectus	8,816,638	13.3%
2,212,701,935	Shares to be issued under the Capitalisation Issue	44,254,039	66.6%
667,540,000	Shares to be issued under the Global Offering	13,350,800	20.1%
3,321,073,843		66,421,477	100.0%

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this prospectus except with respect to entitlements under the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Bermuda Companies Act and the terms of our Memorandum and Bye-laws, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders' special resolution. Please refer to "Summary of the Constitution of our Company and Bermuda Companies Act—2. Bye-laws—(c) Alteration of capital" in Appendix III to this prospectus for further details of the alteration of capital pursuant to our Company's Bye-laws.

Pursuant to the Bermuda Companies Act and the terms of our Memorandum and Bye-laws, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. Please refer to "Summary of the Constitution of our Company and Bermuda Companies Act—2. Bye-laws—(d) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus for further details of the variation of rights of existing shares or classes of shares pursuant to our Company's Bye-laws.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering; and

- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed "General Mandate to Repurchase Shares" below.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

- the expiration of the period within which our Company's next annual general meeting is required by the Bye-laws or any other applicable laws to be held; or

- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to "A. Further Information about Our Company and Our Subsidiaries—3. Resolutions of the Shareholder of our Company" in Appendix IV to this prospectus for further details of this general mandate to allot, issue and deal with Shares.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in "A. Further Information about Our Company and Our Subsidiaries—5. Repurchase of Our Own Securities" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

- the expiration of the period within which our Company's next annual general meeting is required by the Bye-laws or any other applicable laws to be held; or

- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to "A. Further Information about Our Company and Our Subsidiaries—3. Resolutions of the Shareholder of our Company" in Appendix IV to this prospectus for further details of the Repurchase Mandate.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with six investors (the "**Cornerstone Investors**" and each a "**Cornerstone Investor**"), who in aggregate have agreed to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) that may be purchased with an aggregate amount of approximately US$280,000,000 (equivalent to HK$2,170,425,000) (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$5.65, being the mid-point of the indicative offer price range stated in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 384,144,000 Shares, representing approximately 38.42% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 11.56% of our total issued share capital after the Capitalisation Issue and the Global Offering.

The Cornerstone Placing forms part of the International Offering. The Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in "Structure of the Global Offering—The International Offering—Reallocation". Details of the allocations to Cornerstone Investors will be disclosed in the announcement of results of allocations to be published on or about Tuesday, 8 July 2014.

Each of the Cornerstone Investors is an independent third party of our Company and is independent from each other. The Shares to be subscribed for by the Cornerstone Investors will be counted towards the public float of our Company and will rank *pari passu* with the Shares then in issue and to be listed on the Stock Exchange. Other than the subscription pursuant to the cornerstone investment agreements, the Cornerstone Investors have agreed not to subscribe for any Offer Shares under the Global Offering. Immediately following the completion of the Capitalisation Issue and the Global Offering, none of the Cornerstone Investors will have any Board representation in our Company, nor will any of them become a substantial shareholder of our Company.

THE CORNERSTONE INVESTORS

The table below sets forth details of investments by the Cornerstone Investors (in alphabetical order):

Cornerstone Investors	Investment amount (US$)[1]	Investment amount (HK$)[1]	Number of Shares[2]	Percentage of total number of Offer Shares[2][3]	Percentage of shareholding interest in our Company immediately following the Capitalisation Issue and the Global Offering[2]
Dragon Billion China Master Fund/LMA SPC	47,747,301/ 2,252,699	370,113,204/ 17,461,796	65,506,500/ 3,090,500	6.55%/ 0.31%	1.97%/ 0.09%
Macquarie Funds Management Hong Kong Limited	25,000,000	193,787,500	34,298,500	3.43%	1.03%
Minmetals Capital (Hong Kong) Limited	25,000,000	193,787,500	34,298,500	3.43%	1.03%
OrbiMed Advisors LLC	50,000,000	387,575,000	68,597,000	6.86%	2.07%
TAL China Focus Master Fund	30,000,000	232,500,000	41,158,500	4.12%	1.24%
Value Partners Hong Kong Limited	100,000,000	775,200,000	137,194,500	13.72%	4.13%
Total	280,000,000	2,170,425,000	384,144,000	38.42%	11.56%

Notes:

(1) Exclusive of brokerage, SFC levy and the Stock Exchange trading fee.

(2) Rounded down to the nearest whole board lot of 500 Shares, assuming an Offer Price of HK$5.65 (being the mid-point of the indicative offer price range stated in this prospectus).

(3) Assuming the Over-allotment Option is not exercised.

The information in respect of the Cornerstone Investors (in alphabetical order) set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

Dragon Billion China Master Fund and LMA SPC (on behalf of Map 109 Segregated Portfolio)

Dragon Billion China Master Fund is an exempted company incorporated in the Cayman Islands with limited liability in July 2008. Map 109 Segregated Portfolio is a segregated portfolio of LMA SPC. LMA SPC is an exempted company incorporated in the Cayman Islands and established as a segregated portfolio company with limited liability in November 2005. Dragon Billion China Master Fund and the Map 109 Segregated Portfolio focus on the investments of Chinese companies listed in the PRC, Hong Kong, the United States and other global markets. Both funds are managed by Prime Capital Management Company Limited ("**Prime Capital**"), a limited liability company registered in Hong Kong since July 2004. Prime Capital obtained the licences from the SFC and the U.S. Securities & Exchange Commission in September 2004 and March 2006, respectively. Prime Capital had assets under management of US$2.3 billion as of 31 December 2013.

Macquarie Funds Management Hong Kong Limited

Macquarie Funds Management Hong Kong Limited ("**MFMHKL**") is a wholly-owned subsidiary of the Macquarie group. MFMHKL was incorporated in Hong Kong on 21 July 2000 and is a corporation licensed to provide advice on securities and carry out asset management activities under the SFO. MFMHKL is an entity that operates within Macquarie funds group, a specialist fund manager which combines the entrepreneurial nature of the boutique investment manager with Macquarie group's expertise in equity trading and risk management. MFMHKL is subscribing for the Offer Shares as agent for and on behalf of certain funds managed or sub-managed by it.

Minmetals Capital (Hong Kong) Limited

Minmetals Capital (Hong Kong) Limited, incorporated in Hong Kong, is a wholly-owned subsidiary and a financial investment arm of China Minmetals Corporation (中國五礦集團公司). China Minmetals Corporation is an international metals and mining corporation primarily engaged in exploration, mining, smelting, processing and trading of metals and minerals. China Minmetals Corporation also has subsidiaries engaged in the business of finance, real estate, and mining and metallurgic technology.

China Minmetals Corporation controls nine listed companies in the PRC and abroad, ranking No.192 amongst the Fortune Global 500 and No.5 amongst metal companies in 2013.

OrbiMed Advisors LLC

OrbiMed Advisors LLC is an investment firm dedicated exclusively to the healthcare sector. OrbiMed invests globally across a spectrum of healthcare companies, from venture capital start-ups to large multinational companies. OrbiMed manages a series of private equity funds, public equity funds, royalty/debt funds and other investment vehicles.

TAL China Focus Master Fund

TAL China Focus Master Fund was incorporated in the Cayman Islands. The principal investment objective of TAL China Focus Master Fund is to achieve high absolute risk-adjusted returns through multi-strategy investment in companies whose performance is linked to economic development and changes in China. Pursuant to an investment advisory agreement, Trivest Advisors Limited acts as the investment adviser to TAL China Focus Master Fund.

Value Partners Hong Kong Limited

Value Partners Hong Kong Limited (together with Value Partners Group Limited and its other subsidiaries ("**Value Partners**")) was established in 1999. It acts as investment manager or investment adviser to certain investment funds. It is a wholly-owned subsidiary of Value Partners Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 806). Value Partners is one of Asia's largest independent asset management firms headquartered in Hong Kong. Value Partners manages absolute return long-biased funds, long-short hedge funds, exchange-traded funds, quantitative funds, as well as fixed income products for institutional and individual clients in Asia Pacific, Europe and the United States.

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

(1) the Underwriting Agreements being entered into, having become effective and unconditional by no later than the time and date as specified (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) in those agreements;

(2) neither of the Underwriting Agreements having been terminated;

(3) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares and that such approval or permission has not been revoked;

(4) the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investor and our Company are (as of the date of the respective cornerstone investment agreement) and will be (as of the closing (as defined in the respective cornerstone investment agreement)) accurate and true in all material respects and not misleading and there being no material breach of the respective cornerstone investment agreement on the part of the relevant Cornerstone Investor; and

(5) no laws or regulations shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the respective cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of each of our Company, the Joint Sponsors and the Joint Bookrunners, it will not, at any time during the period of six months following the Listing Date, dispose of (as defined in the respective cornerstone investment agreement) any of the Shares to be subscribed by the Cornerstone Investor pursuant to the respective cornerstone investment agreement. Each of the Cornerstone Investors may transfer all or part of the Shares so subscribed to any of its wholly-owned subsidiaries or common controlled entities (as the case may be), provided that such wholly-owned subsidiary or common controlled entity (as the case may be) undertakes in writing in favour of our Company, the Joint Sponsors and the Joint Bookrunners prior to such transfer that it will, and the Cornerstone Investor undertakes in writing in favour of our Company, the Joint Sponsors and the Joint Bookrunners prior to such transfer to procure that such wholly-owned subsidiary or common controlled entity (as the case may be) will, abide by the terms and restrictions imposed on the Cornerstone Investor as if the wholly-owned subsidiary or common controlled entity (as the case may be) were itself subject to such terms and restrictions.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons are expected to have an interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of substantial shareholder	Capacity/Nature of interest	Number of Shares/ underlying shares	Approximate% of interest in our Company
Luye Investment	Beneficial owner	1,509,819,930	45.4%
Luye International[2]	Interest in controlled corporation	1,509,819,930	45.4%
Luye Holdings[2]	Interest in controlled corporation	1,509,819,930	45.4%
AsiaPharm Holdings[2]	Interest in controlled corporation	1,509,819,930	45.4%
Nelumbo Investments Limited[3]	Interest in controlled corporation	1,509,819,930	45.4%
Ginkgo Trust Limited[3]	Trustee and interest in controlled corporation	1,509,819,930	45.4%
Shorea LBG[3]	Interest in controlled corporation	1,509,819,930	45.4%
Mr. Liu Dian Bo[3]	Settlor of a discretionary trust and interest in controlled corporation	1,509,819,930	45.4%
CPE Greenery	Beneficial owner	224,223,354	6.8%
CITIC PE Funds Limited[4]	Interest in controlled corporation	224,223,354	6.8%
CDH Flower	Beneficial owner	212,113,258	6.4%
CDH IV Holdings Company Limited[5]	Interest in controlled corporation	212,113,258	6.4%
Beyond Border	Beneficial owner	179,480,448	5.4%
New Horizon Capital Partners III Ltd.[6]	Interest in controlled corporation	179,480,448	5.4%

Name of substantial shareholder	Capacity/Nature of interest	Number of Shares/ underlying shares	Approximate% of interest in our Company
Tropical Excellence	Beneficial owner	195,796,853	5.9%
Minister for Finance[7] . . .	Interest in controlled corporation	195,796,853	5.9%

Notes:

(1) All interests stated are long positions.

(2) Luye Investment is wholly owned by Luye International, which is in turn wholly owned by Luye Holdings, therefore each of Luye Holdings and Luye International is deemed to be interested in 1,509,819,930 Shares held by Luye Investment.

(3) Nelumbo Investments Limited holds 70% of the issued share capital of AsiaPharm Holdings. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the Liu Family Trust. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo. The Liu Family Trust is a discretionary trust set up by Mr. Liu Dian Bo as settlor and Ginkgo Trust Limited as the trustee on 8 May 2014. The beneficiaries of the Liu Family Trust include certain family members of Mr. Liu Dian Bo.

(4) Immediately following the surrender of the Shares in CPE Greenery by CPE Palm Beach L.P. as described in "History and Development—Existing Investors", CPE Greenery will be wholly owned by CPEChina. The general partner of CPEChina is CITIC PE Associates, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is CITIC PE Funds Limited, a company incorporated in the Cayman Islands.

(5) CDH Flower is wholly owned by CDH PIL which is in turn wholly owned by CDH Fund IV. CDH IV Holdings Company Limited, a limited liability company incorporated under the laws of the Cayman Islands, is the general partner of CDH Fund IV.

(6) Beyond Border is approximately 81.82% owned by HHI, which is in turn wholly owned by NHC. The general partner of NHC is New Horizon Capital Partners III Ltd., a company incorporated in the Cayman Islands.

(7) Tropical Excellence is wholly owned by GIC (Ventures) Pte. Ltd., which is in turn wholly owned by Minister for Finance, a body corporate constituted under section 2(1) of the Minister for Finance (Incorporation) Act of Singapore.

Messrs. Liu Dian Bo, Yang Rong Bing and Yuan Hui Xian, each being an Executive Director, is also a director of AsiaPharm Holdings, Luye Holdings, Luye International and Luye Investment. Ms. Zhu Yuan Yuan, an Executive Director, is a director of Luye Holdings, Luye International and Luye Investment.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Capitalisation Issue and the Global Offering, have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of 11 members, four of whom are Independent Non-Executive Directors. The following table provides certain information about our Directors:

Name	Age	Date of joining our Group	Current position and role	Date of appointment as Director
Mr. LIU Dian Bo (劉殿波先生)	48	June 1994	Executive Chairman, responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group	July 2003
Mr. YUAN Hui Xian (袁會先先生)	55	June 1994	Executive Director, primarily responsible for our Group's public relations	July 2003
Mr. YANG Rong Bing (楊榮兵先生)	49	June 1994	Executive Director, primarily responsible for supervising our Group's production activities	July 2003
Ms. ZHU Yuan Yuan (祝媛媛女士)	33	August 2009	Executive Director, primarily responsible for Group's investors relationships	March 2014
Mr. PAN Jian (潘健先生)	38	March 2014	Non-Executive Director	March 2014
Mr. LIU Dong (劉東先生)	41	March 2014	Non-Executive Director	March 2014
Ms. WANG Xin (王欣女士)	36	March 2014	Non-Executive Director	March 2014
Mr. ZHANG Hua Qiao (張化橋先生)	51	June 2014	Independent Non-Executive Director	June 2014
Professor LO Yuk Lam (盧毓琳教授)	65	June 2014	Independent Non-Executive Director	June 2014
Mr. LEUNG Man Kit (梁民傑先生)	60	June 2014	Independent Non-Executive Director	June 2014
Mr. CHOY Sze Chung Jojo (蔡思聰先生)	55	June 2014	Independent Non-Executive Director	June 2014

The following table provides information about members of our senior management team:

Name	Age	Date joining our Group	Current position and role	Date of appointment as senior management
Mr. LIU Yu Bo (劉玉波先生) . . .	48	April 2009	Chief Operating Officer, Vice President and head of human resources, primarily responsible for our Group's sales and marketing	April 2009
Mr. LIU Yuan Chong (劉元沖先生) . . .	50	March 1997	Chief Financial Officer, primarily responsible for internal financial management and corporate finance	April 2005
Dr. LI You Xin (李又欣博士) . . .	52	October 2007	Vice President and head of R&D, primarily responsible for our R&D activities	October 2007
Ms. XUE Yun Li (薛雲麗女士) . . .	50	August 1994	Vice President, responsible for our Group's manufacturing activities	April 2008
Ms. JIANG Hua (姜華女士).	36	July 1998	Vice President and head of international business, primarily responsible for our corporate strategy, product portfolio management and our Group's international business	January 2008

Executive Directors

Mr. Liu Dian Bo, Executive Chairman, aged 48, is a founding member of our Group. He was appointed as a Director in July 2003. As our Executive Chairman, Mr. Liu is responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group. Prior to founding our Group, Mr. Liu was a teacher at Yantai Teacher's College from 1985 to 1989. From 1989 to 1993, Mr. Liu was the General Manager of Penglai Huatai Pharmaceutical Co. Ltd. From 1994 to 1999, Mr. Liu was the chairman cum general manager of Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Liu was the chairman cum president of Shandong Luye. Mr. Liu obtained a Medical Diploma from Yishui Special Medical College (now known as Shandong Medical College) in July 1985. Mr. Liu is the executive chairman of Shangdong Luye and Beijing WPU, and a director of the following subsidiaries of our Company: Luye Trading, Sichuan Luye, Shandong Luye Natural Drug R&D Co. Ltd., Shanghai Ge Lin Li Fu Business Consulting Co. Ltd., AsiaPharm Investments, AsiaPharm Biotech Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd.

Although the dual roles of Chairman and Chief Executive Officer is a deviation from the Corporate Governance Code under Appendix 14 to the Listing Rules, our Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. Liu provides our Company with strong and consistent leadership while allowing for effective and efficient planning and implementation of business decisions and

strategies. Mr. Liu has acted as the Executive Chairman acting in the capacity of the Chairman and Chief Executive Officer of our Company since July 2003. Our Board has recently reviewed the human resources function of our Company and believes that it is appropriate and in the best interests of our Company at the present stage for Mr. Liu to assume both positions. Our Board regularly meets to review the operations of our Company under Mr. Liu's leadership, and does not believe that this arrangement will have a negative influence on the balance of power between our Board and the management of our Company.

Mr. Yuan Hui Xian, aged 55, holds the office of Executive Director and is also a founding member of our Group. Mr. Yuan was appointed as a Director in July 2003 and is in charge of our Group's public relations. Prior to joining our Group in 1994, Mr. Yuan was a doctor with Shengli Petroleum Administrative Bureau Yantai Sanatorium from 1980 to 1994, where he was in charge of radiation diagnosis. From 1994 to 1999, Mr. Yuan was a Deputy General Manager with Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Yuan was the vice-president and executive director of Shandong Luye. He has also received a Post-graduate Certificate in National Economics from the China People's University in February 2003. Mr. Yuan is the executive chairman of Luye Trading and a director of the following subsidiaries of our Company: Shangdong Luye, Nanjing Luye Sike and Nanjing New AIGE Eggs Co. Ltd.

Mr. Yang Rong Bing, aged 49, holds the office of Executive Director and is also a founding member of our Group. Mr. Yang was appointed as an Executive Director on 1 March 2007 and was previously a Non-Executive Director from July 2003. Mr. Yang has also been a non-executive director of Shandong Luye since 2000. Prior to that, Mr. Yang was with Jiangsu Xuzhou Bio-Chemical Pharmaceutical Factory from 1988 to 1994 where he worked as an assistant factory head. In 1994, Mr. Yang joined Shandong Luye as a deputy general manager and from 1999 to 2000, he was the chief sales executive and executive director of Shandong Luye. Mr. Yang obtained a Bachelor's degree in Science from Beijing Normal University in July 1988. Mr. Yang is the executive chairman of Nanjing Luye Sike and a director of the following subsidiaries of our Company: Shangdong Luye, Luye Trading, Beijing WPU and Nanjing Luye Sike.

Ms. Zhu Yuan Yuan, aged 33, has been our Executive Director since March 2014. She joined our Group in August 2009 and has eight years of experience in corporate finance. Before joining our Group, she worked for New Asia Partners Investment Holdings Limited, a Shanghai and Hong Kong-based investment firm focused on assisting Chinese companies in accessing the international capital markets, principally by providing equity capital and corporate finance advisory services. She obtained her Master's degree in Corporate Strategy and Governance from the University of Nottingham in December 2004 and a Bachelor's degree in Finance from Southeast University, the PRC in June 2003. Ms. Zhu is a director of the following subsidiaries of our Company: Luye Hong Kong, Solid Success, Apex Group Holdings and Kang Hai Pharmaceutical. She is a supervisor of our subsidiary Beijing WPU.

Non-Executive Directors

Mr. Pan Jian, aged 38, has been our Non-Executive Director since March 2014. Mr. Pan is a managing director at CDH Investments, where he is responsible for sourcing, evaluating and executing investment opportunities in China. Mr. Pan has extensive experiences in finance and management consulting. Mr. Pan received his Bachelor's degree in Electrical Engineering from Shanghai Jiaotong University in July 1998 and a MBA degree from University of Chicago in March 2005.

Mr. Liu Dong, aged 41, has been our Non-Executive Director since March 2014. Mr. Liu joined CITIC Private Equity Funds Management Co., Ltd. in January 2009. He is a managing director in charge of investment in the healthcare sector. In addition to our Board, he also sits on the boards of Zhejiang Beingmate Technology Industry & Trade Co. Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002570) and Biosensors International Group, Ltd. (a company listed on the SGX-ST with symbol B20). Mr. Liu graduated from Nankai University with a joint Bachelor's degree in Physics and Finance in June 1995. He received an EMBA degree from China Europe International Business School in October 2011.

Ms. Wang Xin, aged 36, has been our Non-Executive Director since March 2014. Ms. Wang has extensive experience in investment analysis, financial advisory and legal services industry, focusing on areas of healthcare, consumer products and alternative energy. Ms. Wang is currently an executive director of the New Horizon group companies, and has been an investment professional at New Horizon and certain affiliates since April 2005. Ms. Wang obtained a Bachelor's degree in Professional Investment in Economics from Central University of Finance and Economics, the PRC in July 2000 and an Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2013. She was a director of Meihua Holdings Group Co. Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600873) between January 2011 and March 2012.

Independent Non-Executive Directors

Mr. Zhang Hua Qiao, aged 51, has been our Independent Non-Executive Director since June 2014. Mr. Zhang has 15 years of experience in working in the investment banking industry since 1994. He served as managing director and the co-head of China research team from June 1999 to April 2006 and the deputy head of China investment banking division of UBS AG, Hong Kong Branch from September 2008 to June 2011.

Mr. Zhang holds or held directorships in the following listed companies during the three years immediately prior to the date of this prospectus.

Name of the listed company	Term	position
Yancoal Australia Ltd, a company listed on the Australian Securities Exchange (stock code: YAL)	April 2014 to present	Independent non-executive director
Logan Property Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3380)	November 2013 to present	Independent non-executive director
China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290)	October 2013 to present	Independent non-executive director
Fuguiniao Co. Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1819)	May 2013 to present	Independent non-executive director
Nanjing Central Emporium (Group) Stocks Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600280)	March 2013 to present	Director
Zhong An Real Estate Limited, a company listed on the Main Board of the Stock Exchange (stock code: 672)	January 2013 to present	Independent non-executive director
Oriental City Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2012 to present	Non-executive director
Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 656)	March 2012 to present	Independent non-executive director
Boer Power Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1685)	November 2011 to present	Non-executive director
Man Sang International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 938)	September 2011 to April 2012	Executive director and chief executive officer

Mr. Zhang graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a Master's degree in Economics in 1986, and from the Australian National University with a Master's degree in Economics in January 1991.

Professor Lo Yuk Lam, aged 65, has been our Independent Non-Executive Director since June 2014. Professor Lo has extensive experience in biotechnology industry, corporate management, academic research and community service. Professor Lo currently sits on the Advisory Council on Food and Environment Hygiene of the Hong Kong Government. Previously, he was a member of the Hong Kong Government Research Grants Council. He also served as the Honorary Chairman of the Hong Kong Biotechnology Organisation of the Hong Kong Industry & Technology Development Council, and Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund.

In recognition of his leadership in the community and dedication to his field, Professor Lo has received many awards. In 2008, he received the prestigious "World's Outstanding Chinese" Award. He was awarded China's "Top Ten Financial and Intelligent Persons" in 2007 in recognition of his outstanding contribution to economic development and business innovation in China. In 2000, he was the first to be bestowed with the title of Honorary Fellow by the Hong Kong University of Science and Technology for his role in establishing Hong Kong's biotechnology industry.

Professor Lo holds or held directorships in the following listed companies during the three years immediately prior to the date of this prospectus.

Name of the listed company	Term	Position
CSPC Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1093)	June 2014 to present	Independent non-executive director
Sinovac Biotech Ltd., a company listed on NASDAQ Global Select Market (symbol SVA)	March 2006 to present	Independent director
South East Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 726)	January 2002 to December 2013	Independent non-executive director
ShangPharma Corporation, a company delisted from the New York Stock Exchange in April 2013	October 2010 to March 2013	Independent director

Professor Lo obtained an Honorary Doctorate of Philosophy in Business Management from York University in June 2008.

Mr. Leung Man Kit, aged 60, has been our Independent Non-Executive Director since June 2014. Mr. Leung has over 30 years of experience in project finance and corporate finance. He joined Chanceton Financial Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020), in March 2011, and has been its executive director since September 2011. He is also a responsible officer of Chanceton Capital Partners Limited. Previously, he was a director of Emerging Markets Partnership (Hong Kong) Limited, the principal adviser to the AIG Infrastructure Fund L.P. in 1999. He also held senior positions in the Hong Kong Branch of the Swiss Bank Corporation, SG Securities (HK) Limited (previously known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

Mr. Leung holds or held directorships in the following listed companies during the three years immediately prior to the date of this prospectus.

Name of the listed company	Term	position
Optics Valley Union Holding Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 798)	March 2014 to present	Independent non-executive director
China Huiyuan Juice Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1886)*	June 2012 to present	Independent non-executive director
Chanceton Financial Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020)	October 2011 to present	Executive director
Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1132)*	February 2008 to present	Independent non-executive director
China Ting Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3398)	November 2005 to present	Independent non-executive director
NetEase, Inc., a company listed on NASDAQ (symbol NTES)*	July 2002 to present	Independent non-executive director
Junefield Department Store Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 758)	December 2012 to May 2013	Independent non-executive director
Anhui Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 995)	August 2005 to August 2011	Independent non-executive director

Note:

* Mr. Leung is also the chairman of the audit committee of these companies.

Mr. Leung obtained a Bachelor's degree in Social Sciences from University of Hong Kong in October 1977.

Mr. Choy Sze Chung Jojo, aged 55, has been our Independent Non-Executive Director since June 2014. Mr. Choy has extensive experience in the securities industry and business management. He is currently the vice chairman of National Resources Securities Limited and the permanent honourable president and vice chairman of the Institute of Securities Dealers Ltd.

Mr. Choy is a fellow member of the Hong Kong Institute of Directors, the Institute of Financial Accountants and the Institute of Compliance Officer, the Securities Panel Co-ordinator of the Hong Kong Mediation Alliance, a member of the Stock Exchange Cash Market Consultative Panel and the Society of Registered Financial Planner Limited. Mr. Choy is also a member of the Election Council for Hong Kong Deputies to the 12th National People's Congress of the People's Republic of China, a member of the 4th term Chief Executive Election Committee of Hong Kong and a member of Chinese People's Political Consultative Conference, Shantou.

Mr. Choy holds or held directorships in the following listed companies during the three years immediately prior to the date of this prospectus.

Name of the listed company	Term	position
Orient Securities International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8001)	March 2010 to present	Independent non-executive director
Sparkle Roll Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 970)	October 2007 to present	Independent non-executive director
Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818)	May 2007 to present	Independent non-executive director
Chengdu Putian Telecommunications Cable Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1202)	February 2006 to present	Independent non-executive director
Wison Engineering Services Co. Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 2236) .	November 2012 to September 2013	Independent non-executive director

Mr. Choy obtained a Master's degree in Business Administration from University of Wales in October 2004 and a Master's degree in Business Law from Monash University in April 2007.

Please refer to "Statutory and General Information—C. Further Information about Our Directors—1. Directors—(a) Disclosure of interest—Interests and Short Positions of Our Directors and the Chief Executives of Our Company in the Shares, Underlying Shares and Debentures of Our Company and Its Associated Corporations" in Appendix IV to this prospectus for further details of the Directors' interests in our Shares (within the meaning of Part XV of the SFO).

Save as disclosed in this prospectus, each of our Directors has confirmed that he or she has not held any other directorships in any listed company during the three years immediately prior to the date of this prospectus, that there are no other matters relating to his or her appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his or her appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

To assist our Independent Non-Executive Directors in developing a deeper understanding of our business, we will provide them with formal and tailored inductions in relation to our Company and will seek to ensure that they have sufficient resources to assist them in the performance of their duties.

SENIOR MANAGEMENT

Our senior management comprises our Executive Directors, our Company Secretary and the following persons:

Mr. Liu Yu Bo, aged 48, joined our Group in April 2009 and is currently our Chief Operating Officer, managing our Group's sales and marketing. He is also our Vice President and head of human resources. Prior to joining our Group, Mr. Liu worked in DDI Asia/Pacific International Ltd from November 2007 to March 2009. From 1994 to 2007, he was a medical representative and sales manager of Eli Lilly and Company (a company listed on the New York Stock Exchange under the ticker symbol LLY), as well as the General Manager of its Vietnam office and the Director of Human Resources of Lilly China. Mr. Liu obtained a Bachelor's degree in Clinical Medicine from West China Centre of Medical Sciences, Sichuan University, the PRC in June 1992.

Mr. Liu Yuan Chong, aged 50, joined our Group in March 1997 and is currently our Chief Financial Officer. He started as the accountant-in-charge at our finance department, and was promoted to chief of the finance department in 2005 and to our Chief Financial Officer in 2012. Prior to joining our Group, he was the head of accounting of Yantai Alternator Plant (煙台家電交電總公司). He also taught at Yantai Business Vocational Secondary School (煙台商業中專) from September 1983 until September 1986. From 1980 to 1983, he was employed by Shangdong Laiyang Biochemical Pharmaceutical Factory. Mr. Liu received a Post-Graduate Certificate in Financial Management from Peking University in October 2006.

Dr. Li You Xin, aged 52, joined our Group in October 2007 and is currently our Vice President and head of R&D. Dr. Li has extensive experience in drug design. He is responsible for a number of our R&D platforms including our long-acting and extended release technology and targeted drug delivery platforms, and a number of other R&D projects including the Huperzine A sustained release microsphere injection. Under Dr. Li's leadership, we were awarded the State Key Laboratory of Long-acting and Targeting Drug Delivery System (長效和靶向製劑國家重點實驗室). Dr. Li is also a professor at the College of Life Sciences of Jilin University. Prior to joining our Group, he was a senior scientist officer at Schwarz Pharma AG. He was also a Research Fellow of Alexandar von Humboldt Foundation of University of Marburg from 1991 to 1993. Dr. Li obtained a Bachelor's degree in Chemistry in July 1982, a Master of Science degree in July 1985 and a Ph.D. in Science in July 1988 from Peking University.

Ms. Xue Yun Li, aged 50, joined our Group in 1994 and is currently our Vice President and the general manager of Shandong Luye. From 1999 to 2009, she was the director of the R&D centre and then vice president of R&D of Shandong Luye. Prior to joining our Group, she was a technician and the chief of scientific research at Shenyang Liaohe Pharmaceutical Factory from 1988 to 1994. Ms. Xue obtained a Bachelor's degree in Engineering from Jiamusi University in July 1988 and a Master's degree in Integrated Traditional Chinese and Western Clinical Medicine from Shandong University of Traditional Chinese Medicine in July 2011.

Ms. Jiang Hua, aged 36, joined our Group in 1998 and is currently our Vice President and head of international business, responsible for corporate strategy, product portfolio management and our Group's international business. Ms. Jiang has over 15 years of experience in international business development. Ms. Jiang holds a Doctor of Business Administration from United Business Institute, a Master's degree in Business Administration from KEDGE Business School (previously known as Euromed Management School), and a Bachelor's degree of Economics from Economy School, Fudan University. She is also an economist certified by the Ministry of Personnel of the People's Republic of China (now the Ministry of Human Resources and Social Security of the People's Republic of China).

Except as disclosed in this prospectus, each of the senior management has confirmed that he or she has not held any other directorships in any listed company during the three years immediately prior to the date of this prospectus. The business address of Mr. Liu Yu Bo and Ms. Jiang Hua is at Unit D, 3rd Floor, Hongqiao Business Centre, No. 2272 Hongqiao Road, Shanghai, PRC. The business address of the other members of our senior management is at No. 9 Baoyuan Road, Laishan District, Yantai, Shandong, PRC.

None of the programmes attended by our Directors or the senior management were long distance learning courses or online courses.

COMPANY SECRETARY

Ms. Lai Siu Kuen, aged 38, has been our Company Secretary since March 2014. Ms. Lai is a manager of KCS Hong Kong Limited. She has over 15 years of professional and in-house experience in the company secretarial field. She holds a Bachelor of Arts degree in Accountancy and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Each of the Executive Directors has entered into an appointment letter with us with effect from the Listing Date for an initial term of three years which may be terminated by either party by serving on the other party a prior written notice of not less than three months. Under these service contracts, our Executive Directors are not entitled to any remuneration and benefits as the Executive Directors of the Company.

Each of our Non-Executive Directors has entered into an appointment letter with us for a term from the date of appointment until the end of two years from the Listing Date which may be terminated by either party by serving on the other party a prior written notice of not less than one month. Under these appointment letters, our Non-Executive Directors are not entitled to any remuneration and benefits as the Non-Executive Directors of the Company.

Each of our Independent Non-Executive Directors has entered into an appointment letter with us with effect from the Listing Date for an initial term of two years which may be terminated by either party by serving on the other party a prior written notice of not less than three months. Under these appointment letters, each of Mr. Zhang Hua Qiao, Professor Lo Yuk Lam, Mr. Leung Man Kit and Mr. Choy Sze Chung Jojo will receive an annual director's fee of HK$300,000, HK$300,000, HK$360,000 and HK$300,000, respectively.

The aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to our Directors in respect of the years 2011, 2012 and 2013 were RMB6.6 million, RMB6.8 million and RMB6.6 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in note 8 to the Accountants' Report as set out in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the year ending 31 December 2014 will be approximately RMB7.6 million.

The five highest paid individuals of our Group for 2011, 2012 and 2013 included three, three and two Directors, respectively, whose remunerations are included in the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the relevant Directors set out above. For 2011, 2012 and 2013, the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the remaining two, two and three highest paid individuals who are neither a Director nor chief executive of our Group were RMB2.1 million, RMB2.3 million and RMB3.4 million, respectively.

During the Track Record Period, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

CORPORATE GOVERNANCE

Audit Committee

We established an audit committee on 19 June 2014. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. The audit committee is chaired by Mr. Leung Man Kit and comprises Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, each an Independent Non-Executive Director.

Remuneration Committee

We established a remuneration committee on 19 June 2014. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors on our policy and structure for remunerations of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time. The remuneration committee is chaired by Mr. Choy Sze Chung Jojo and comprises Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, each an Independent Non-Executive Director.

Nomination Committee

We established a nomination committee on 19 June 2014. The primary duties of the nomination committee are to make recommendations to our Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters. The nomination committee is chaired by Professor Lo Yuk Lam and comprises Mr. Zhang Hua Qiao and Mr. Choy Sze Chung Jojo, each an Independent Non-Executive Director.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of our listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

FUTURE PLANS

Our objective is to consolidate and further enhance our leading position in our key therapeutic areas in the PRC—oncology, cardiovascular system and alimentary tract and metabolism—and develop a strong position in the PRC central nervous system therapeutic area. Over the longer term, our objective is to become a leading pharmaceutical company globally. In order to achieve our goals, we plan to:

- Deepen our market penetration and expand our coverage of hospitals and other medical institutions through efficient sales and marketing efforts;
- Expand our portfolio of competitively positioned, innovative products in key therapeutic areas through market-driven drug development programmes;
- Accelerate the growth of our business and our product portfolio through acquisitions and effective integration;
- Grow our international business through drug development programmes for overseas markets;
- Increase our production capabilities through the steady growth of our production capacity and continuous upgrades; and
- Continue to improve our profitability and enhance efficiency in key aspects of our operations.

Please refer to "Business—Our Strategies" for further details of the future plans set out in our strategies.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$3,592 million (after deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering), assuming an Offer Price of HK$5.65 per Share, being the mid-point of the indicative offer price range stated in this prospectus. We plan to use our net proceeds from the Global Offering as follows:

- approximately 20% of the net proceeds, or approximately HK$718 million, to expand our portfolio of pharmaceutical products through in-licensing and other arrangements, including selectively procuring manufacturing rights or sales and marketing rights for approved pharmaceutical products, in order to complement our existing portfolio of pharmaceutical products;
- approximately 20% of the net proceeds, or approximately HK$718 million, for research and development, including our existing and future PRC and overseas drug development programmes, as well as investments involving R&D technologies or programmes to further enhance our R&D capabilities and pipeline of product candidates;

- approximately 20% of the net proceeds, or approximately HK$718 million, for selective acquisitions of domestic or international pharmaceutical companies. We have not yet identified any targets to be acquired but we intend to explore acquisitions of potential targets that have oncology, cardiovascular system, alimentary tract and metabolism and central nervous system pharmaceutical products or that have the potential to enable us to penetrate new therapeutic areas, as well as other international targets;

- approximately 20% of the net proceeds, or approximately HK$718 million, to fund capital expenditure projects to increase our production capabilities by constructing new production lines and to upgrade and further automate our existing production facilities in anticipation of the expected increase in demand for our current products and the launch of our product candidates. Please refer to "Business—Production—Future Expansion and Upgrade Plan" for further details of our expansion and upgrade plan;

- approximately 5% of the net proceeds, or approximately HK$180 million, to expand our sales and marketing network by hiring additional marketing and sales personnel, including dedicated sales personnel focusing on central nervous system products, and establishing additional regional offices in order to deepen the market penetration of our existing products, commercialise those product candidates we successfully develop and increase the level of marketing and promotional activity, including academic promotion, we conduct through our in-house sales teams;

- approximately 5% of the net proceeds, or approximately HK$180 million, will be used to partially repay our borrowings under our U.S. dollar secured loans. The outstanding amount of this loan as of 31 December 2013 was US$50 million. Our U.S. dollar secured loans bore a weighted average effective interest rate of 2.5% per annum for the year ended 31 December 2013. Please refer to "Financial Information—Indebtedness—Secured Loans—U.S. Dollar Secured Loans" and Note 28 "Interest Bearing Loans and Borrowings" to the Accountants' Report included in Appendix I to this prospectus for further details of our U.S. dollar secured loans;

- approximately 10% of the net proceeds, or approximately HK$360 million, will be used for working capital and general corporate purposes.

To the extent that our actual net proceeds from the Global Offering differ from our estimate above, we intend to apply the actual net proceeds in the same proportions set out above.

After deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering, we estimate that we will receive net proceeds from the Global Offering of approximately HK$3,766 million assuming the Offer Price is determined to be HK$5.92 per Share, being the high-end of the indicative offer price range stated in this prospectus, and approximately HK$3,417 million, assuming the Offer Price is determined to be HK$5.38 per Share, being the low-end of the indicative offer price range stated in this prospectus.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, we may allocate part or all of the proceeds to short-term interest-bearing deposits or money-market instruments with authorised financial institutions or licensed banks in Hong Kong or the PRC.

We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.

We estimate the net proceeds to the Selling Shareholders from the sale of their Sale Shares initially offered under the Global Offering prior to any exercise of the Over-allotment Option and pursuant to the exercise of the Over-allotment Option in full will be approximately HK$1,816.2 million and HK$2,636.2 million, respectively (after deducting the underwriting fees and commissions payable by the Selling Shareholders), assuming an Offer Price of HK$5.65 per Share, being the mid-point of the indicative offer price range stated in this prospectus. We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

HONG KONG UNDERWRITERS

UBS AG, Hong Kong Branch
Citigroup Global Markets Asia Limited
CITIC Securities Corporate Finance (HK) Limited

THE HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 99,964,000 Hong Kong Offer Shares for subscription under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the existing issued Shares, and the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering on the Main Board of the Stock Exchange and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders agreeing on the Offer Price), the Hong Kong Underwriters have severally but not jointly agreed to subscribe or procure subscribers for their respective applicable proportions (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered that are not taken up under the Hong Kong Public Offering, on the terms and subject to the conditions set out in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed, becoming unconditional and not having been terminated.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by notice (orally or in writing) to us from the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if, prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, Singapore, Bermuda, the PRC, the United Kingdom, the United States, the European Union (or any member thereof) or any other jurisdictions relevant to any member of our Group or the Global Offering (each a "Relevant Jurisdiction"); or

(ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a

prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdiction; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(iv) any general moratorium on commercial banking activities in any Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

(v) any new law (as defined in the Hong Kong Underwriting Agreement), or any change or any development involving a prospective change or any event or circumstance likely to result in a change in (or in the interpretation or application by any court or other competent authority (as defined in the Hong Kong Underwriting Agreement) of) existing laws (as defined in the Hong Kong Underwriting Agreement), in each case, in or affecting any Relevant Jurisdiction; or

(vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, the United States, the European Union (or any member thereof) on any Relevant Jurisdiction; or

(vii) a change or development involving a prospective change in or affecting taxation (as defined in the Hong Kong Underwriting Agreement) or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or

(viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(x) the chairman or the chief executive officer or any of the executive Directors of our Company vacating his or her office; or

(xi) an authority (as defined in the Hong Kong Underwriting Agreement) or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xii) a contravention by any member of our Group of the Listing Rules or applicable laws (as defined in the Hong Kong Underwriting Agreement); or

(xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or

(xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws (as defined in the Hong Kong Underwriting Agreement); or

(xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvi) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with our creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity;

(xviii) which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors (1) has or will have or is likely to have a material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, revenues, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company and the other members of our Group, taken as a whole; or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Shares in the secondary market; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or materially delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters:

(i) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or

other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission of a material fact from any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Purchase Agreement (other than upon any of the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, Hong Kong Underwriters or the International Purchasers); or

(iv) any event, act or omission which gives or is likely to give rise to any liability of our Company and/or the Covenantors pursuant to the indemnification provisions under the Hong Kong Underwriting Agreement; or

(v) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, revenues, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company and the other members of our Group, taken as a whole; or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the warranties (as defined in the Hong Kong Underwriting Agreement) in the Hong Kong Underwriting Agreement; or

(vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) our Company withdraws this prospectus, the Application Forms, the Formal Notice and/or any other documents issued or used in connection with the Global Offering; or

(ix) any person has withdrawn or is subject to withdraw its consent to being named in this prospectus or any of the Application Forms or to the issue of this prospectus or any of the Application Forms.

UNDERTAKINGS

Undertakings to the Stock Exchange under the Listing Rules

(A) Undertaking by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) will be issued or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertaking by the Controlling Shareholders

In accordance with Rule 10.07(l)(a) of the Listing Rules, each of Mr. Liu Dian Bo, Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, AsiaPharm Holdings, Luye Holdings, Luye International and Luye Investment, each a controlling shareholder of our Company, has undertaken to the Stock Exchange and our Company that except pursuant to (i) any lending of Shares by Luye Investment to the Stabilising Manager pursuant to the Stock Borrowing Agreement, or (ii) the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Stock Borrowing Agreement:

(a) it will not and will procure that the relevant registered holders will not, at any time during the period commencing from the date by reference to which disclosure of the respective shareholding of the controlling shareholder is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owners; and

(b) it will not and will procure that the relevant registered holders will not, at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, it will then cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07(2) of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the Shares owned by it as securities (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Pursuant to note (3) of Rule 10.07(2) of the Listing Rules, each of Mr. Liu Dian Bo, Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, AsiaPharm Holdings, Luye Holdings, Luye International and Luye Investment, each a controlling shareholder of our Company, has further undertaken to the Stock Exchange and our Company that it will, during the First Six-Month Period (as defined below) and the Second Six-Month Period (as defined below), immediately inform us of:

(a) any pledges or charges of any Shares beneficially owned by it in favour of any authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) the Listing Rules, and the number of such Shares so pledged or charged; and

(b) any indication received by it, whether verbal or written, from any pledgee or chargee of any Shares pledged or charged that any of such Shares or other securities will be disposed of.

Undertakings under the Hong Kong Underwriting Agreement

(A) Undertaking by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Joint Sponsors that, except for the offer and sale of the Offer Shares pursuant to the Global Offering, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "First Six-Month Period"), our Company will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of our Company, as applicable), or deposit any Shares or other equity securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of our Company, as applicable); or

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other equity securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other equity securities will be completed within the First Six-month Period).

In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the "Second Six-Month Period"), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or

announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the equity securities of our Company. Each of the Covenantors undertakes to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Joint Sponsors to procure our Company to comply with the above undertakings.

(B) Undertaking by the Covenantors

Pursuant to the Hong Kong Underwriting Agreement, each of the Covenantors has undertaken to each of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and the Joint Sponsors that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Stock Borrowing Agreement (where applicable) and otherwise as disclosed in this prospectus, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company), or (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs a(i) or a(ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs a(i), a(ii) or a(iii) above, in each case, whether any of the transactions specified in paragraphs a(i), a(ii) or a(iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs a(i), a(ii) or a(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance (as defined in the Hong Kong Underwriting Agreement) pursuant to such transaction, it will cease to be a "controlling shareholder" (where applicable and as the term is defined in the Listing Rules) of our Company; and

(c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraphs a(i), a(ii) or a(iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the equity securities of our Company.

Notwithstanding the foregoing, any of the Covenantors may use such Shares held by them respectively as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, provided that such Covenantor shall immediately inform the Company, the Joint Sponsors and the Joint Global Coordinators in writing:

(i) when it pledges or charges such Shares and the number of the Shares so pledged or charged; and

(ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of.

Our Company has undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that upon receiving such information in writing from any Covenantor, we shall, as soon as practicable, notify the Stock Exchange, the Joint Sponsors and the Joint Global Coordinators and make a public disclosure in relation to such information by way of an announcement in accordance with the Listing Rules.

Each of our Company and the Covenantors has agreed to jointly and severally indemnify the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

(C) Undertakings by the Selling Shareholders

It is expected that pursuant to the International Purchase Agreement, each Selling Shareholder who is not a Covenantor will, in respect of the Shares it owns as at the Listing Date (the "Securities"), severally (and not jointly or jointly and severally), undertake to each of our Company, the Joint Global Coordinators and the International Purchasers that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), without the prior written consent of each of the Company and the Joint Global Coordinators (for themselves and on behalf of the International Purchasers) and unless in compliance with the Listing Rules, it will not, at any time during the First Six-Month Period:

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance (as defined in the International Purchase Agreement) over, or agree to transfer or dispose of or create an encumbrance (as defined in the International Purchase Agreement) over, conditionally or unconditionally, any Securities or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for any Securities, or that represent the right to receive, or any warrants or other rights to purchase, any Securities), or deposit any Securities with a depositary in connection with the issue of depositary receipts;

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Securities or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Securities);

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Securities or other securities of our Company or in cash or otherwise.

COMMISSION

The underwriting commissions in respect of the Shares initially offered by our Company pursuant to the Global Offering are payable by us.

The Underwriters will receive a commission of 2.6% of the aggregate Offer Price of all the Offer Shares offered by our Company under the Global Offering.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid to the International Purchasers in accordance with the International Purchase Agreement.

The Company may also in its discretion pay the Joint Global Coordinators an additional incentive fee of up to 0.6% of the Offer Price for each Offer Share initially offered by our Company under the Global Offering.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company, the Covenantors and the Selling Shareholders will enter into the International Purchase Agreement with among others, the International Purchasers. Under the International Purchase Agreement, it is expected that the International Purchasers (through themselves or their affiliates) would, subject to certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchasers to purchase, their respective applicable proportions (set out in the International Purchase Agreement) of the International Offer Shares being offered pursuant to the International Offering.

It is expected that under the International Purchase Agreement, the Selling Shareholders intend to grant the Over-allotment Option, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Purchasers and Joint Bookrunners), for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Selling Shareholders to sell up to 149,946,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price per Share (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of, among other things, covering over-allotments, if any, in the International Offering.

TOTAL COMMISSIONS AND EXPENSES FOR THE GLOBAL OFFERING

Assuming an Offer Price of HK$5.65 per Share (being the mid-point of the indicative offer price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, which are payable by us are estimated to amount in aggregate to be approximately HK$179.8 million.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Except for their respective obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement and save as disclosed below, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Mr. Liu Dong, our Non-Executive Director, is a managing director of CITIC Private Equity Funds Management Co., Ltd. which is an affiliate company of CITIC Securities Corporate Finance (HK) Limited. In addition, CITICPE Holdings Limited, an affiliate of CITIC Securities Corporate Finance (HK) Limited, through its wholly-owned subsidiary, is a limited partner of CPEChina and holds less than 5% interest in CPEChina. Please refer to "History and Development" and "Directors and Senior Management", respectively for further details of CPEChina and Mr. Liu Dong.

SPONSORS' INDEPENDENCE

Save as disclosed below, each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Mr. Liu Dong, our Non-Executive Director, is a managing director of CITIC Private Equity Funds Management Co., Ltd., which is an affiliate company of CITIC Securities Corporate Finance (HK) Limited. In addition, CITICPE Holdings Limited, an affiliate of CITIC Securities Corporate Finance (HK) Limited, through its wholly-owned subsidiary, is a limited partner of CPEChina and holds less than 5% interest in CPEChina. On that basis, CITIC Securities Corporate Finance (HK) Limited, one of our Joint Sponsors, is not expected to be independent pursuant to Rule 3A.07 of the Listing Rules. Please refer to "History and Development" and "Directors and Senior Management", respectively for further details of CPEChina and Mr. Liu Dong.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "Syndicate Members", may each individually undertake, and which do not form part of the underwriting or the stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary

trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases. All of these activities may occur both during and after the end of the stabilising period described under "Structure of the Global Offering—Stabilisation". These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

(a) under the agreement among the Syndicate Members, all of them (except for the Joint Global Coordinators and their affiliates as the stabilising manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and CLSA Limited are the Joint Global Coordinators of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of initially 99,964,000 new Shares (subject to reallocation) in Hong Kong as described in "The Hong Kong Public Offering" below; and

- the International Offering of 899,676,000 Shares (subject to reallocation and the Over-allotment Option), including 567,576,000 new Shares and 332,100,000 Sale Shares, initially being offered by us and the Selling Shareholders, respectively, outside the United States in offshore transactions in reliance on Regulation S, and in the United States to QIBs, as described in "The International Offering" below.

Investors may either apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

Up to 149,946,000 additional Shares, may be offered pursuant to the exercise of the Over-allotment Option as described in "—The International Offering—Over-allotment Option" in this section.

The Offer Shares will represent approximately 30.1% of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full the Offer Shares will represent approximately 34.6% of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offering (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in "Conditions of the Global Offering" below) for the subscription in Hong Kong of, initially, 99,964,000 Offer Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering described below, the Hong Kong Offer Shares will represent approximately 3.0% of our enlarged issued share capital immediately after completion of the Global Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this subsection only, the "subscription price" for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any application for more than 50% of 99,964,000 Offer Shares initially included in the Hong Kong Public Offering (that is, 49,982,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We, the Joint Bookrunners and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for or have received Offer Shares in the Hong Kong Public Offering.

Reallocation

The allocation of our Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Currently, we have allocated 99,964,000 Shares to the Hong Kong Public Offering, representing approximately 10% of our Shares initially available in the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares available for subscription under the Hong Kong Public Offering, then our Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of our Offer Shares available under the Hong Kong Public Offering will be increased to 299,892,000 Shares (in the case of (i)), 399,856,000 Shares (in the case of (ii)) and 499,820,000 Shares (in the case

of (iii)), respectively, representing approximately 30%, 40% and 50%, respectively, of the total number of Offer Shares available under the Global Offering (before any exercise of the Over-allotment Option). In addition, the Joint Global Coordinators and the Joint Sponsors have the discretion to reallocate our Shares offered in the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators and the Joint Sponsors may, in their discretion, reallocate to the International Offering all or any unsubscribed Shares offered in the Hong Kong Public Offering in such amount as they deem appropriate.

THE INTERNATIONAL OFFERING

The number of the Offer Shares to be initially offered for subscription and sale under the International Offering will be 899,676,000 Offer Shares, comprising 567,576,000 new Shares to be offered by us and 332,100,000 Sale Shares to be offered by the Selling Shareholders (subject to reallocation, and excluding any Shares to be sold pursuant to the exercise of the Over-allotment Option), representing approximately 90% of the Offer Shares initially available under the Global Offering and approximately 27.1% of our enlarged issued share capital immediately after completion of the Global Offering.

Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on our behalf by the International Purchasers or the Joint Bookrunners or through selling agents appointed by them. International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S, and with QIBs in the United States pursuant to Rule 144A or another exemption from the registration requirements under the U.S. Securities Act. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the International Offer Shares to investors under the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Over-allotment Option

In connection with the Global Offering, the Selling Shareholders intend to grant the Over-allotment Option to the International Purchasers and Joint Bookrunners. The Over-allotment Option is exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Purchasers and the Joint Bookrunners), at any time from time to time on or before the expiration of the period of 30 calendar days from the last day for the lodging of applications in the Hong Kong Public Offering, require the Selling Shareholders to sell up to an aggregate of 149,946,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, to cover, among other things, over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, we will make an announcement.

As no new Shares will be issued by our Company upon the exercise of the Over-allotment Option (as all Offer Shares being offered under the Over-allotment Option will be Sale Shares), the exercise of the Over-allotment Option will not have any dilution effect on the issued share capital of our Company and no impact on proceeds to be raised by our Company. Also, there will be no change in control of our Company if the Over-allotment Option is exercised in full.

The Joint Global Coordinators may cover any over-allocations by using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong, including in relation to stabilisation, the Securities and Futures (Price Stabilising) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option.

Stabilisation

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws, rules and regulations in place, including those of Hong Kong. In Hong Kong and certain other jurisdictions, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The stabilising period is expected to expire on Friday, 1 August 2014. However, there is no obligation on the Stabilising Manager, or its affiliates or any person acting for it to do this. Such stabilising action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option. For purposes of covering such over-allocations, the Stabilising Manager may borrow from Luye Investment up to the number of Shares, which is equivalent to the maximum number of Shares to be sold upon exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (a) primary stabilisation, including purchasing, or agreeing to purchase, any of the Shares or offering or attempting to do so for the purpose of preventing or minimising any reduction in the market price of the Shares, and (b) ancillary stabilisation in connection with any primary stabilising action, including: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) purchasing or agreeing to purchase Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) selling or agreeing to sell Shares to liquidate a long position held as a result of those purchases or subscriptions; and (v) offering or attempting to do anything described in (ii), (iii) or (iv). The Stabilising Manager may take any one or more of the stabilising actions described above.

Prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager or any person acting for it may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure to procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilising Manager may choose to borrow Shares from Luye Investment under the Stock Borrowing Agreement, or acquire Shares from other sources.

The stock borrowing arrangement will only be effected by the Stabilising Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Luye Investment or its nominees on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; and (ii) the day on which the Over-allotment Option is exercised in full. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Luye Investment by the Stabilising Manager, its affiliates or any person acting for it in relation to such stock borrowing arrangement.

PRICING

Determination of Offer Price

We expect the Offer Price to be fixed by agreement among our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date when market demand for the Offer Shares will be determined. We expect the Price Determination Date to be on or around Wednesday, 2 July 2014 and in any event, no later than Monday, 7 July 2014. The Offer Price will not be more than HK$5.92 per Offer Share and is expected to be not less than HK$5.38 per Offer Share. You should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date.

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process reduce the number of Offer Shares and/or the indicative Offer Price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Such notice will also be available at the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.luye.cn**.

Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in "Financial Information—Working Capital" of this prospectus, the offering statistics as currently disclosed in "Summary" and "Information about this Prospectus and the Global Offering", the use of proceeds in "Future Plans and Use of Proceeds" of this prospectus and any other financial information which may change as a result of such reduction. If you have already submitted an application for Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application.

However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Pubic Offering will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If we do not publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will be within the indicative Offer Price range as stated in this prospectus.

If our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Monday, 7 July 2014, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the level of applications and the basis of allocation of the Hong Kong Offer Shares, on Tuesday, 8 July 2014.

Price Payable on Application

The Offer Price will not be more than HK$5.92 and is expected to be not less than HK$5.38, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum Offer Price of HK$5.92 per Offer Share plus a 1.0% brokerage fee, 0.005% the Stock Exchange trading fee and 0.003% SFC transaction levy. This means that, for every board lot of 500 Offer Shares, you should pay HK$2,989.84 at the time of your application.

If the Offer Price is lower than HK$5.92, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. Please refer to "How to Apply for Hong Kong Offer Shares" for further details of refund of application monies.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Purchasers. The Hong Kong Public Offering and the International Offering are subject to the conditions described in "Underwriting". In particular, our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) must agree on the Offer Price for the Global Offering. The Hong Kong Underwriting Agreement was entered into on Wednesday, 25 June 2014 and, is subject to an agreement on the Offer Price among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), our Company and the Selling Shareholders for purposes of the Hong Kong Public Offering. The International Purchase Agreement (including the agreement on the Offer Price among our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the International Purchasers for purposes of the International Offering) is expected to be entered into on Wednesday, 2 July 2014, being the Price Determination Date. The Hong Kong Underwriting Agreement and the International Purchase Agreement are inter conditional upon each other.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus, and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Purchase Agreement on or about the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators for themselves and on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day after such lapse. In such situation, we will return all application monies to the applicants, without interest and on the terms described in "How to Apply for Hong Kong Offer Shares—Refund of Application Monies". In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bankers or other banks licensed under the Banking Ordinance.

We expect to despatch share certificates for the Offer Shares on Tuesday, 8 July 2014. However, these share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, 9 July 2014 provided that:

- the Global Offering has become unconditional in all respects; and

- the right of termination as described in "Underwriting" has not been exercised.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 9 July 2014, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 9 July 2014. The Shares will be traded in board lots of 500 Shares each.

HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **white** or **yellow** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **white** or **yellow** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of shares in the Company and/or any of its subsidiaries;
- are a Director or Chief Executive Officer of the Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **white** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **yellow** Application Form or **electronically instruct** HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **white** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 26 June 2014 until 12:00 noon on Wednesday, 2 July 2014 from:

1. any of the following offices of the Joint Bookrunners:

   UBS AG, Hong Kong Branch
   52/F, Two IFC
   8 Finance Street
   Central
   Hong Kong

   Citigroup Global Markets Asia Limited
   50/F, Citibank Tower
   3 Garden Road
   Central
   Hong Kong

   CLSA Limited
   18/F, One Pacific Place
   88 Queensway
   Hong Kong

2. Any of the branches of the following receiving banks:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	North Point (King's Centre) Branch	193-209 King's Road, North Point
	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok
New Territories	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui

You can collect a **yellow** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Thursday, 26 June 2014 until 12:00 noon on Wednesday, 2 July 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or from your stockbroker.

Time for Lodging Application Forms

Your completed **white** or **yellow** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited – Luye Pharma Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Thursday, 26 June 2014	–	9:00 a.m. to 5:00 p.m.
Friday, 27 June 2014	–	9:00 a.m. to 5:00 p.m.
Saturday, 28 June 2014	–	9:00 a.m. to 1:00 p.m.
Monday, 30 June 2014	–	9:00 a.m. to 5:00 p.m.
Wednesday, 2 July 2014	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 2 July 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(a) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Bye-laws;

(b) agree to comply with the Bermuda Companies Act, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Memorandum and Bye-laws;

(c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(f) agree that none of the Company, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participate in the International Offering;

(h) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Bookrunners, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) agree that your application will be governed by the laws of Hong Kong;

(l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(o) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(q) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by anyone as your agent or by any other person; and

(s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as his agent.

Additional Instructions for Yellow Application Form

You may refer to the **yellow** Application Form for details.

APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 26 June 2014 until 11:30 a.m. on Wednesday, 2 July 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Wednesday, 2 July 2014 or such later time under the "Effects of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK$2.00 for each "LUYE PHARMA GROUP LTD." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang—Hong Kong Forest" project initiated by Friends of the Earth (HK).

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer service centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **white** Application Form is signed by HKSCC Nominees on your behalf:

(a) HKSCC Nominees will only be acting as a nominee for you is not liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(b) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as his agent;

- confirm that you understand that the Company, the Directors, the Joint Global Coordinators and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Joint Global Coordinators, the Joint Bookrunners the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Bookrunners the Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Company for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Bermuda Companies Act, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Memorandum and Bye-laws; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **white** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 26 June 2014 – 9:00 a.m. to 8:30 p.m.(1)
Friday, 27 June 2014 – 8:00 a.m. to 8:30 p.m.(1)
Saturday, 28 June 2014 – 8:00 a.m. to 1:00 p.m.(1)
Monday, 30 June 2014 – 8:00 a.m. to 8:30 p.m.(1)
Wednesday, 2 July 2014 – 8:00 a.m.(1) to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 26 June 2014 until 12:00 noon on Wednesday, 2 July 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 2 July 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities

are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before Wednesday, 2 July 2014.

HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE HONG KONG OFFER SHARES

The **white** and **yellow** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **white** or **yellow** Application Form or through the **White Form eIPO** Service Provider in respect of a minimum of 500 Hong Kong Public Offering Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Public Offering Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Please refer to "Structure of the Global Offering—Pricing" for further details of the Offer Price.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 2 July 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 2 July 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected Timetable", an announcement will be made in such event.

PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 8 July 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at www.luye.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.luye.cn and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. Tuesday, 8 July 2014;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 8 July 2014 to 12:00 midnight on Monday, 14 July 2014;

- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 8 July 2014 to Friday, 11 July 2014;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 8 July 2014 to Thursday, 10 July 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Please refer to "Structure of the Global Offering" for further details of the conditions of the Global Offering.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company, and to become binding when you lodge your Application Form or give **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider and an application has been made by HKSCC Nominees or **White Form eIPO** Service Provider on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions)

Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, our Hong Kong Share Registrar, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$5.92 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering—Conditions of the Global Offering" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 8 July 2014.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND CHEQUES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **yellow** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **white** or **yellow** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **yellow** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 8 July 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 9 July 2014 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you Apply Using a White Application Form:

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the 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 from 9:00 a.m. to 1:00 p.m. on Tuesday, 8 July 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 8 July 2014 by ordinary post and at your own risk.

(b) If you Apply Using a Yellow Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 8 July 2014 by ordinary post and at your own risk.

If you apply by using a **yellow** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 8 July 2014 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you Apply through a Designated CCASS Participant (other than a CCASS Investor Participant)**

  For Hong Kong Public Offering Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS participant.

- **If you are Applying as a CCASS Investor Participant**

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Tuesday, 8 July 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(c) If you Apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong , from 9:00 a.m. to 1:00 p.m. on Tuesday, 8 July 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificate/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 8 July 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(d) If you Apply via Electronic Application Instructions to HKSCC:

Allocation for Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 8 July 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, 8 July 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 8 July 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 8 July 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 8 July 2014.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 June 2014

The Directors
Luye Pharma Group Ltd.
UBS Securities Hong Kong Limited
Citigroup Global Markets Asia Limited
CITIC Securities Corporate Finance (HK) Limited

Dear Sirs,

We set out below our report on the financial information of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), prepared on the basis of preparation in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 26 June 2014 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. The Company is the holding company of the subsidiaries comprising the Group. Apart from investment holding, the Company has not commenced any other business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012 and 2013, and of the consolidated results and cash flows of the Group during the Relevant Periods.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
REVENUE	5	1,774,390	2,135,943	2,515,111
Cost of sales		(301,121)	(351,813)	(413,506)
Gross profit		1,473,269	1,784,130	2,101,605
Other income and gains	5	25,934	12,717	35,902
Selling and distribution expenses		(980,111)	(1,209,717)	(1,378,061)
Administrative expenses		(151,566)	(157,906)	(146,508)
Other expenses		(147,307)	(145,522)	(206,669)
Finance costs	7	(19,636)	(29,145)	(24,091)
Share of profit of an associate	19	545	894	990
PROFIT BEFORE TAX	6	201,128	255,451	383,168
Income tax expense	10	(34,902)	(79,862)	(55,224)
PROFIT FOR THE YEAR		166,226	175,589	327,944
Attributable to:				
Owners of the parent		155,752	169,032	310,498
Non-controlling interests		10,474	6,557	17,446
		166,226	175,589	327,944
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Basic and diluted (Rmb)				
– For profit for the year	13	31.61 cents	34.30 cents	63.01 cents

Details of the dividends for the Relevant Periods are disclosed in note 12 to the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
PROFIT FOR THE YEAR	166,226	175,589	327,944
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Fair value change on available-for-sale investments	(1,705)	(133)	2,077
Exchange differences on translation of foreign operations	818	3,964	(3,953)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(887)	3,831	(1,876)
Other comprehensive income for the year, net of tax	(887)	3,831	(1,876)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	165,339	179,420	326,068
Attributable to:			
Owners of the parent	154,865	172,863	308,622
Non-controlling interests	10,474	6,557	17,446
	165,339	179,420	326,068

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	669,728	777,769	925,824
Advance payments for property, plant and equipment		22,853	29,912	48,948
Prepaid land lease payments	15	192,779	187,986	187,290
Goodwill	16	347,356	347,356	347,356
Other intangible assets	17	211,815	173,763	136,301
Investment in an associate	19	3,652	4,749	5,323
Available-for-sale investments	20	2,410	2,340	4,331
Long-term deferred expenditure		1,292	792	292
Deferred tax assets	32	58,461	64,392	79,428
Total non-current assets		1,510,346	1,589,059	1,735,093
CURRENT ASSETS				
Inventories	21	106,272	142,686	234,733
Trade and notes receivables	22	455,326	514,258	535,562
Prepayments, deposits and other receivables	23	36,178	35,092	46,413
Due from related parties	40(b)(i)	3,755	12,212	314,209
Pledged short-term deposits	24	79,009	2,464	177,485
Available-for-sale investments	20	–	–	10,000
Cash and cash equivalents	24	251,501	364,031	333,150
		932,041	1,070,743	1,651,552
Non-current assets held for sale	25	–	17,825	818
Total current assets		932,041	1,088,568	1,652,370
CURRENT LIABILITIES				
Trade and notes payables	26	34,331	54,403	69,369
Other payables and accruals	27	325,619	313,127	351,913
Interest-bearing loans and borrowings	28	453,815	444,863	735,921
Government grants	30	28,310	45,218	74,436
Tax payable		32,010	26,589	34,488
Due to related parties	40(b)(ii)	4,902	–	36,856
Total current liabilities		878,987	884,200	1,302,983
NET CURRENT ASSETS		53,054	204,368	349,387
TOTAL ASSETS LESS CURRENT LIABILITIES		1,563,400	1,793,427	2,084,480

	Notes	As at 31 December 2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	28	2,000	25,924	9,387
Provision for restoration costs	31	2,528	–	–
Government grants	30	60,502	66,577	78,684
Deferred tax liabilities	32	93,983	117,119	98,714
Total non-current liabilities		159,013	209,620	186,785
Net assets		1,404,387	1,583,807	1,897,695
EQUITY				
Equity attributable to owners of the parent				
Issued capital	33	81,180	81,180	81,180
Share premium		427,980	427,980	427,980
Reserves	34	778,397	951,260	1,259,882
		1,287,557	1,460,420	1,769,042
Non-controlling interests		116,830	123,387	128,653
Total equity		1,404,387	1,583,807	1,897,695

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Issued capital	Share premium account	Other reserves*	Statutory surplus reserves*	Retained earnings*	Unrealised gains reserves*	Foreign currency translation reserves*	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000 (note 34)	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2011	81,180	427,980	41,387	121,355	466,745	1,873	(7,828)	1,132,692	115,491	1,248,183
Profit for the year	–	–	–	–	155,752	–	–	155,752	10,474	166,226
Other comprehensive income for the year:										
Fair value change on available-for-sale investments	–	–	–	–	–	(1,705)	–	(1,705)	–	(1,705)
Currency realignment	–	–	–	–	–	–	818	818	–	818
Total comprehensive income for the year	–	–	–	–	155,752	(1,705)	818	154,865	10,474	165,339
Transfer to statutory reserves	–	–	–	26,477	(26,477)	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(9,135)	(9,135)
At 31 December 2011	81,180	427,980	41,387	147,832	596,020	168	(7,010)	1,287,557	116,830	1,404,387
At 1 January 2012	81,180	427,980	41,387	147,832	596,020	168	(7,010)	1,287,557	116,830	1,404,387
Profit for the year	–	–	–	–	169,032	–	–	169,032	6,557	175,589
Other comprehensive income for the year:										
Fair value change on available-for-sale investments	–	–	–	–	–	(133)	–	(133)	–	(133)
Currency realignment	–	–	–	–	–	–	3,964	3,964	–	3,964
Total comprehensive income for the year	–	–	–	–	169,032	(133)	3,964	172,863	6,557	179,420
Transfer to statutory reserves	–	–	–	25,399	(25,399)	–	–	–	–	–
At 31 December 2012	81,180	427,980	41,387	173,231	739,653	35	(3,046)	1,460,420	123,387	1,583,807

	Attributable to owners of the parent									
	Issued capital	Share premium account	Other reserves*	Statutory surplus reserves*	Retained earnings*	Unrealised gains reserves*	Foreign currency translation reserves*	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000 (note 34)	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2013	81,180	427,980	41,387	173,231	739,653	35	(3,046)	1,460,420	123,387	1,583,807
Profit for the year	–	–	–	–	310,498	–	–	310,498	17,446	327,944
Other comprehensive income for the year:										
Fair value change on available-for-sale investments	–	–	–	–	–	2,077	–	2,077	–	2,077
Currency realignment	–	–	–	–	–	–	(3,953)	(3,953)	–	(3,953)
Total comprehensive income for the year	–	–	–	–	310,498	2,077	(3,953)	308,622	17,446	326,068
Transfer to statutory reserves	–	–	–	58,093	(58,093)	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(12,180)	(12,180)
At 31 December 2013	81,180	427,980	41,387	231,324	992,058	2,112	(6,999)	1,769,042	128,653	1,897,695

* These reserve accounts comprise the consolidated reserves of RMB778,397,000, RMB952,260,000 and RMB1,259,882,000 in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		201,128	255,451	383,168
Adjustments for:				
Share of profit of an associate	19	(545)	(894)	(990)
Depreciation of items of property, plant and equipment	14	31,468	39,900	57,953
Amortisation of other intangible assets	17	42,676	38,877	37,629
Amortisation of prepaid land lease payments	15	4,307	4,793	4,852
Amortisation of long-term deferred expenditure		500	500	500
Loss on disposal of items of property, plant and equipment		336	2,138	430
Loss on disposal of intangible assets	17	–	–	1,440
Interest income	5	(4,823)	(3,858)	(3,030)
Interest expense	7	19,285	28,662	23,955
Reversal of provision for restoration costs	31	–	(1,621)	–
		294,332	363,948	505,907
Increase in trade and notes receivables		(99,041)	(58,932)	(21,304)
Decrease in prepayments, deposits and other receivables		23,419	5,001	5,814
Decrease/(increase) in amounts due from related parties		806	(8,457)	568
Increase in inventories		(9,170)	(36,414)	(92,047)
Increase in government grants		29,759	13,583	15,885
(Decrease)/increase in trade and notes payables		(9,301)	20,072	14,966
Increase/(decrease) in other payables and accruals		163,792	(35,936)	77,344
Increase/(decrease) in amounts due to related parties		1,107	(4,902)	36,856
Cash generated from operations		395,703	257,963	543,989
Interest paid		(22,821)	(34,220)	(26,360)
Income tax paid		(59,462)	(70,841)	(78,003)
Net cash flows from operating activities		313,420	152,902	439,626

	Notes	Year ended 31 December 2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment and construction in progress		(297,297)	(146,240)	(265,016)
Prepayment of land lease payments	15	(39,592)	–	(4,300)
Purchases of other intangible assets	17	(1,341)	(825)	(1,607)
Purchases of available-for-sale investments	20	–	–	(10,000)
Proceeds from disposal of items of property, plant and equipment		378	1,677	642
Acquisition of a subsidiary	35	(271,924)	(3,000)	–
Installment payment of purchase consideration for a subsidiary acquired in prior years		(13,662)	–	–
Receipt of government grants		10,503	9,400	25,440
Increase in an amount due from the immediate holding company	40(b)(i)	–	–	(302,565)
Interest received	5	4,823	3,858	3,030
Net cash flows used in investing activities		(608,112)	(135,130)	(554,376)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of loans		(448,729)	(809,366)	(1,023,915)
Proceeds from loans		627,336	824,338	1,298,436
Receipts in pledged short-term deposits	24	54,500	91,304	2,464
Payments in pledged short-term deposits	24	(79,009)	(14,759)	(177,485)
Dividends paid to non-controlling shareholders		(9,135)	–	(12,180)
Net cash flows from financing activities		144,963	91,517	87,320
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(149,729)	109,289	(27,430)
Net foreign exchange difference		1,095	3,241	(3,451)
Cash and cash equivalents at beginning of year	24	400,135	251,501	364,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	251,501	364,031	333,150

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
NON-CURRENT ASSETS				
Investments in subsidiaries	18	116,135	116,135	116,135
Total non-current assets		116,135	116,135	116,135
CURRENT ASSETS				
Due from related parties	40(b)(i)	–	9,445	174,780
Due from subsidiaries		502,235	501,215	411,334
Prepayments, deposits and other receivables	23	34,154	34,202	33,086
Cash and cash equivalents	24	2,202	5,602	215,745
Total current assets		538,591	550,464	834,945
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	28	–	–	304,845
Due to subsidiaries		139,831	167,705	164,479
Other payables and accruals	27	2,099	1,637	1,789
Due to related parties	40(b)(ii)	4,110	–	–
Total current liabilities		146,040	169,342	471,113
NET CURRENT ASSETS		392,551	381,122	363,832
TOTAL ASSETS LESS CURRENT LIABILITIES		508,686	497,257	479,967
Net assets		508,686	497,257	479,967
EQUITY				
Issued capital	33	81,180	81,180	81,180
Share premium		427,980	427,980	427,980
Reserves	34	(474)	(11,903)	(29,193)
Total equity		508,686	497,257	479,967

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Luye Pharma Group Ltd. (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. Since 29 November 2012, the Company has been delisted from the SGX.

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 correspondence office address of the Company is 137 Telok Ayer Street, #05-05, Singapore 068602.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is AsiaPharm Holdings Ltd., which is incorporated in Bermuda.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company	Place and date of incorporation/ registration and business	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
AsiaPharm Investments Ltd. ("AsiaPharm Investments") *(a)*	Bermuda 2 July 2003	US$0.12 million	100	–	Investment holding
AsiaPharm Biotech Pte. Ltd. ("ABPL") *(b)*	Singapore 23 April 1991	SG$1.70 million	100	–	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd. ("Luye Pharma Investments") *(c)*	Singapore 26 August 2010	SG$2	100	–	Investment holding
Luye Pharma Hong Kong Limited ("Luye Hong Kong", formerly known as Pacific Target Holdings Limited) *(d)*	Hong Kong 31 July 2007	HK$1	100	–	Investment holding
Solid Success Holdings Ltd. ("Solid Success") *(a)*	BVI 22 August 2002	US$100	–	100	Investment holding
Kanghai Pharmaceutical Technology Development Limited ("Kang Hai") *(d)*	Hong Kong 22 June 2002	HK$100	–	100	Investment holding
Apex Group Holding Limited ("Apex") *(d)*	Hong Kong 10 June 1993	HK$10,000	–	100	Investment holding
A-Bio Pharma Pte. Ltd. ("A-Bio") *(b)*	Singapore 17 August 2001	SG$12.5 million	–	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd. ("Luye Biotech") *(b)*	Singapore 6 November 2009	SG$26.1 million	–	100	Research and development on oncology, cardiovascular and other tropical diseases

Company	Place and date of incorporation/ registration and business	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
AsiaPharm Biotech Sdn. Bhd. ("AsiaPharm Biotech") *(m)*	Malaysia 15 September 2010	MYR100,000	–	100	Distribution and sale of pharmaceutical products
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye") *(e)*	People's Republic of China ("PRC")/ Mainland China 8 June 1994	Rmb271.8 million	–	100	Manufacture and sale of pharmaceutical drugs
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading") *(f)*	PRC/ Mainland China 27 March 1997	Rmb20 million	–	100	Distribution and sale of pharmaceutical drugs
Shandong Langhe Biotechnology Ltd. ("Shandong Langhe") *(f)*	PRC/ Mainland China 11 March 2010	Rmb10 million	–	100	Research and development
Shandong Luye Natural Drug Research and Development ("Luye R&D") *(f)*	PRC/ Mainland China 31 December 2002	Rmb5 million	–	100	Research and development of Chinese and Western medicine and provision of related services
Nanjing Sike Pharmaceutical Co., Ltd. ("Nanjing Luye Sike") *(g)*	PRC/ Mainland China 22 February 2004	Rmb70 million	–	100	Manufacture and sale of pharmaceutical drugs
Beijing WBL Peking University Biotech Co., Ltd. ("WPU") *(h)*	PRC/ Mainland China 1 September 1994	Rmb80 million	–	69.55	Manufacture and sale of pharmaceutical drugs
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE") *(i)*	PRC/ Mainland China 25 June 2010	Rmb0.3 million	–	100	Manufacture and sale of eggs and technology development
Nanjing Kanghai Phospholipid Biological Technology Co., Ltd. ("Nanjing Kanghai Phospholipid") *(i)*	PRC/ Mainland China 13 September 2010	Rmb1.5 million	–	100	Manufacture and sale of pharmaceutical products
Shanghai Ge Lin Li Fu Consulting Co., Ltd. ("Shanghai Ge Lin") *(j)*	PRC/ Mainland China 28 June 2010	Rmb1 million	–	100	Provision of business and investment consultation services
Sichuan Luye Baoguang Pharmaceutical Co., Ltd. ("Sichuan Baoguang") *(k)*	PRC/ Mainland China 21 December 2000	Rmb36 million	–	100	Manufacture and sale of pharmaceutical drugs
Chengdu Bomai Technology Co., Ltd. ("Chengdu Bomai") *(l)*	PRC/ Mainland China 1 December 2004	Rmb0.5 million	–	100	Research and development
Yantai Luye Pharma Holdings Co., Ltd. ("Yantai Luye")	PRC/ Mainland China 15 May 2014	US$73.6 million	–	100	Investment holding

(a) No statutory audited financial statements have been prepared since its date of incorporation/registration.
(b) The statutory financial statements of ABPL, A-Bio and Luye Biotech for the Relevant Periods prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, were audited by Ernst & Young Singapore, Certified Public Accountants.
(c) The statutory financial statements of Luye Pharma Investments for the Relevant Periods prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards were audited by Stephen Koh & Co, Certified Public Accountants.
(d) The statutory financial statements of Luye Hong Kong, Kang Hai and APEX for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards, were audited by Tony Kam & Co., Certified Public Accountants.
(e) The statutory financial statements of Shandong Luye for the Relevant Periods prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Ernst & Young Hua Ming LLP, Certified Public Accountants.
(f) The statutory financial statements of Luye Trading, Luye R&D and Shandong Langhe for the Relevant Periods prepared in accordance with PRC GAAP were audited by Yantai Huabin Certified Public Accountants Co., Ltd. (煙台華彬會計師事務所有限公司), registered in Mainland China.
(g) The statutory financial statements of Nanjing Luye Sike for the Relevant Periods prepared in accordance with PRC GAAP were audited by Jiangsu HuaJia Certified Public Accountants Co., Ltd. (江蘇華嘉會計師事務所有限公司), registered in Mainland China.
(h) The statutory financial statements of WPU for the Relevant Periods prepared in accordance with PRC GAAP were audited by Beijing Keqin Certified Public Accountants Co., Ltd. (北京科勤會計師事務所有限責任公司), registered in Mainland China.
(i) The statutory financial statements of Nanjing AIGE and Nanjing Kanghai Phospholipid for the Relevant Periods prepared in accordance with PRC GAAP were audited by Jiangsu Tysain Certified Public Accountants Co., Ltd. (江蘇天舜會計師事務所有限公司), registered in Mainland China.
(j) The statutory financial statements of Shanghai Ge Lin for the Relevant Periods prepared in accordance with PRC GAAP were audited by Yantai Guanda Joint Certified Public Accountants Co., Ltd. (煙台冠達聯合會計師事務所), registered in Mainland China.
(k) The statutory financial statements of Sichuan Baoguang for the Relevant Periods prepared in accordance with PRC GAAP were audited by Sichuan Changxin Certified Public Accountants Co., Ltd. (四川長信會計師事務所有限公司), registered in Mainland China.
(l) The statutory financial statements of Chengdu Bomai for the Relevant Periods prepared in accordance with PRC GAAP were audited by Sichuan Dowell Certified Public Accountants Co., Ltd. (四川德維會計師事務所有限公司), registered in Mainland China.
(m) The statutory financial statements of AsiaPharm Biotech for the Relevant Periods prepared in accordance with the provision of the Companies Act, 1965 and MASB Applicable Approved Accounting Standards for Private Entities in Malaysia were audited by EMC & Associates., Chartered Accountants.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). All IFRSs effective for the accounting period commencing from 1 January 2013 have been early adopted in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost convention, except for available-for-sale investments that have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 3. The Financial Information is presented in Renminbi ("Rmb") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 9	*Financial Instruments*[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[3]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 11 Amendments	Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations*[4]
IFRS 14	*Regulatory Deferral Accounts*[4]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
IFRS 15	*Revenue from Contracts with Customers*[5]
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*[4]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] No mandatory effective date yet determined but is available for adoption
[4] Effective for annual periods beginning on or after 1 January 2016
[5] Effective for annual periods beginning on or after 1 January 2017

The directors of the Company anticipate that the application of the new and revised IFRSs will have no material impact on the Financial Information.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company and/or its other subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investment in an associate

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of the associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the associates is included as part of the Group's investment in the associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combination and goodwill

Business combination is accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or

loss or a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generated units, or groups of cash-generated units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Foreign currency translation

The functional currency of the Company is the United States dollar ("US$") and certain subsidiaries incorporated outside Mainland China use the Singapore dollar ("SG$"), the Hong Kong dollar ("HK$") and Malaysian Ringgit ("MYR") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is Rmb. As the Group mainly operates in Mainland China, the Rmb is used as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the non-PRC established subsidiaries are currencies other than the Rmb. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statement of profit or loss are translated into Rmb at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of the non-PRC established subsidiaries are translated into Rmb at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into Rmb at the weighted average exchange rates for the year.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in accounting policy for "Contracts for services" below; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise lab our and other costs of personnel directly engaged in providing the services and attributable overheads.

Taxes

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Retirement benefits

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group make contributions to the Central Provident Fund (the "CPF") Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition".

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Available-for-sale investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to the ultimate holding company and related parties and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated and company statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement

The Group measures financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	10 – 40 years
Machinery and equipment	5 – 10 years
Motor vehicles	5 – 10 years
Computer and office equipment	3 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale in their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

No-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The capitalisation rates applied to buildings are 16%, 17% and 10% during the Relevant Periods.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Trademarks	10 years
Patents and technology know-how	5 – 20 years
Software	2 – 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a); and

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were Rmb347,356,000, Rmb347,356,000 and Rmb347,356,000 as at 31 December 2011, 2012 and 2013, respectively. Further details are given in note 16.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised deductible temporary differences were Rmb58,461,000, Rmb64,392,000 and Rmb79,428,000 as at 31 December 2011, 2012 and 2013, respectively. Further details are contained in note 32 to the Financial Information.

Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables amounted to Rmb3,946,000, Rmb5,682,000 and Rmb5,792,000 as at 31 December 2011, 2012 and 2013, respectively.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete or non-strategic assets that have been abandoned.

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 and results of major type of products sold for the purpose of resource allocation and assessment of segment performance. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2.3. Segment result is evaluated based on gross profit less selling expense allocated. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2011

	Oncology drugs	Cardio-vascular drugs	Alimentary tract and metabolism drugs	Others	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Segment revenue					
External customers	799,921	613,926	280,038	80,505	1,774,390
Total revenue	799,921	613,926	280,038	80,505	1,774,390
Segment results	243,412	172,190	66,093	11,463	493,158
Other income and gains					25,934
Administrative expenses					(151,566)
Other expenses					(147,307)
Finance costs					(19,636)
Share of profit of an associate					545
Profit before tax					201,128

Year ended 31 December 2012

	Oncology drugs	Cardio-vascular drugs	Alimentary tract and metabolism drugs	Others	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Segment revenue					
External customers	940,830	630,654	451,086	113,373	2,135,943
Total revenue	940,830	630,654	451,086	113,373	2,135,943
Segment results	305,327	177,641	85,382	6,063	574,413
Other income and gains					12,717
Administrative expenses					(157,906)
Other expenses					(145,522)
Finance costs					(29,145)
Share of profit an of associate					894
Profit before tax					255,451

Year ended 31 December 2013

	Oncology drugs	Cardio-vascular drugs	Alimentary tract and metabolism drugs	Others	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Segment revenue					
External customers	1,102,165	723,079	575,237	114,630	2,515,111
Total revenue	1,102,165	723,079	575,237	114,630	2,515,111
Segment results	386,471	224,044	93,733	19,296	723,544
Other income and gains					35,902
Administrative expenses					(146,508)
Other expenses					(206,669)
Finance costs					(24,091)
Share of profit an of associate					990
Profit before tax					383,168

Geographic information

(a) Revenue from external customers

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Mainland China	1,754,182	2,116,486	2,495,120
Other countries	20,208	19,457	19,991
Total	1,774,390	2,135,943	2,515,111

The revenue information above is based on the location of the customers. No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2011, 2012 and 2013.

(b) Non-current assets

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Mainland China	1,441,128	1,516,657	1,645,478
Other countries	8,347	5,670	5,856
Total	1,449,475	1,522,327	1,651,334

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Revenue			
Sale of drugs	1,801,411	2,173,332	2,557,215
Sale of research and development results	1,074	971	1,140
	1,802,485	2,174,303	2,558,355
Less: Business tax and government surcharges	(28,095)	(38,360)	(43,244)
	1,774,390	2,135,943	2,515,111
Other income and gains			
Bank interest income	4,823	3,858	3,030
Government grants	17,519	5,469	30,839
Investment income	1,499	763	1,008
Others	2,093	2,627	1,025
	25,934	12,717	35,902

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
Depreciation of items of property, plant and equipment	14	31,468	39,900	57,953
Amortisation of other intangible assets*	17	42,676	38,877	37,629
Amortisation of prepaid land lease payments**	15	4,307	4,793	4,852
Amortisation of long-term deferred expenditure**		500	500	500
Provision for/(reversal of provision for) impairment of trade receivables	22	501	(1,253)	286
Provision/(reversal of provision) for impairment of other receivables	23	–	3,009	(9)
Operating lease expenses		17,943	17,499	10,924
Auditors' remuneration		2,963	2,900	2,800
Employee benefit expense (excluding directors' remuneration):				
Wages and salaries		213,265	228,624	255,315
Pension		33,013	40,116	46,084
Central Provident Fund in Singapore		1,236	709	288
Staff welfare expenses		18,805	18,700	24,880
		266,319	288,149	326,567
Other expenses:				
Research and development costs		134,906	134,368	194,081
Net foreign exchange loss		4,582	1,879	3,268
Donation		2,300	5,536	6,199
Loss on disposal of items of property, plant and equipment		336	2,138	430
Capital gain tax		2,971	–	–
Loss on disposal of items of other intangible assets	17	–	–	1,440
Others		2,212	1,601	1,251
		147,307	145,522	206,669

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

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Cost of inventories sold***	300,471	351,527	413,264
Cost of services provided	650	286	242
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:			
Depreciation	17,453	19,739	39,807
Amortisation of other intangible assets*	42,432	38,608	37,299
Staff costs	51,542	68,967	80,784

* The amortisation of Trademarks, Patents and technology know-how for the Relevant Periods is included in "Cost of sales" on the face of the consolidated statement of profit or loss.
The amortisation of Software for the Relevant Periods is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

** The amortisation of prepaid land lease payments and long-term deferred expenditure for the Relevant Periods is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

*** The write-down of inventories to net realisable value of Rmb1,195,000, Rmb584,000 and Rmb1,757,000 for the Relevant Periods is included in "Cost of sales" on the face of the consolidated statement of profit or loss.

7. FINANCE COSTS

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Interest on bank loans	22,789	34,425	26,519
Less: Interest capitalised	(3,536)	(5,796)	(2,596)
	19,253	28,629	23,923
Finance charges payable under a hire purchase contract	32	33	32
Total interest expense	19,285	28,662	23,955
Unwinding of discount on provision *(note 31)*	139	–	–
Bank charges and others	212	483	136
	19,636	29,145	24,091

8. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Fees	1,790	1,472	1,399
Other emoluments:			
Salaries, allowances and benefits in kind	4,344	4,594	4,475
Performance related bonuses	473	731	675
Pension scheme contributions	12	14	14
	4,829	5,339	5,164
	6,619	6,811	6,563

Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Tan Soo Kiat	337	327	321
Tan Chong Huat	270	261	258
Dr. Hong Hai	270	261	258
	877	849	837

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2011:					
Executive directors:					
Liu Dianbo.	239	2,601	257	4	3,101
Yang Rongbing . . .	188	950	130	4	1,272
Yuan Huixian	162	793	86	4	1,045
	589	4,344	473	12	5,418
Non-executive directors:					
Kung Kuo Chuan. .	162	–	–	–	162
Kong Teck Chien. .	162	–	–	–	162
	324	–	–	–	324
2012:					
Executive directors:					
Liu Dianbo.	232	2,723	429	5	3,389
Yang Rongbing . . .	182	1,016	170	4	1,372
Yuan Huixian	157	855	132	5	1,149
	571	4,594	731	14	5,910
Non-executive directors:					
Kung Kuo Chuan. .	26	–	–	–	26
Kong Teck Chien. .	26	–	–	–	26
	52	–	–	–	52
2013:					
Executive directors:					
Liu Dianbo.	228	2,715	367	5	3,315
Yang Rongbing . . .	179	1,118	200	4	1,501
Yuan Huixian	155	642	108	5	910
	562	4,475	675	14	5,726

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods included 3, 3 and 2 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 2, 2 and 3 highest paid employees who are neither a director nor chief executive of the Group, during the Relevant Periods are as follows:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Salaries, allowances and benefits in kind.	1,799	1,754	2,583
Performance related bonuses	272	545	841
Pension scheme contributions.	5	18	21
	2,076	2,317	3,445

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees		
	2011	2012	2013
HK$1,000,001 to HK$1,500,000	2	2	3

10. 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.

Pursuant to the rules and regulations of Bermuda and BVI, the Group is not subject to any income tax in Bermuda and BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

Pursuant to the rules and regulations of Singapore and Malaysia, the Group is subject to 17% and 25% of taxable income in Singapore and Malaysia, respectively.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye Sike, WPU and Sichuan Baoguang are qualified as High and New Technology Enterprises and are subject to a preferential income tax rate of 15% for the Relevant Periods.

Nanjing AIGE is exempted from income tax as it is involved in the production and trading of agricultural products.

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Current tax:			
Income tax charge	73,313	57,599	87,053
Adjustments in respect of income tax of previous years	25	5,058	1,612
Deferred tax *(note 32)*	(38,436)	17,205	(33,441)
Total tax charge for the year	34,902	79,862	55,224

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rates is as follows:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Profit before tax	201,128	255,451	383,168
At the PRC's statutory income tax rate of 25%	50,282	63,863	95,792
Effect of tax rate differences in other countries	(1,804)	5,423	4,381
Preferential income tax rates applicable to subsidiaries	(25,020)	(29,483)	(37,661)
Additional deductible allowance for research and development expenses	(3,610)	(7,847)	(9,681)
Effect of tax levied on a deemed income basis	3,036	520	584
Adjustments in respect of current income tax of previous years	25	5,058	1,612
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	–	30,866	–
Effect of non-deductible expenses	4,960	6,039	5,963
Income not subject to tax	(1,781)	(1,062)	(2,196)
Tax losses utilised from previous periods	–	–	(3,841)
Tax losses not recognised	8,814	6,485	271
Tax charge at the Group's effective rate	34,902	79,862	55,224

The effective tax rates of the Group were 17.4%, 31.3% and 14.4% in 2011, 2012 and 2013 respectively.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the Relevant Periods includes a loss of Rmb12,624,000, Rmb10,714,000 and Rmb820,000 during the years ended 31 December 2011, 2012 and 2013 respectively, which has been dealt with in the financial statements of the Company (note 34).

12. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the Relevant Periods.

No adjustment has been made to the basic earnings per share amounts presented for the Relevant Periods in respect of a dilution as he Group had no potentially dilutive ordinary shares in issue during the those periods.

The following reflects the income and share data used in the basic earnings per share computation:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Earnings			
Profit attributable to owners of the parent, used in the basic earnings per share calculation	155,752	169,032	310,498

	Number of shares		
	2011	2012	2013
Shares			
Weighted average number of shares in issue during the year, used in the basic earnings per share calculation	492,764,900	492,764,900	492,764,900

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
31 December 2011						
At 1 January 2011:						
Cost	148,637	205,386	12,143	31,125	67,365	464,656
Accumulated depreciation and impairment	(30,139)	(103,327)	(2,508)	(9,285)	–	(145,259)
Net carrying amount	118,498	102,059	9,635	21,840	67,365	319,397
At 1 January 2011, net of accumulated depreciation	118,498	102,059	9,635	21,840	67,365	319,397
Acquisition of a subsidiary *(note 35)*	25,829	15,497	2,334	3,075	510	47,245
Additions	3,315	16,237	2,730	10,167	302,819	335,268
Disposals	–	(327)	(269)	(118)	–	(714)
Depreciation provided during the year	(6,618)	(17,940)	(1,949)	(4,961)	–	(31,468)
Transfers	797	686	–	–	(1,483)	–
At 31 December 2011, net of accumulated depreciation and impairment	141,821	116,212	12,481	30,003	369,211	669,728
At 31 December 2011:						
Cost	178,578	233,304	15,581	42,691	369,211	839,365
Accumulated depreciation and impairment	(36,757)	(117,092)	(3,100)	(12,688)	–	(169,637)
Net carrying amount	141,821	116,212	12,481	30,003	369,211	669,728
Gross carrying amount of fully depreciated but still in use	1,267	81,312	3,157	19,912	–	105,648
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	178,578	233,304	15,581	42,691	369,211	839,365
Accumulated depreciation and impairment	(36,757)	(117,092)	(3,100)	(12,688)	–	(169,637)
Net carrying amount	141,821	116,212	12,481	30,003	369,211	669,728
At 1 January 2012, net of accumulated depreciation	141,821	116,212	12,481	30,003	369,211	669,728
Additions	1,928	38,542	640	6,383	122,783	170,276
Disposals	(232)	(1,591)	(1,688)	(304)	–	(3,815)
Depreciation provided during the year	(8,837)	(24,298)	(1,980)	(4,785)	–	(39,900)
Transferred to assets held for sale	–	(11,894)	–	(6,626)	–	(18,520)
Transfers	256,310	114,269	–	3,990	(374,569)	–
At 31 December 2012, net of accumulated depreciation and impairment	390,990	231,240	9,453	28,661	117,425	777,769

	Buildings	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31 December 2012:						
Cost	436,330	366,051	13,802	41,430	117,425	975,038
Accumulated depreciation and impairment	(45,340)	(134,811)	(4,349)	(12,769)	–	(197,269)
Net carrying amount	390,990	231,240	9,453	28,661	117,425	777,769
Gross carrying amount of fully depreciated but still in use	1,581	82,902	3,361	19,763	–	107,607
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	436,330	366,051	13,802	41,430	117,425	975,038
Accumulated depreciation and impairment	(45,340)	(134,811)	(4,349)	(12,769)	–	(197,269)
Net carrying amount	390,990	231,240	9,453	28,661	117,425	777,769
At 1 January 2013, net of accumulated depreciation and impairment	390,990	231,240	9,453	28,661	117,425	777,769
Additions	3,295	25,104	5,196	6,981	169,251	209,827
Disposals	(2)	(761)	(191)	(118)	–	(1,072)
Depreciation provided during the year	(15,685)	(34,769)	(2,027)	(5,472)	–	(57,953)
Transferred to assets held for sale	–	(2,747)	–	–	–	(2,747)
Transfers	78,017	189,004	–	6,299	(273,320)	–
At 31 December 2013, net of accumulated depreciation and impairment	456,615	407,071	12,431	36,351	13,356	925,824
At 31 December 2013:						
Cost	517,640	556,549	17,254	53,866	13,356	1,158,665
Accumulated depreciation and impairment	(61,025)	(149,478)	(4,823)	(17,515)	–	(232,841)
Net carrying amount	456,615	407,071	12,431	36,351	13,356	925,824
Gross carrying amount of fully depreciated but still in use	1,907	98,517	3,770	22,035	–	126,229

As at 31 December 2011, 2012 and 2013, the Group was applying for certificates of ownership for certain properties with the net book values of Rmb1,704,000, Rmb208,609,000 and Rmb275,252,000, respectively. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the 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 these certificates are obtained.

15. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Carrying amount at 1 January	151,709	194,647	189,854
Acquisition of a subsidiary *(note 35)*	7,653	–	–
Additions	39,592	–	4,300
Recognised	(4,307)	(4,793)	(4,852)
Carrying amount at 31 December	194,647	189,854	189,302
Current portion included in prepayments, deposits and other receivables	(1,868)	(1,868)	(2,012)
Non-current portion	192,779	187,986	187,290

The leasehold land is situated in Mainland China and is held under a long term lease.

16. GOODWILL

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
At 1 January	188,212	347,356	347,356
Acquisition of a subsidiary *(note 35)*	159,144	–	–
Carrying amount at 31 December	347,356	347,356	347,356

There was no impairment charge made against goodwill for the Relevant Periods.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to six individual cash-generating units for impairment testing as follows:

(a) CMNA cash-generating unit ("CMNa unit"), which relates to CMNa, one of the Group's key products;

(b) Pharmaceutical products other than the CMNa cash-generating unit ("Other products unit"), which relates to Maitongna and Lutingnuo, two of the Group's key products;

(c) Solid Success Group cash-generating unit ("SSL unit"), which relates to Lipusu and Tiandixin, two of the Group's key products;

(d) ABPL cash-generating unit, which relates to Hypocol;

(e) WPU cash-generating unit ("WPU unit"), which relates to Xuezhikang, one of the Group's key products; and

(f) Sichuan Baoguang cash-generating unit ("SB unit"), which relates to Bei Xi, one of the Group's key products.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Carrying amount of goodwill		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
CMNa unit	38,444	38,444	38,444
Other products unit	5,954	5,954	5,954
SSL unit	114,185	114,185	114,185
ABPL unit	7,353	7,353	7,353
WPU unit	22,276	22,276	22,276
SB unit	159,144	159,144	159,144
Total	347,356	347,356	347,356

The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for all units. The pre-tax discount rates applied to cash flow projections are 14%, 14% and 15% as at 31 December 2011, 2012 and 2013 and the growth rate beyond the five-year period had been projected as 3%.

Key assumptions used in the value in use calculation

The calculation of value in use is based on assumptions of the following:

- Gross margins and operating expenses
- Discount rate
- Growth rate

Gross margins and operating expenses – Gross margins are based on the average gross margins achieved in the year immediately before the budgeted year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect past experience and management's commitment to maintain them at an acceptable level.

Discount rate – Discount rate reflects management's estimate of the risks specific to each unit.

Growth rate – Rate is based on published industry research.

17. OTHER INTANGIBLE ASSETS

	Trademarks	Patents and technology know-how	Software	In-process research and development projects	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
31 December 2011					
At 1 January 2011:					
Cost	10,833	304,080	1,355	–	316,268
Accumulated amortisation	(6,150)	(121,047)	(280)	–	(127,477)
Net carrying amount	4,683	183,033	1,075	–	188,791
Cost at 1 January 2011, net of accumulated amortisation	4,683	183,033	1,075	–	188,791
Acquisition of a subsidiary *(note 35)*	31,185	31,646	148	1,380	64,359
Additions	–	–	381	960	1,341
Amortisation provided during the year	(2,258)	(40,174)	(244)	–	(42,676)
At 31 December 2011	33,610	174,505	1,360	2,340	211,815
At 31 December 2011 and 1 January 2012:					
Cost	42,018	335,726	1,884	2,340	381,968
Accumulated amortisation	(8,408)	(161,221)	(524)	–	(170,153)
Net carrying amount	33,610	174,505	1,360	2,340	211,815
31 December 2012					
Cost at 1 January 2012, net of accumulated amortisation	33,610	174,505	1,360	2,340	211,815
Additions	–	–	825	–	825
Amortisation provided during the year	(3,040)	(35,568)	(269)	–	(38,877)
At 31 December 2012	30,570	138,937	1,916	2,340	173,763
At 31 December 2012 and 1 January 2013:					
Cost	42,018	335,726	2,709	2,340	382,793
Accumulated amortisation	(11,448)	(196,789)	(793)	–	(209,030)
Net carrying amount	30,570	138,937	1,916	2,340	173,763
31 December 2013					
Cost at 1 January 2013, net of accumulated amortisation	30,570	138,937	1,916	2,340	173,763
Additions	–	–	1,607	–	1,607
Disposals	–	–	–	(1,440)	(1,440)
Transfers	–	900	–	(900)	–
Amortisation provided during the year	(3,066)	(34,233)	(330)	–	(37,629)
At 31 December 2013	27,504	105,604	3,193	–	136,301
At 31 December 2013:					
Cost	41,971	336,626	4,316	–	382,913
Accumulated amortisation	(14,467)	(231,022)	(1,123)	–	(246,612)
Net carrying amount	27,504	105,604	3,193	–	136,301

18. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	116,135	116,135	116,135

The amounts due from subsidiaries included in the Company's current assets of Rmb502,235,000, Rmb501,215,000 and Rmb411,334,000 and the amounts due to subsidiaries included in the Company's current liabilities of Rmb139,831,000, Rmb167,705,000 and Rmb164,479,000 as at 31 December 2011, 2012 and 2013, respectively. They are unsecured, interest-free and have no fixed terms of repayment.

19. INVESTMENT IN AN ASSOCIATE

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	1,947	2,037	1,914
At 1 January	3,313	3,652	4,749
Share of profit	545	894	990
Foreign currency translation differences	(206)	203	(416)
	3,652	4,749	5,323

Particulars of the associate as at 31 December 2011, 2012 and 2013 are as follows:

Company	Place of incorporation	Nominal value of issued shares/paid-up capital	Percentage of interest attributable to the Group	Principal activities
Steward Cross Pte. Ltd.* ("Steward Cross")	Singapore	SG$620,002	36	Distribution and sale of pharmaceutical drugs

* Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts or financial statements:

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Total assets	21,572	21,495	22,111
Total liabilities	10,855	8,867	6,169

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Revenue	53,272	47,521	45,367
Profit	1,514	2,483	2,750

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Current			
Investment in bank financial products, at fair value	–	–	10,000
Non-Current			
Listed equity investment, at fair value	1,910	1,840	3,831
Unlisted investment, at cost	500	500	500
	2,410	2,340	4,331

Current available-for-sale financial assets represented investment in financial products issued by Bank of China and the entire investment can be redeemed at any time.

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 investments 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. These investments were stated at cost less any impairment losses.

21. INVENTORIES

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Raw materials	34,039	50,901	95,854
Work in progress	40,503	53,883	81,523
Finished goods	31,730	37,902	57,356
	106,272	142,686	234,733

22. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Trade receivables	313,792	339,525	393,459
Notes receivable	144,880	176,806	144,295
	458,672	516,331	537,754
Less: Impairment of trade receivables	(3,346)	(2,073)	(2,192)
	455,326	514,258	535,562

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three 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.

Movements in the provision for impairment of trade receivables were as follows:

Group

	Individually impaired	Collectively impaired	Total
	Rmb'000	Rmb'000	Rmb'000
At 1 January 2011	870	1,869	2,739
Acquisition of a subsidiary	267	–	267
Charge for the year	1,275	209	1,484
Reversal	–	(983)	(983)
Write-off	(161)	–	(161)
At 31 December 2011 and 1 January 2012	2,251	1,095	3,346
Charge for the year	–	679	679
Reversal	(1,876)	(56)	(1,932)
Write-off	(20)	–	(20)
At 31 December 2012 and 1 January 2013	355	1,718	2,073
Charge for the year	1,256	253	1,509
Reversal	(73)	(1,150)	(1,223)
Write-off	–	(167)	(167)
At 31 December 2013	1,538	654	2,192

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

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Less than 3 months	268,824	311,934	370,021
Between 3 and 6 months	36,622	12,316	18,139
Between 6 and 12 months	4,009	9,956	2,346
Between 1 and 2 years	2,570	3,743	813
Over 2 years	1,767	1,576	2,140
	313,792	339,525	393,459

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Neither past due nor impaired	246,049	315,009	386,232
Less than 3 months past due	52,710	10,401	2,817
Over 3 months past due	11,687	12,042	2,218
	310,446	337,452	391,267

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2011, the Group has pledged trade receivables of Rmb65,147,000 to secure bank loans of Rmb57,310,000 (note 28). No trade receivables were pledged as at 31 December 2012 and 2013.

As at 31 December 2012 and 2013, the Group has pledged notes receivable of Rmb4,209,000 and Rmb4,555,000 to secure notes payable of Rmb4,209,000 and Rmb4,555,000 (note 26), respectively. As at 31 December 2013, the Group has pledged notes receivable of Rmb73,168,000 to secure a short-term loan of Rmb213,392,000 (note 28). No notes receivable were pledged as at 31 December 2011.

The notes receivable are due within seven months. The Group had discounted notes receivable of Rmb4,890,000 and Rmb7,738,000 as at 31 December 2011 and 2012, and the proceeds received have been accounted for as short-term loans (note 28). No notes receivable were discounted as at 31 December 2013.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Other receivables	18,138	19,379	30,749
Prepaid income tax	2,023	2,763	–
Prepayments	14,676	16,401	19,096
Prepaid expense	1,941	158	168
	36,778	38,701	50,013
Less: Impairment of other receivables	(600)	(3,609)	(3,600)
	36,178	35,092	46,413

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Other receivables	–	11	–
Prepayments	381	500	406
Dividend receivable	33,773	33,691	32,680
	34,154	34,202	33,086
Less: Impairment of other receivables	–	–	–
	34,154	34,202	33,086

Movements in the provision for impairment of other receivables were as follows:

Group

	Individually impaired
	Rmb'000
At 1 January 2011	600
Reversal	–
At 31 December 2011 and 1 January 2012	600
Charge for the year	3,009
Reversal	–
At 31 December 2012 and 1 January 2013	3,609
Charge for the year	–
Reversal	(9)
At 31 December 2013	3,600

The aged analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Neither past due nor impaired	36,178	35,092	46,413

The financial assets included in the above balances that were neither past due nor impaired relate to other receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED SHORT-TERM DEPOSITS

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	231,501	364,031	333,150
Short-term deposits	99,009	2,464	177,485
	330,510	366,495	510,635
Less: Pledged short-term deposits for letter of credit	–	–	(9,347)
Pledged short-term deposits for bank loans and notes payables	(79,009)	(2,464)	(168,138)
Cash and cash equivalents	251,501	364,031	333,150
Denominated in RMB	219,267	325,386	96,070
Denominated in US$	27,628	29,800	221,103
Denominated in others	4,606	8,845	15,977
Cash and cash equivalents	251,501	364,031	333,150

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Cash and cash equivalents	2,202	5,602	215,745
Denominated in US$	753	1,013	214,250
Denominated in others	1,449	4,589	1,495
Cash and cash equivalents	2,202	5,602	215,745

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are pledged for letter of credit, bank loans and notes payables. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values as at the end of the reporting period.

Short-term deposits of Rmb79,009,000, Rmb2,464,000 and Rmb163,605,000 have been pledged to secure bank loans as at 31 December 2011, 2012 and 2013, respectively (note 28).

Short-term deposits of Rmb4,533,000 have been pledged to secure notes payable as at 31 December 2013 (note 26).

25. NON-CURRENT ASSETS HELD FOR SALE

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Property, plant and equipment held for sale	–	17,825	818

On 25 July 2012, A-Bio, one of the subsidiaries of the Group located in Singapore, entered into a transfer agreement with a third party company named Prime Biologics Private Limited ("Prime") for a group of assets at a price of SG$3,500,000 (equivalent to RMB17,825,000). As at 31 December 2012, the carrying amount of the group of assets to be disposed of to Prime was RMB18,975,000, thus Rmb1,150,000 was provided as impairment provision for this group of assets and this group of assets were presented as non-current assets held for sale as at 31 December 2012. In January 2013, this group of assets have been disposed of to Prime according to the agreement.

As at 31 December 2013, the Group planned to dispose a production line included in property, plant and equipment with a carrying amount of Rmb2,747,000 at market price within one year. Rmb1,929,000 was provided to write down these assets to their fair value less costs to sell. The Directors are of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2013.

26. TRADE AND NOTES PAYABLES

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Trade payables	34,331	50,049	56,266
Notes payable	–	4,354	13,103
	34,331	54,403	69,369

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:

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Within 3 months	25,007	44,436	66,073
3 to 6 months	8,076	7,507	2,023
6 to 12 months	996	2,021	765
1 to 2 years	156	310	142
Over 2 years	96	129	366
	34,331	54,403	69,369

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

As at 31 December 2012 and 2013, notes payables of Rmb4,209,000 and Rmb4,555,000 were secured by the Group's notes receivables with carrying amounts of Rmb4,209,000 and Rmb4,555,000, respectively (note 22). The maturity date of the notes payables is within six months.

As at 31 December 2013, notes payable of Rmb13,103,000 were secured by the Group's short-term deposits with a carrying amount of Rmb4,533,000 (note 24).

27. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Other payables	90,149	40,150	48,869
Accrued liabilities	60,656	55,862	82,497
Accrued payroll	39,575	52,187	59,440
Advances from customers	20,595	10,765	16,602
Deferred cash settlement for acquisition *(note 35)*	3,000	–	–
Taxes payable other than corporate income tax	37,515	36,828	65,919
Payables for purchases of machinery and construction of buildings	74,129	117,335	78,586
	325,619	313,127	351,913

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Accrued liabilities	1,265	405	1,061
Accrued payroll	834	1,232	728
	2,099	1,637	1,789

Other payables are non-interest-bearing.

28. INTEREST-BEARING LOANS AND BORROWINGS

2011

	Effective Interest rate	Maturity	Group	Company
	(%)		Rmb'000	Rmb'000
Current				
Bank loans – secured				
Rmb50,000 bank loan	6.1	26 March 2012	50	–
Rmb450,000 bank loan	6.1	29 May 2012	450	–
Rmb3,310,000 bank loan *(note 22)*	7.544	7 June 2012	3,310	–
Rmb5,000,000 bank loan	7.015	26 June 2012	5,000	–
Rmb10,000,000 bank loan	5.81	19 January 2012	10,000	–
Rmb10,000,000 bank loan	6.63	26 May 2012	10,000	–
Rmb10,000,000 bank loan	7.872	28 July 2012	10,000	–
Rmb10,000,000 bank loan	7.216	29 September 2012	10,000	–
Rmb10,000,000 bank loan	6.56	9 November 2012	10,000	–
Rmb19,000,000 bank loan *(note 22)*	6.1425	24 February 2012	19,000	–
Rmb20,000,000 bank loan	6.405	8 June 2012	20,000	–
Rmb20,000,000 bank loan	7.872	9 August 2012	20,000	–
Rmb20,000,000 bank loan	7.216	29 September 2012	20,000	–
Rmb20,000,000 bank loan	7.216	29 September 2012	20,000	–
Rmb25,000,000 bank loan	6.405	5 March 2012	25,000	–
Rmb29,000,000 bank loan	6.63	19 May 2012	29,000	–
Rmb30,000,000 bank loan	5.5195	20 January 2012	30,000	–
Rmb30,000,000 bank loan	6.63	19 May 2012	30,000	–
Rmb30,000,000 bank loan	6.31	8 June 2012	30,000	–

	Effective Interest rate	Maturity	Group	Company
	(%)		Rmb'000	Rmb'000
Rmb35,000,000 bank loan *(note 22)*	6.405	1 June 2012	35,000	–
Rmb100,000,000 bank loan	7.872	18 August 2012	100,000	–
Bank loans – unsecured				
Rmb10,000,000 bank loan	7.544	22 November 2012	10,000	–
Discounted notes receivables				
Rmb4,890,000 bank loan *(note 22)*	8.7	10 January 2012	4,890	–
Finance lease payables *(note 29)*	1.622	9 October 2015	2,115	–
			453,815	–
Non-current				
Finance lease payables *(note 29)*	1.622	9 October 2015	747	–
Finance lease payables *(note 29)*	2.2	30 August 2020	1,253	–
			2,000	–
			455,815	–

2012

	Effective Interest rate	Maturity	Group	Company
	(%)		Rmb'000	Rmb'000
Current				
Bank loans – secured				
Rmb20,000,000 bank loan	6.72	15 January 2013	20,000	–
Rmb50,000,000 bank loan	6.60	27 September 2013	50,000	–
Rmb20,000,000 bank loan	6.00	19 October 2013	20,000	–
Rmb50,000,000 bank loan	4.00	5 May 2013	50,000	–
Rmb10,000,000 bank loan	5.60	14 November 2013	10,000	–
Rmb10,000,000 bank loan	5.60	7 June 2013	10,000	–
Rmb30,000,000 bank loan	6.56	13 February 2013	30,000	–
Rmb10,000,000 bank loan	6.56	20 January 2013	10,000	–
Rmb2,000,000 bank loan	6.89	15 February 2013	2,000	–
Rmb79,000,000 bank loan	6.06	8 November 2013	79,000	–
Rmb21,000,000 bank loan	6.06	18 November 2013	21,000	–
Rmb4,700,000 bank loan	6.94	11 June 2013	4,700	–
Rmb3,723,000 bank loan	7.315	28 January 2013	3,723	–
Rmb3,785,000 bank loan	7.315	28 April 2013	3,785	–
Rmb3,849,000 bank loan	7.315	28 July 2013	3,849	–
Rmb3,915,000 bank loan	7.315	28 October 2013	3,915	–
Bank loans – unsecured				
Rmb10,000,000 bank loan	5.88	27 February 2013	10,000	–
Rmb10,000,000 bank loan	5.88	28 February 2013	10,000	–
Rmb25,000,000 bank loan	5.88	4 June 2013	25,000	–
Rmb20,000,000 bank loan	5.88	1 May 2013	20,000	–
Rmb30,000,000 bank loan	6.00	29 September 2013	30,000	–
Rmb20,000,000 bank loan	5.60	26 February 2013	20,000	–
Discounted notes receivables				
Rmb2,280,000 bank loan *(note 22)*	5.59	8 May 2013	2,280	–
Rmb5,012,000 bank loan *(note 22)*	6.44	11 March 2013	5,012	–
Rmb446,000 bank loan *(note 22)*	6.00	25 January 2013	446	–
Finance lease payables *(note 29)*	2.2	30 August 2020	153	–
			444,863	–
Non-current				
Bank loans – secured				
Rmb24,918,000 bank loan	7.315	28 April 2015	24,918	–
Finance lease payables *(note 29)*	2.2	30 August 2020	1,006	–
			25,924	–
			470,787	–

2013

	Effective Interest rate	Maturity	Group	Company
	(%)		Rmb'000	Rmb'000
Current				
Bank loans – secured				
Rmb20,000,000 bank loan	5.6	11 February 2014	20,000	–
Rmb20,000,000 bank loan	6.0	14 May 2014	20,000	–
Rmb29,000,000 bank loan	6.0	13 February 2014	29,000	–
Rmb30,600,000 bank loan	5.88	20 May 2014	30,600	–
Rmb10,000,000 bank loan	5.5	10 January 2014	10,000	–
Rmb60,000,000 bank loan	5.66	28 May 2014	60,000	–
Rmb20,000,000 bank loan	5.6	13 February 2014	20,000	–
Rmb10,000,000 bank loan	5.6	7 May 2014	10,000	–
Rmb30,000,000 bank loan	5.6	3 June 2014	30,000	–
Rmb10,000,000 bank loan	5.6	16 January 2014	10,000	–
Rmb10,000,000 bank loan	5.6	25 February 2014	10,000	–
Rmb10,000,000 bank loan	5.6	25 February 2014	10,000	–
Rmb40,000,000 bank loan	5.66	28 March 2014	40,000	–
Rmb20,000,000 bank loan	5.5	8 January 2014	20,000	–
Rmb25,000,000 bank loan	5.55	21 March 2014	25,000	–
Rmb30,000,000 bank loan	5.55	20 January 2014	30,000	–
Rmb20,000,000 bank loan	5.6	23 April 2014	20,000	–
Rmb3,981,000 bank loan	6.765	28 January 2014	3,981	–
Rmb4,048,000 bank loan	6.765	28 April 2014	4,048	–
Rmb4,117,000 bank loan	6.765	28 July 2014	4,117	–
Rmb4,186,000 bank loan	6.765	28 October 2014	4,186	–
US$15,000,000 bank loan	3-Month Libor+2.2	20 December 2014	91,453	91,453
US$35,000,000 bank loan *(note 22)*	3-Month Libor+2.2	15 December 2014	213,392	213,392
Bank loans – unsecured				
Rmb20,000,000 bank loan	5.6	15 February 2014	20,000	–
Finance lease payables *(note 29)*	2.2	30 August 2020	144	–
			735,921	304,845
Non-current				
Bank loans – secured				
Rmb8,586,000 bank loan	6.765	28 April 2015	8,586	–
Finance lease payables *(note 29)*	2.2	30 August 2020	801	–
			9,387	–
			745,308	304,845

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Group			
Bank loans and overdrafts repayable:			
Within one year or on demand	453,815	444,863	735,921
In the second year	893	16,471	8,715
In the third year to fifth years, inclusive	584	9,085	462
Beyond five years	523	368	210
	455,815	470,787	745,308

	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Company			
Bank loans and overdrafts repayable:			
Within one year or on demand	–	–	304,845
	–	–	304,845

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

(i) the pledge of certain of the Group's short-term deposits amounting to Rmb79,009,000, Rmb2,464,000 and Rmb163,605,000 as at 31 December 2011, 2012 and 2013 (note 24);

(ii) the pledge of certain of the Group's trade receivables of Rmb65,147,000 as at 31 December 2011 (note 22); and

(iii) the pledge of certain of the Group's notes receivable of Rmb73,168,000 as at 31 December 2013 (note 22).

29. FINANCE LEASE PAYABLES

The Group has certain finance leases for motor vehicles, equipment and machinery. The total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2011	2012	2013	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Amounts payable:						
Within one year	2,195	186	175	2,115	153	144
In the second year	973	186	175	893	139	129
In the third to fifth years, inclusive	770	558	525	584	499	462
After five years	638	484	278	523	368	210
Total minimum finance lease payments	4,576	1,414	1,153	4,115	1,159	945
Future finance charges	(461)	(255)	(208)			
Total net finance lease payables	4,115	1,159	945			
Portion classified as current liabilities *(note 28)*	(2,115)	(153)	(144)			
Non-current portion *(note 28)*	2,000	1,006	801			

30. GOVERNMENT GRANTS

	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
At 1 January	48,550	88,812	111,795
Grants received during the year	53,599	28,373	60,334
Amount released	(13,337)	(5,390)	(19,009)
At 31 December	88,812	111,795	153,120
Current	28,310	45,218	74,436
Non-current	60,502	66,577	78,684
	88,812	111,795	153,120

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research expenses and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

31. PROVISION FOR RESTORATION COSTS

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
At 1 January	2,389	2,528	–
Reversal of provision	–	(1,621)	–
Unwinding of discount *(note 7)*	139	–	–
Provision utilised	–	(907)	–
At 31 December	2,528	–	–

The provision for restoration costs relates to the estimated cost of dismantling, removing and restoring the office premises to their original condition at the expiration of the lease period.

In 2012, the Group had entered into an agreement with third party to transfer the rented offices. The obligation of restoration has extinguished after the transfer, so the restoration cost accrued in previous years had been reversed and recognised in profit or loss in 2012.

32. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Deferred tax assets	58,461	64,392	79,428
Deferred tax liabilities	(93,983)	(117,119)	(98,714)
	(35,522)	(52,727)	(19,286)

Group

	2011											
	Deferred tax assets								Deferred tax liabilities			
	Accrued expenses	Decelerated depreciation for tax purposes	Impairment of non-current assets held-for-sale	Impairment of inventories	Impairment of trade and other receivables	Government grants	Unrealised profit from intercompany transactions	Deferred tax assets total	Fair value adjustment on acquisition	Withholding taxes	Deferred tax liabilities total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31 December 2010 and 1 January 2011	10,358	1,465	–	189	929	2,138	7,847	22,926	(47,148)	(34,390)	(81,538)	
Acquisition of a-subsidiary *(note 35)*	3,741	–	–	–	–	–	–	3,741	(21,175)	–	(21,175)	
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	7,690	(495)	–	165	(438)	8,371	16,501	31,794	6,642	–	6,642	38,436
Deferred tax realised during the year	–	–	–	–	–	–	–	–	–	2,088	2,088	
At 31 December 2011	21,789	970	–	354	491	10,509	24,348	58,461	(61,681)	(32,302)	(93,983)	

Group

	2012											
	Deferred tax assets								Deferred tax liabilities			
	Accrued expenses	Decelerated depreciation for tax purposes	Impairment of non-current assets held-for-sale	Impairment of inventories	Impairment of trade and other receivables	Government grants	Unrealised profit from intercompany transactions	Deferred tax assets total	Fair value adjustment on acquisition	Withholding taxes	Deferred tax liabilities total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31 December 2011 and 1 January 2012	21,789	970	–	354	491	10,509	24,348	58,461	(61,681)	(32,302)	(93,983)	
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	547	(239)	–	(25)	361	3,373	1,914	5,931	7,730	(30,866)	(23,136)	(17,205)
At 31 December 2012	22,336	731	–	329	852	13,882	26,262	64,392	(53,951)	(63,168)	(117,119)	

Group

	2013											
	Deferred tax assets								Deferred tax liabilities			
	Accrued expenses	Decelerated depreciation for tax purposes	Impairment of non-current assets held-for-sale	Impairment of inventories	Impairment of trade and other receivables	Government grants	Unrealised profit from intercompany transactions	Deferred tax assets total	Fair value adjustment on acquisition	Withholding taxes	Deferred tax liabilities total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31 December 2012 and 1 January 2013	22,336	731	–	329	852	13,882	26,262	64,392	(53,951)	(63,168)	(117,119)	
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	13,178	(477)	289	955	14	5,597	(4,520)	15,036	9,405	9,000	18,405	33,441
At 31 December 2013	35,514	254	289	1,284	866	19,479	21,742	79,428	(44,546)	(54,168)	(98,714)	

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008. At 31 December 2011, 2012 and 2013, the Directors, based on the Group's expansion plan in Mainland China and the cash flow needs overseas at the end of each of the Relevant Periods, estimated that a part of the retained earnings of its subsidiaries established in Mainland China amounted to Rmb323,020,000, Rmb631,680,000 and Rmb541,680,000 would be subject to future dividends distribution, and a 10% deferred tax liability amounted to Rmb32,302,000, Rmb63,168,000 and Rmb54,168,000 were recognised at 31 December 2011, 2012 and 2013, respectively. The retained earnings of these subsidiaries established in Mainland China for which deferred tax liabilities have not been recognised totalled Rmb357,537,000, Rmb302,816,000 and Rmb586,826,000 as at 31 December 2011, 2012, 2013, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group has tax losses arising in Singapore and Hong Kong of Rmb54,807,000, RMB67,287,000 and RMB52,399,000 that are available indefinitely for offsetting against future taxable profits as at 31 December 2011, 2012 and 2013.

The Group also has tax losses arising in Mainland China of Rmb1,755,823, Rmb8,673,000 and Rmb4,518,000 that will expire in one to five years for offsetting against future taxable profits as at 31 December 2011, 2012 and 2013.

Deferred tax assets have not been recognised in respect of these losses arisen in Singapore, Hong Kong and Mainland China as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

33. ISSUED CAPITAL

	As at 31 December		
	2011	**2012**	**2013**
Authorised:			
5,000,000,000 ordinary shares of US$0.02 each			
– US$'000	100,000	100,000	100,000
– Rmb'000	828,650	828,650	828,650
Issued and fully paid:			
492,764,900 ordinary shares of US$0.02 each			
– US$'000	9,855	9,855	9,855
– Rmb'000	81,180	81,180	81,180

34. RESERVES

Group

Statutory Surplus Reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Company

	Foreign currency translation reserves	Retained profits	Total
	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2011	(94,242)	121,674	27,432
Total comprehensive income for the year	–	(12,624)	(12,624)
Currency realignment	(15,282)	–	(15,282)
At 31 December 2011	(109,524)	109,050	(474)
Total comprehensive income for the year	–	(10,714)	(10,714)
Currency realignment	(715)	–	(715)
At 31 December 2012	(110,239)	98,336	(11,903)
Total comprehensive income for the year	–	(820)	(820)
Currency realignment	(16,470)	–	(16,470)
At 31 December 2013	(126,709)	97,516	(29,193)

35. BUSINESS COMBINATION

Acquisition in 2011

Acquisition of Sichuan Baoguang Pharmaceutical Co., Ltd. ("Sichuan Baoguang")

On 1 July 2011, the Group's subsidiaries, Shandong Luye Pharmaceutical Co., Ltd. and Luye Drugs Trading Co., Ltd., have entered into share transfer agreements with the shareholders of Sichuan Baoguang, namely Chengdu Hong Chuang Technical Co., Ltd. ("Chengdu Hong Chuang") and Yang Yuan, to acquire a 100% equity interest in Sichuan Baoguang for a total consideration of Rmb288,000,000. Sichuan Baoguang is principally engaged in the manufacture, marketing and sale of western pharmaceutical and modern China medicine products in Mainland China. Upon the acquisition, Sichuan Baoguang became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Sichuan Baoguang at the date of acquisition were as follows:

	Fair value recognized on acquisition
	Rmb'000
Property, plant and equipment *(note 14)*	46,735
Construction in progress *(note 14)*	510
Advance payments for property, plant and equipment	10,807
Intangible assets *(note 17)*	64,359
Prepaid land lease payments *(note 15)*	7,653
Inventories	22,933
Trade and notes receivables	34,858
Prepayments, deposits and other receivables	19,260
Cash and cash equivalents	13,076
Deferred tax assets *(note 32)*	3,741
Interest-bearing loans and borrowings	(11,750)
Trade payables	(23,336)
Other payables and accruals	(38,815)
Deferred tax liabilities *(note 32)*	(21,175)
Total identifiable net assets at fair value	128,856
Goodwill *(note 16)*	159,144
Total consideration	288,000

Consideration transferred for the acquisition of Sichuan Baoguang

	Rmb'000
Cash paid	285,000
Deferred cash settlement for acquisition *(note 27)*	3,000
Total consideration transferred	288,000

Effect of the acquisition of Sichuan Baoguang on cash flows

	Rmb'000
Total consideration for the 100% equity interest acquired	288,000
Less: Deferred cash settlement	(3,000)
Consideration settled in cash	285,000
Less: Cash and cash equivalents of the subsidiary acquired	(13,076)
Net cash outflow on acquisition	271,924

Since the acquisition, Sichuan Baoguang contributed Rmb82,650,988 to the Group's revenue and Rmb5,027,629 of net profit to the consolidated profit for the year ended 31 December 2011.

Had the acquisition taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2011 would have been Rmb1,833,476,000 and Rmb149,753,000, respectively.

There was no acquisition in 2012 and 2013.

36. MATERIAL PARTLY-OWNED SUBSIDIARY

Financial information of the subsidiary that has material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
WPU	Mainland China	30.45%	30.45%	30.45%

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	Rmb'000	Rmb'000	Rmb'000
Accumulated balances of material non-controlling interests:			
WPU	79,871	90,556	99,397
Profit allocated to material non-controlling interests:			
WPU	14,602	10,685	21,021
Dividends paid to material non-controlling interests:			
WPU	9,135	–	12,180

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intercompany eliminations.

Summarised statement of profit or loss

	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Revenue	325,870	263,280	314,916
Cost of sales	(57,413)	(67,635)	(90,783)
Selling expenses	(147,074)	(110,031)	(101,597)
Administrative expenses	(41,767)	(21,300)	(22,035)
Other income and gains	5,114	3,279	2,034
Other expenses	(27,979)	(27,592)	(22,629)
Profit before tax	56,751	40,001	79,906
Income tax	(8,798)	(4,911)	(10,873)
Profit for the year	47,953	35,090	69,033
Total comprehensive income	47,953	35,090	69,033
Attributable to non-controlling interests	14,602	10,685	21,021
Dividends paid to non-controlling interests	9,135	–	12,180

Summarised statement of financial position

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Current assets	200,350	202,596	189,842
Non-current assets	141,161	173,334	198,504
Current liabilities	(71,709)	(65,348)	(48,232)
Non-current liabilities	(7,500)	(13,190)	(13,689)
Total equity	262,302	297,392	326,425
Attributable to:			
Equity owners of the parent	182,431	206,836	227,028
Non-controlling interests	79,871	90,556	99,397

Summarised cash flow information

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Operating	24,975	(7,405)	53,830
Investing	(48,098)	(22,721)	(46,462)
Financing	(9,135)	–	(61,312)
Foreign exchange difference	(475)	(27)	(285)
Net decrease in cash and cash equivalents	(32,733)	(30,153)	(54,229)

37. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The total taxes paid during the year were:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Operating activities			
Mainland China tax paid	59,462	70,841	69,003
Financing activities			
Mainland China tax paid	–	–	9,000
	59,462	74,541	78,003

38. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to ten years. As at 31 December 2011, 2012 and 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Within one year	4,554	3,461	4,267
In the second to fifth years, inclusive	7,850	5,500	4,419
After five years	–	–	2,700
	12,404	8,961	11,386

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38, the Group had the following capital commitments as at the end of the reporting period:

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Contracted, but not provided for:			
Land and buildings*	57,726	43,331	138,952
Plant and machinery	40,955	63,228	41,906
	98,681	106,559	180,858

* An amount of RMB105,863,000 included in the balance at 31 December 2013 is related to the purchase of two buildings (note 40(a)(iii)).

40. RELATED PARTY TRANSACTIONS

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

Company	Relationship
AsiaPharm Holdings Ltd. ("AsiaPharm Holdings")	Ultimate holding company
Luye Pharmaceutical Investment Co., Ltd ("Luye Investment")	Immediate holding company
Luye Pharma Holdings Ltd ("Luye Holdings")	Intermediate holding company
Steward Cross	Associate
AsiaPharm (Singapore) Pte. Ltd. ("AsiaPharm Singapore")	AsiaPharm Singapore is an entity controlled by a director of the Company
Shandong International Biological Technology Co., Ltd ("Shandong Biological Tech")	Shandong Biological Tech is an entity controlled by a director of the Company

(a) The Group had the following transactions with related parties during the Relevant Periods:

Group

	Notes	Year ended 31 December		
		2011	2012	2013
		Rmb'000	Rmb'000	Rmb'000
Associate:				
Sales of products	(i)	5,622	4,870	6,609
Loans to				
Luye Investment	(ii)	–	6,181	302,565
AsiaPharm Singapore	(ii)	–	1,698	321
AsiaPharm Holdings	(ii)	–	653	–
Company which controlled by a director of the Company:				
Prepayment for purchase of buildings	(iii)	–	–	12,000
Sales of materials		–	–	953
Advance received for sales of inventories		–	–	36,000

Notes:

(i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The loans are unsecured, interest-free and repayable on demand.

(iii) On 20 December 2013, the Group entered into a property sales and purchase agreement with Shandong Biological Tech to purchase two buildings at a total consideration of Rmb117,863,000. As at 31 December 2013, the Group prepaid Rmb12,000,000 to Shandong Biological Tech and the remaining amount of RMB105,863,000 was disclosed as capital commitment (note 39).

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties during the Relevant Periods:

(i) Due from related parties

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Steward Cross	3,755	3,647	2,253
AsiaPharm Singapore	–	1,698	2,019
AsiaPharm Holdings	–	653	206
Luye Investment	–	6,181	308,746
Luye Holdings	–	33	32
Shandong Biological Tech	–	–	12,953
	3,755	12,212	326,209

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
AsiaPharm Singapore	–	2,578	2,019
AsiaPharm Holdings	–	653	205
Luye Investment	–	6,181	172,524
Luye Holdings	–	33	32
	–	9,445	174,780

(ii) Due to related parties

Group

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
AsiaPharm Holdings	2,898	–	–
AsiaPharm Singapore	2,004	–	856
Shandong Biological Tech	–	–	36,000
	4,902	–	36,856

Company

	As at 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
AsiaPharm Holdings	2,898	–	–
AsiaPharm Singapore	1,212	–	–
	4,110	–	–

(c) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Short-term employee benefits	14,183	13,507	14,010
Pension scheme contributions	114	88	99
Total compensation paid to key management personnel	14,297	13,595	14,109

Further details of directors' remuneration are included in note 8 to the Financial Information.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

2011

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investments	–	2,410	2,410
Trade and notes receivables	455,326	–	455,326
Financial assets included in prepayments, deposits and other receivables	18,138	–	18,138
Cash and cash equivalents	251,501	–	251,501
Pledged short-term deposits	79,009	–	79,009
Due from related parties	3,755	–	3,755
	807,729	2,410	810,139

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Trade and notes payables	34,331	34,331
Financial liabilities included in accrued liabilities and other payables	167,278	167,278
Interest-bearing loans and borrowings	455,815	455,815
Due to the ultimate holding company	2,898	2,898
Due to related parties	2,004	2,004
	662,326	662,326

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

2012

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investments	–	2,340	2,340
Trade and notes receivables	514,258	–	514,258
Financial assets included in prepayments, deposits and other receivables	19,379	–	19,379
Cash and cash equivalents	364,031	–	364,031
Pledged short-term deposits	2,464	–	2,464
Due from related parties	12,212	–	12,212
	912,344	2,340	914,684

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Trade and notes payables	54,403	54,403
Financial liabilities included in accrued liabilities and other payables	157,485	157,485
Interest-bearing loans and borrowings	470,787	470,787
	682,675	682,675

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

2013

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investments	–	14,331	14,331
Trade and notes receivables	535,562	–	535,562
Financial assets included in prepayments, deposits and other receivables	30,749	–	30,749
Cash and cash equivalents	333,150	–	333,150
Pledged short-term deposits	177,485	–	177,485
Due from related parties	313,256	–	313,256
	1,390,202	14,331	1,404,533

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Trade and notes payables	69,369	69,369
Financial liabilities included in accrued liabilities and other payables	127,455	127,455
Interest-bearing loans and borrowings	745,308	745,308
Due to related parties	856	856
	942,988	942,988

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Company

2011

Financial assets

	Loans and receivables	Total
	Rmb'000	Rmb'000
Cash and cash equivalents	2,202	2,202
Due from subsidiaries	502,235	502,235
	504,437	504,437

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Due to related parties	4,110	4,110
Due to subsidiaries	139,831	139,831
	143,941	143,941

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Company

2012

Financial assets

	Loans and receivables	Total
	Rmb'000	Rmb'000
Cash and cash equivalents	5,602	5,602
Due from related parties	9,445	9,445
Due from subsidiaries	494,411	494,411
Financial assets included in prepayments, deposits and other receivables	11	11
	509,469	509,469

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Due to subsidiaries	160,901	160,901
	160,901	160,901

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Company

2013

Financial assets

	Loans and receivables	Total
	Rmb'000	Rmb'000
Cash and cash equivalents	215,745	215,745
Due from related parties	174,780	174,780
Due from subsidiaries	411,334	411,334
	801,859	801,859

Financial liabilities

	Financial liabilities at amortised cost	Total
	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	304,845	304,845
Due to subsidiaries	164,479	164,479
	469,324	469,324

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Group has carried all investment securities that are classified as available-for-sale investments at their fair values as required by IAS 39, except for unlisted investments which were stated at cost (note 20).

In March 2013, one of the subsidiaries of the Company entered into one-year loan contracts of US$9,167,880 and US$11,240,000 with a bank in the PRC, and correspondingly deposited one-year deposits of Rmb57,100,000 and Rmb70,100,000 respectively with the same bank. The deposits can only be used to settle the US$ loan upon maturity. The Group has legally enforceable rights to set off the loans and the deposits and it intends to settle them on a net basis. Accordingly, for presentation purpose, the full carrying amounts of the loans and the associated deposits have been offset in the consolidated statement of financial position as at 31 December 2013.

As at 31 December 2011, 2012 and 2013, the Group endorsed certain notes receivables accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. 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"). The total carrying amounts of the Endorsed Notes were Rmb54,614,000, Rmb18,389,000 and Rmb73,620,000 as at 31 December 2011, 2012 and 2013. 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 Rmb33,779,000, Rmb7,081,000 and Rmb56,064,000 ("Derecognised Notes") as at 31 December 2011, 2012 and 2013. Accordingly, it has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in these Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes equals to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in these Derecognised Notes are not significant. The Group continued to recognize the full carrying amount of the remaining Endorsed Notes and associated trade payables settled with amount of Rmb20,835,000, Rmb11,308,000 and Rmb17,556,000 due to the directors believe the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the Relevant Periods, the Group has not recognized any gain or loss on the date of transfer of the Derecognized Notes. No gains or losses were recognized from the continuing involvement, both during the year of each of the Relevant Periods or cumulatively. The Endorsement has been made evenly throughout the Relevant Periods.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Assets measured at fair value:

Group

As at 31 December 2011

	Fair value measurement using			
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investment:				
Equity investment.	1,910	–	–	1,910

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investment:				
Equity investment.	1,840	–	–	1,840

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Available-for-sale investment:				
Equity investment.	3,831	–	–	3,831
Investment in bank financial products	10,000	–	–	10,000
	13,831	–	–	13,831

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The Group did not have any financial liabilities measured at fair value as at 31 December 2011, 2012 and 2013.

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, pledged short-term deposits, trade and notes receivables, deposits and other receivables, due from related parties, trade and notes payables, other payables, due to related parties and short-term interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature. The carrying amount of long term interest-bearing loans and borrowings, which incur interest at floating interest rate, also approximate to its fair value as the interest rate is periodically adjusted to market rate.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans and borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group's policy is to maintain between 30% and 80% of its interest-bearing loans and borrowings at fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in the Rmb interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax
		Rmb'000
2011		
Rmb	50	(64)
Rmb	(50)	64
2012		
Rmb	50	(26)
Rmb	(50)	26
2013		
Rmb	50	(33)
Rmb	(50)	33
US$	50	(36)
US$	(50)	36

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Rmb and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(decrease) in rate of foreign currency	Increase/(decrease) in profit before tax
	%	Rmb'000
2011		
If Rmb weakens against US$	5	550
If Rmb strengthens against US$	(5)	(550)
If Rmb weakens against HK$	5	681
If Rmb strengthens against HK$	(5)	(681)
2012		
If Rmb weakens against US$	5	1,963
If Rmb strengthens against US$	(5)	(1,963)
If Rmb weakens against HK$	5	(6)
If Rmb strengthens against HK$	(5)	6
If Rmb weakens against SG$	5	308
If Rmb strengthens against SG$	(5)	(308)
If Rmb weakens against RM	5	27
If Rmb strengthens against RM	(5)	(27)
2013		
If Rmb weakens against US$	5	5,017
If Rmb strengthens against US$	(5)	(5,017)
If Rmb weakens against HK$	5	6,806
If Rmb strengthens against HK$	(5)	(6,806)
If Rmb weakens against SG$	5	1,272
If Rmb strengthens against SG$	(5)	(1,272)
If Rmb weakens against RM	5	21
If Rmb strengthens against RM	(5)	(21)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged short-term deposits, available-for-sale financial assets, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 22 and 23 to the Financial Information.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

The maturity profile of the Group's financial liabilities as at 31 December 2011, 2012 and 2013, based on contractual undiscounted payments, is as follows:

Year ended 31 December 2011

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	–	38,848	425,526	2,965	638	467,977
Trade and notes payables	–	25,007	9,072	252	–	34,331
Other payables	–	164,278	3,000	–	–	167,278
Due to related parties	4,902	–	–	–	–	4,902
	4,902	228,133	437,598	3,217	638	674,488

Year ended 31 December 2012

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	–	108,270	332,565	45,107	–	485,942
Trade and notes payables	11,283	43,120	–	–	–	54,403
Other payables	21,539	135,946	–	–	–	157,485
	32,822	287,336	332,565	45,107	–	697,830

Year ended 31 December 2013

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	–	274,878	476,405	9,589	–	760,872
Trade and notes payables	10,483	58,886	–	–	–	69,369
Other payables	51,926	75,529	–	–	–	127,455
Due to related parties	856	–	–	–	–	856
	63,265	409,293	476,405	9,589	–	958,552

The maturity profile of the Company's financial liabilities as at 31 December 2011, 2012 and 2013 based on contractual undiscounted payments, is as follows:

Year ended 31 December 2011

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Due to the ultimate holding company	2,898	–	–	–	2,898
Due to related parties	1,212	–	–	–	1,212
Due to subsidiaries	139,831	–	–	–	139,831
	143,941	–	–	–	143,941

Year ended 31 December 2012

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Due to subsidiaries	160,901	–	–	–	160,901
	160,901	–	–	–	160,901

Year ended 31 December 2013

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	–	1,305	310,712	–	312,017
Due to subsidiaries	164,479	–	–	–	164,479
	164,479	1,305	310,712	–	476,496

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2012 and 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 30%. Net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals and amounts due to the ultimate holding company and related parties, less cash and cash equivalents and pledged short-term deposits. Total capital represents equity attributable to the owners of the parent less the net unrealised gains reserves. The gearing ratios as at the end of the reporting periods were as follows:

	Group		
	2011	2012	2013
	Rmb'000	Rmb'000	Rmb'000
Interest-bearing loans and borrowings	455,815	470,787	745,308
Trade and notes payables	34,331	54,403	69,369
Other payables and accruals	325,619	313,127	351,913
Due to related parties	4,902	–	36,856
Less: Cash and cash equivalents	(251,501)	(364,031)	(333,150)
Pledged short-term deposits	(79,009)	(2,464)	(177,485)
Net debt	490,157	471,822	692,811
Equity attributable to owners of the parent	1,287,557	1,460,420	1,769,042
Less: Net unrealised gains reserves	(168)	(35)	(2,112)
Total capital	1,287,389	1,460,385	1,766,930
Total capital and net debt	1,777,546	1,932,207	2,459,741
Gearing ratio	28%	24%	28%

44. EVENTS AFTER THE REPORTING PERIOD

On 15 May 2014, Yantai Luye Pharma Holdings Co., Ltd. was established in the PRC with registered capital of US$30,000,000 and wholly owned by AsiaPharm Investments. On 6 June 2014, the registered capital of Yantai Luye Pharma Holdings Co., Ltd. was increased from US$30,000,000 to US$73,590,000 following the injection of US$43,590,000 registered capital by AsiaPharm Investments' transferred of its entire equity interest in Shandong Luye to Yantai Luye Pharma Holdings Co., Ltd.

On 30 May 2014, the Company declared dividends of US$52,865,878 (equivalent to RMB324,339,000) to Luye Pharmaceutical Investment Co., Ltd. ("Luye Investment") and repurchased 51,932,992 shares from Luye Investment for a total consideration of RMB200,000,000. Luye Investment used the dividends and the consideration from the share repurchase to settle the amount due to the Company. Such dividend and repurchase were not accounted for in the Financial Information during the Relevant Periods.

45. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2013.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" of this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is prepared to show the effect on the audited net tangible assets of our Group as of 31 December 2013 as if the Global Offering had occurred on 31 December 2013 and is based on the consolidated net tangible assets of our Group as of 31 December 2013 attributable to the owners of our Company derived from the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group as of 31 December 2013 or any future dates following the Global Offering.

	Consolidated net tangible assets of our Group attributable to the owners of our Company as of 31 December 2013	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000 (Note 1)	**RMB'000 (Note 2)**	**RMB'000**	**HK$ (Note 3 and 4)**
Based on an Offer Price of HK$5.38 per Share	1,285,385	2,737,347	4,022,732	1.51
Based on an Offer Price of HK$5.92 per Share	1,285,385	3,016,824	4,302,209	1.62

Notes:

(1) The consolidated net tangible assets of our Group attributable to owners of our Company as of 31 December 2013, was determined as follow:

	RMB'000
Audited consolidated net assets of our Group as set out in Appendix I	1,897,695
Less: Non-controlling interests as set out in Appendix I	(128,653)
Less: Goodwill as set out in Appendix I	(347,356)
Less: Other intangible assets as set out in Appendix I	(136,301)
Consolidated net tangible assets attributable to owners of our Company	1,285,385

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$5.38 and HK$5.92, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. They do not take into account any Shares which may be issued or repurchased pursuant to the general mandates to issue or repurchase Shares.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 3,321,073,843 Shares expected to be in issue immediately following completion of the Global Offering and is converted into Hong Kong dollar at an exchange rate of HK$1.00 to RMB0.8010. It does not take into account of any Shares which may be issued or repurchased pursuant to the general mandates to issue or repurchase Shares.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a dividend of US$52,865,878 (equivalent to approximately RMB324,339,000) declared by our Company to Luye Investment and a repurchase of 51,932,992 Shares from Luye Investment for a total consideration of RMB200,000,000 in May 2014. Had the dividend and repurchase of Shares been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK$1.32 (assuming an Offer Price of HK$5.38 per Share) and HK$1.42 (assuming an Offer Price of HK$5.92 per Share), respectively.

(5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2013.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the additional unaudited pro forma financial information of our Group.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 June 2014

To the Directors of Luye Pharma Group Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2013, and related notes as set out on pages II-1 of the Prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in notes 1 to 5 of Appendix II (A) to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 December 2013 as if the transaction had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2013, on which an accountant's report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Association") and bye laws (the "Bye-laws") of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye laws, this power is exercisable by the board of Directors (the "Board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 19 June 2014. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this appendix.

(v) Financial assistance to purchase shares of the Company

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Bye-laws) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the Board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company

or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in The Bye-laws) is materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. An appointment of a Director as an addition to the existing Board shall require the approval of at least seventy-five per cent of the Directors voting in favour of the appointment at a meeting of the Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ix) Borrowing powers

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution majority required

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company

and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions. The Bye-laws provide that the approval of the annual budget of the Company and its subsidiaries shall require the approval of at least seventy-five per cent of the Directors voting in favour at a meeting of the Board.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub

paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected in any manner permitted by and in accordance with the rules of the Designated Stock Exchange by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the Board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon during business hours by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) in this appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii)

upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon during business hours.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which

the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye laws and nothing therein precludes a variation of such rights, the written consent of the holders of three fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

There is no longer any statutory restriction in Bermuda on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in accordance with their fiduciary duties to the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the

purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than its liabilities. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a

wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye laws of the company. The directors of a company may, subject to the Bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the Bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarised financial statements instead. The summarised financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarised financial statements sent to the company's members must be accompanied by an auditor's report on the summarised financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarised financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

Unless the requirement to appoint an auditor is waived by all of the shareholders and all of the directors, either in writing or at the general meeting, any auditor appointed shall hold office until a successor is appointed by the members or if the members fail to do so until the directors appoint a successor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at a general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before

the general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting or in the case of a company that has made an election to dispense with annual general meetings in accordance with the Companies Act, at or before the next following general meeting which shall be convened within 12 months of the authorisation of the making of the loan, if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye laws of a company, minutes of general meetings and the company's audited financial statements. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarised financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarised financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was incorporated in Bermuda on 2 July 2003 as an exempted company with limited liability under the Bermuda Companies Act. Our Company has established a principal place of business in Hong Kong at 8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 28 April 2014. Ms. Lai Siu Kuen, has been appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong. The address for acceptance of service of process in Hong Kong of Ms. Lai Siu Kuen is 8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

As our Company was incorporated in Bermuda, it operates subject to Bermuda laws and its constitutive documents comprising the Memorandum of Association and the Bye-laws. A summary of certain parts of our constitution and relevant aspects of the Bermuda Companies Act is set out in Appendix III to this prospectus.

2. Changes in Share Capital

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this prospectus:

(a) On 30 May 2014, our Company repurchased 51,932,992 Shares from Luye Investment for a total consideration of RMB200 million, which was settled in full on the same date by the setting off of the loan in the same amount owed by Luye Investment to our Company.

(b) On 19 June 2014, the authorised share capital of our Company was increased from US$100,000,000 to US$200,000,000 by the creation of further 5,000,000,000 Shares.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Resolutions of the Shareholder of Our Company

Pursuant to the resolutions of our sole Shareholder passed on 19 June 2014:

(a) our Company approved and adopted our Bye-laws;

(b) the authorised share capital of our Company was increased from US$100,000,000 to US$200,000,000 by the creation of further 5,000,000,000 Shares;

(c) conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to allot and issue a total of 2,212,701,935 Shares credited as fully paid at par to the persons whose names appear on the register of members of our Company immediately following the Hong Kong Underwriting Agreement becoming unconditional but prior to the transfer of any Shares by Luye Investment to the Investors pursuant to the exercise of their exchange right attaching to the Exchangeable Bonds and the

allotment and issue of any shares under the Global Offering (as nearly as possible without involving fractions) by way of capitalisation of the sum of US$44,254,038.70 out of the share premium account of our Company, and the Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares;

(d) conditional upon all the conditions set out in "Structure of the Global Offering—Conditions of the Global Offering" being fulfilled:

(i) the Global Offering be approved and our Directors be authorised to allot and issue the Shares pursuant to the Global offering; and

(ii) the proposed Listing be approved and our Directors be authorised to implement such Listing; and

(e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities that would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Bye-laws, or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or any other option scheme or similar arrangement for the time being adopted, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal value of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering, and the aggregate nominal value of Shares repurchased by us under the authority referred to in sub-paragraph (g) below;

(f) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering; and

(g) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be repurchased pursuant to sub-paragraph (f) above.

Each of the general mandates referred to in sub-paragraphs (e), (f) and (g) above will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting; or

- the expiration of the period within which our Company's next annual general meeting is required by the Bye-laws or any other applicable laws to be held; or

- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

4. Changes in Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in note 1 to the Accountants' Report as set out in Appendix I to this prospectus.

The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding the date of this prospectus:

(a) On 25 September 2012, Shandong Luye increased its registered capital to RMB271,800,000.

(b) On 3 March 2014, being the commencement date of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shares in each of Luye Hong Kong, Apex Group Holdings and Kang Hai Pharmaceutical ceased to have nominal value, and consequently each of Luye Hong Kong, Apex Group Holdings and Kang Hai Pharmaceutical ceased to have an authorised share capital pursuant to section 135 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Following such changes, Luye Hong Kong has an issued share capital of HK$1.00 comprising one share, Apex Group Holdings has an issued share capital of HK$10,000.00 comprising 10,000 shares and Kang Hai Pharmaceutical has an issued share capital of HK$100.00 comprising 100 shares.

(c) On 15 May 2014, Yantai Luye Pharma Holdings Co. Ltd. was established in the PRC as a wholly-foreign owned enterprise with registered capital of US$30 million. Yantai Luye Pharma Holdings Co. Ltd. is wholly owned by AsiaPharm Investments.

(d) On 6 June 2014, the registered capital of Yantai Luye Pharma Holdings Co. Ltd. was increased from US$30 million to US$73,590,000 following the injection of US$43,590,000 registered capital by AsiaPharm Investments' transfer of its entire equity interest in Shandong Luye to Yantai Luye Pharma Holdings Co. Ltd.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

Save for the subsidiaries mentioned in the Accountants' Report set out in Appendix I to this prospectus, our Company has no other subsidiaries.

5. Repurchase of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholder on 19 June 2014, a general mandate (the "**Repurchase Mandate**") was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering, such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Bye-laws or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for such purpose in accordance with the Memorandum and the Bye-laws and the Listing Rules and the applicable laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the Listing Rules. Subject to the foregoing, any repurchases by our Company may be made out of the capital paid up on Shares to be repurchased, funds of our Company otherwise available for dividend or distribution or out of a fresh issue of Shares made for the purpose of the repurchase or out of capital and, in the case of any premium payable on the purchase, out of the funds of our Company otherwise available for dividend or distribution or from sums standing to the credit of the share premium account of our Company.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the Bermuda Companies Act, a company's repurchased shares may be treated as cancelled or held as treasury shares and, if so cancelled the amount of the company's issued share capital shall be reduced by the aggregate value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net asset value and/or earnings per Share. Our Directors sought the grant of a general authority from our Shareholder to give our Company the flexibility to

repurchase Shares if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining and any repurchases will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum and the Bye-laws, the Listing Rules and the applicable laws of Bermuda. There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period.

However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 3,321,073,842 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering could accordingly result in up to approximately 332,107,384 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

- the expiration of the period within which our Company's next annual general meeting is required by the Bye-laws or any other applicable laws to be held; or

- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in Bermuda.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

On 30 May 2014, our Company repurchased 51,932,992 Shares from Luye Investment for a total consideration of RMB200 million, representing a purchase price of approximately RMB3.85 per Share, which was settled in full on the same date by the setting off of the loan in the same amount owed by Luye Investment to our Company. Save for the above, we had not repurchased any Shares in the six months preceding the date of this prospectus.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) A sale and purchase agreement dated 25 July 2012 between A-Bio Pharma Pte. Ltd. (as seller) and PrIME Biologics Private Limited (as purchaser) in relation to the sale and purchase of certain equipment of A-Bio Pharma Pte. Ltd. for a cash consideration of S$3.5 million.

(b) A property sale and purchase agreement dated 20 December 2013 between 山東國際生物科技園發展有限公司 (Shandong International Biological Technology Co. Ltd.) (as vendor) and Shandong Luye (as purchaser) in relation to the sale and purchase of certain buildings being constructed and located in Yantai, Shandong Province, the PRC for a total cash consideration of RMB117,863,262.

(c) An asset transfer agreement dated 6 January 2014 between Shandong Luye (as transferor) and 山東博安生物技術有限公司 (Shandong Bo'an Biological Technology Co. Ltd.) (as transferee) in relation to the transfer of certain assets of Shandong Luye for a cash consideration of RMB50 million.

(d) A trademark licence agreement dated 24 March 2014 between Shandong Luye (as licensor) and Wuhu Luye (as licencee) in relation to the licence to use certain trademarks for an annual licence fee of RMB50,000.

(e) An equity transfer and capital increase agreement dated 26 May 2014 between AsiaPharm Investments Ltd. (as transferor) and Yantai Luye Pharma Holdings Co. Ltd. (as transferee) in relation to the transfer of AsiaPharm Investments' entire equity interest in Shandong Luye to Yantai Luye Pharma Holdings Co. Ltd. as payment for the increase of US$43,590,000 in the registered capital of Yantai Luye Pharma Holdings Co. Ltd.

(f) A cornerstone investment agreement dated 20 June 2014 between Macquarie Funds Management Hong Kong Limited (for itself and acting as investment manager and agent for each investor listed therein), UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which Macquarie Funds Management Hong Kong Limited agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$25 million at the Offer Price.

(g) A cornerstone investment agreement dated 20 June 2014 between TAL China Focus Master Fund, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which TAL China Focus Master Fund agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$30 million at the Offer Price.

(h) A cornerstone investment agreement dated 20 June 2014 between Value Partners Hong Kong Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which Value Partners Hong Kong Limited agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$100 million at the Offer Price.

(i) A cornerstone investment agreement dated 20 June 2014 between Minmetals Capital (Hong Kong) Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which Minmetals Capital (Hong Kong) Limited agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$25 million at the Offer Price.

(j) A cornerstone investment agreement dated 20 June 2014 between OrbiMed Advisors LLC, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which OrbiMed Advisors LLC agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$50 million at the Offer Price.

(k) A cornerstone investment agreement dated 20 June 2014 between Dragon Billion China Master Fund, LMA SPC, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and us, pursuant to which Dragon Billion China Master Fund and LMA SPC agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US$47,747,301 and US$2,252,699, respectively, at the Offer Price.

(l) A deed of non-compete undertaking dated 19 June 2014 given by Mr. Liu Dian Bo in favour of our Company.

(m) A deed of pre-emptive right dated 20 June 2014 given by Luye Investment Group in favour of our Company in relation to the interest in Wuhu Luye.

(n) The Hong Kong Underwriting Agreement.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Directors

(a) Disclosure of Interest

Interests and Short Positions of Our Directors and the Chief Executives of Our Company in the Shares, Underlying Shares and Debentures of Our Company and its Associated Corporations

Immediately following completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the interests and short positions of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and the Stock Exchange, once the Shares are listed, are as follows:

Long position in the Shares, underlying shares and debentures of our Company:

Name of Director	Nature of interest	To number of Shares held	Approximate % of interest in our Company
Mr. Liu Dian Bo[(1)]	Settlor of a discretionary trust and interest in controlled corporation	1,509,819,930	45.4%

Note:

(1) Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, AsiaPharm Holdings, Luye Holdings, Luye International and Luye Investment, is deemed to be interested in 1,509,819,930 Shares held by AsiaPharm Holdings. Nelumbo Investments Limited holds 70% of the issued share capital of AsiaPharm Holdings.

Long position in the Shares, underlying shares and debentures of the associated corporation of our Company:

Name of Director	Name of associated corporation	Nature of interest	Approximate% of interest in the corporation
Mr. Liu Dian Bo[(1)] . .	Shorea LBG	Beneficial interest	100%
	Ginkgo Trust Limited	Interest in controlled corporation	100%
	Nelumbo Investments Limited	Interest in controlled corporation	100%
	AsiaPharm Holdings[(2)]	Interest in controlled corporation	70%

Name of Director	Name of associated corporation	Nature of interest	Approximate% of interest in the corporation
Mr. Yuan Hui Xian . .	AsiaPharm Holdings(2)	Beneficial interest	15%
Mr. Yang Rong Bing.	AsiaPharm Holdings(2)	Beneficial interest	15%
Mr. Liu Dian Bo. . . .	Luye Holdings	Interest in controlled corporation	100%
Mr. Liu Dian Bo. . . .	Luye International	Interest in controlled corporation	100%
Mr. Liu Dian Bo. . . .	Luye Investment	Interest in controlled corporation	100%

Notes:

(1) The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the Liu Family Trust.

(2) AsiaPharm Holdings holds the entire issued ordinary share capital of Luye Holdings. Luye International is wholly-owned by Luye Holdings and Luye Investment is wholly-owned by Luye International.

Please refer to "Substantial Shareholders" for details of the interest and/or short positions in the Shares or the underlying shares of our Company of our substantial shareholders.

(b) Particulars of Service Contracts

None of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation. Please refer to "Directors and Senior Management—Directors' and Senior Management's Remuneration" for further details of the service contracts and remunerations of our Directors.

2. Interest in Material Contract or Arrangement

Save as disclosed in this prospectus, there is no contract or arrangement subsisting at the date of this prospectus in which a Director is materially interested and which is significant in relation to the business of our Group.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this prospectus and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for a listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering.

The Joint Sponsors are entitled to sponsors' fee in the amount of US$1,000,000 or, if translated into Hong Kong dollars using the rate of US$1.00 to HK$7.761 for illustration, HK$7,761,000.

Please refer to "Underwriting—Sponsors' Independence" for further details of the independence of the Joint Sponsors.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
UBS Securities Hong Kong Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
Citigroup Global Markets Asia Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
CITIC Securities Corporate Finance (HK) Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
King & Wood Mallesons	PRC legal adviser
Conyers Dill & Pearman	Bermuda attorneys-at-law

Save as disclosed in this prospectus, none of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

5. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Exemption from the Requirement of a Property Valuation Report

This prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in reliance on the exemption under section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Please refer to "Business—Land and Properties" for further details of our exemption from the requirement of a property valuation report.

8. Preliminary Expenses

The preliminary expenses incurred and paid by our Company were US$12,000.

9. Disclaimers

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued as fully or partly paid in cash or otherwise; and

(ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

(b) Save as disclosed in this prospectus:

(i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;

(ii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(iii) no commission was paid within the two years immediately preceding the date of this prospectus, or is payable, by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.

(c) Save as disclosed in "B. Further Information about Our Business—1. Summary of Material Contracts" above, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

10. Selling Shareholders

Particulars of the Selling Shareholders are as follows:

Name	Nature of business	Address	Number of Sale Shares initially offered under the Global Offering	Number of Sale Shares subject to the Over-allotment Option
Luye Investment	Investment holding	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	33,210,000	49,820,000
Beyond Border	Investment holding	3rd Floor, 18 Fort Street, George Town, Grand Cayman, KY1-1104, Cayman Islands	66,096,589	22,141,882
CDH Flower	Investment holding	1503 International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong	78,114,151	26,167,678
CPE Greenery	Investment holding	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	82,573,890	27,661,660
Tropical Excellence	Investment holding	168 Robinson Road, #37-01 Capital Tower, Singapore 068912	72,105,370	24,154,780

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of **white**, **yellow** and **green** Application Forms;

(b) the written consents referred to under the paragraph headed "D. Other Information—4. Consents of Experts" in Appendix IV to this prospectus;

(c) copies of the material contracts referred to in "B. Further Information about Our Business—1. Summary of Material Contracts" in Appendix IV to this prospectus; and

(d) the statement of the particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Ashurst Hong Kong at 11/F, Jardine House, One Connaught Place, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our Memorandum and the Bye-laws;

(b) the Accountants' Report and the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the texts of which are set out in Appendices I and II to this prospectus;

(c) the audited consolidated financial statements of our Company for the two years ended 31 December 2012 and 2013;

(d) the PRC legal opinions issued by King & Wood Mallesons, our legal adviser on PRC law, in respect of certain general corporate matters and property interests of our Group;

(e) the letter of advice prepared by Conyers Dill & Pearman, our legal adviser on Bermuda law, summarising certain aspects of the Bermuda Companies Act referred to in Appendix III to this prospectus;

(f) the written consents referred to under the paragraph headed "D. Other Information—4. Consents of Experts" in Appendix IV to this prospectus;

(g) the material contracts referred to in "B. Further Information about Our Business—1. Summary of Material Contracts" in Appendix IV to this prospectus;

(h) the statement of the particulars of the Selling Shareholders; and

(i) the Bermuda Companies Act.

TRADEMARKS

Trademarks Registered in China

As of the Latest Practicable Date, we had registered the following trademarks in the PRC which we consider to be or may be material to our business:

Trademark	Registration no.	Class	Registered owner	Validity period
绿叶	1038602	5	Shandong Luye	28 June 2007—27 June 2017
宁森	9997380	5	Shandong Luye	21 November 2012—20 November 2022
绿叶	1770615	5	Shandong Luye	21 May 2012—20 May 2022
	1616597	5	Shandong Luye	14 August 2011—13 August 2021
麦通纳	1320277	5	Shandong Luye	7 October 2009—6 October 2019
绿汀诺	1410387	5	Shandong Luye	21 June 2010—20 June 2020
欧莱	1425378	5	Shandong Luye	28 July 2010—27 July 2020
CMNa	3148088	5	Shandong Luye	14 June 2013—13 June 2023
希美纳 XIMEINA	3344211	5	Shandong Luye	7 May 2004—6 May 2014*
欧开	3739839	5	Shandong Luye	7 May 2006—6 May 2016
LUYE PHARMA 绿叶制药	7533236	44	Shandong Luye	14 March 2011—13 March 2021
LUYE PHARMA 绿叶制药	7533238	5	Shandong Luye	28 December 2010—27 December 2020
LUYE PHARMA 绿叶制药	7533239	10	Shandong Luye	14 March 2011—13 March 2021
LUYE PHARMA 绿叶制药	7533237	5	Shandong Luye	14 June 2011—13 June 2021
血脂康	5131489	5	Beijing WPU	28 July 2010—27 July 2020
北大维信	1002799	5	Beijing WPU	14 May 2007—13 May 2017
	1111681	5	Beijing WPU	28 September 2007—27 September 2017
金玉康	3334906	5	Beijing WPU	7 May 2004—6 May 2014*
赛坦	3448199	5	Beijing WPU	21 October 2004—20 October 2014*
Xuezhikang	5112359	5	Beijing WPU	28 February 2011—27 February 2021
XZK	6174120	5	Beijing WPU	28 February 2010—27 February 2020
lipocare	6288792	5	Beijing WPU	28 April 2010—27 April 2020
WPU	8375562	5	Beijing WPU	21 June 2011—20 June 2021
天地欣	870065	5	Nanjing Luye Sike	14 September 2006—13 September 2016
力扑素	3598965	5	Nanjing Luye Sike	21 July 2005—20 July 2015
BG	7172875	5	Sichuan Luye	14 August 2010—13 August 2020

Trademark	Registration no.	Class	Registered owner	Validity period
贝 希	3963840	5	Sichuan Luye	28 August 2006—27 August 2016
LUYE PHARMA 绿叶制药	3080426	5	Sichuan Luye	21 March 2013—20 March 2023

Note:

* We intend to apply or have applied for the renewal of these trademark registrations prior to their expiration.

Trademarks Registered outside China

As of the Latest Practicable Date, we had registered the following trademarks outside China which we consider to be or may be material to our business:

Trademark	Place of Registration	Registration no.	Registered owner	Validity period
LUYE PHARMA 绿叶制药	Hong Kong	302710494	Shandong Luye	20 August 2013—19 August 2023
CADIAESCIN	Pakistan	232313	Shandong Luye	7 February 2007—7 February 2017
CMNa	Pakistan	239635	Shandong Luye	28 July 2007—28 July 2017
CMNa	Korea	732925	Shandong Luye	2 January 2008—2 January 2018
SALUTA	Philippines	4-2007-500406	Shandong Luye	5 May 2008—5 May 2018
Глатион	Russia	376010	Shandong Luye	16 January 2008—16 January 2018
GLATION	Russia	376009	Shandong Luye	16 January 2008—16 January 2018
GSH	Mongolia	8023	Shandong Luye	6 January 2010—6 January 2020
LUYE PHARMA 绿叶制药	Australia USA European Union Japan Russia Korea Singapore Turkey	1033791	Shandong Luye	10 November 2009—10 November 2019
LUYE PHARMA 绿叶制药	Philippines	4-2009-011118	Shandong Luye	6 May 2010—6 May 2020
LUYE PHARMA 绿叶制药	Malaysia	09021485	Shandong Luye	7 December 2009—7 December 2019
LUYE PHARMA 绿叶制药	Bermuda	49455	Shandong Luye	3 December 2009—3 December 2016

Trademark	Place of Registration	Registration no.	Registered owner	Validity period
CMNa	Vietnam	186597	Shandong Luye	18 January 2011— 18 January 2021
LUYE PHARMA 绿叶制药	Taiwan	01611211	Shandong Luye	1 December 2013— 30 November 2023
WPU	Hong Kong	301687807	Beijing WPU	12 August 2010— 11 August 2020
XZK	Hong Kong	301687816	Beijing WPU	12 August 2010— 11 August 2020
血脂康	Hong Kong	300805833	Beijing WPU	29 January 2007— 28 January 2017
北大维信	Hong Kong	300805824	Beijing WPU	29 January 2007— 28 January 2017
XUEZHIKANG	Hong Kong	300805842	Beijing WPU	29 January 2007— 28 January 2017
Xuezhikang	Hong Kong	2002B04609	Beijing WPU	10 July 2007— 10 July 2017
血脂康	Macau	027057	Beijing WPU	29 October 2007— 29 October 2014
	Macau	030830	Beijing WPU	29 January 2008— 29 January 2015
Xuezhikang	Australia European Community Georgia Iceland Norway Turkey Korea Japan	897114	Beijing WPU	15 August 2006— 15 August 2016
Xuezhikang	Singapore	T00/11607J	Beijing WPU	6 July 2000— 6 July 2020
	Korea	40-0904842	Beijing WPU	15 February 2012— 15 February 2022
WPU	Korea	40-0904849	Beijing WPU	15 February 2012— 15 February 2022
XZK	Korea	40-0904847	Beijing WPU	15 February 2012— 15 February 2022
血脂康	Korea	40-0904793	Beijing WPU	15 February 2012— 15 February 2022
北大维信	Korea	40-0904837	Beijing WPU	15 February 2012— 15 February 2022

Trademark	Place of Registration	Registration no.	Registered owner	Validity period
Xuezhikang	Korea	40-0904816	Beijing WPU	15 February 2012— 15 February 2022
Lipocare	Australia	1104649	Beijing WPU	17 August 2011— 17 August 2021
Lipocare	Korea	1104649	Beijing WPU	8 February 2013— 8 February 2023
Lipocare	Singapore	1104649	Beijing WPU	17 August 2011— 17 August 2021
Lipocare	Japan	1104649	Beijing WPU	17 August 2011— 17 August 2021

Trademarks Applications Pending in China

As of the Latest Practicable Date, we had applied for the registration of the following trademarks in the PRC which we consider to be or may be material to our business:

Trademark	Application no.	Class	Applicant	Application date
LUYE PHARMA 绿叶制药	12124007	35	Shandong Luye	31 January 2013
绿叶	12124008	35	Shandong Luye	31 January 2013
金思宁	9997379	5	Shandong Luye	23 September 2011
新欧开	13384261	5	Shandong Luye	18 October 2013
金悠平	12853695	5	Shandong Luye	3 July 2013
新力朴素	13236666	5	Nanjing Luye Sike	13 September 2013
贝 希	12039803	35	Sichuan Luye	14 January 2013

Trademarks Applications Pending outside China

As of the Latest Practicable Date, we had applied for the registration of the following trademarks outside China which we consider to be or may be material to our business:

Trademark	Place of registration	Application no.	Applicant	Application date
LUYE PHARMA 绿叶制药	Vietnam	1033791	Shandong Luye	10 November 2009
LUYE PHARMA 绿叶制药	Pakistan	275539	Shandong Luye	8 December 2009
LUYE PHARMA 绿叶制药	Indonesia	D002013028018	Shandong Luye	12 June 2013

PATENTS

Patents Registered in China

As of the Latest Practicable Date, we had been granted the following patents (which are all invention) in the PRC which we consider to be or may be material to our business:

Patent description	Patent no.	Registered owner	Validity period
Controlled-release medicinal composition containing demethyl venlafaxine benzoate compounds	ZL201210239917.8	Shandong Luye	11 July 2012— 10 July 2032
Sodium glycididazole composition and preparation method thereof	ZL201310081158.1	Shandong Luye	14 March 2013— 13 March 2033
5, 6, 7, 8-tetrahydro-6-[n,n-bis[(2-thienyl)ethyl]]amino-1-naphthol, and preparing method and use thereof	ZL201210277120.7	Shandong Luye	6 August 2012— 5 August 2032
Long acting sustained-release formulation containing dopamine receptor agonist and the preparation method thereof	ZL200510109980.X	Shandong Luye	21 September 2005— 20 September 2025
Application of aescin and its derivative in preparing medicine for treating acute pulmonary inflammation and hydrops	ZL03136127.7	Shandong Luye	15 May 2003— 14 May 2023
Low-toxicity antiphlogistic exudation-resisting medicine composition	ZL99103226.8	Shandong Luye	29 March 1999— 28 March 2019
Slow releasing microspheres of transcutaneous huperzine A and its derivative or salt for injection and its preparing process	ZL01119952.0	Shandong Luye	3 July 2001— 2 July 2021
Method for freeze-drying reducing glutathione for injection	ZL201110004370.9	Shandong Luye & Nanjing Luye Sike	11 January 2011— 10 January 2031
Sustained-release tablet of salt of huperzine A with one-time administration for everyday	ZL200910149941.0	Shandong Luye	16 June 2009— 15 June 2029
Risperidone slow-release microsphere, preparation method and application thereof	ZL200910167125.2	Shandong Luye	20 August 2009— 19 August 2029
Compounds, preparation process, and uses thereof used for interrupting reuptake of 5-hydroxytryptamine and norepinephrine or treating diseases such as depression et al	ZL200610073308.4	Shandong Luye & Li You Xin	7 April 2006— 6 April 2026
Lower toxicity and anti-inflammatory and anti-exudation pharmaceutical composition	ZL99815996.4	Shandong Luye	30 December 1999— 29 December 2019

Patent description	Patent no.	Registered owner	Validity period
Arginine-aescin with functions of detumescence, relieving inflammation and improving blood circulation and its preparing process	ZL02113591.6	Shandong Luye	10 April 2002— 9 April 2022
Process for synthesis of sodium glycididazole	ZL03151291.7	Shandong Luye	29 September 2003— 28 September 2023
4-methylbenzoate 4-[2-dimethylamino-1-(1-hydroxycyclohexyl) ethyl] phenyl ester hydrochloride polymorphs, its preparation method and application	ZL201180036015.8	Shandong Luye	28 September 2011— 27 September 2031
Jinyukang-oral medicine for curing depression	ZL01141431.6	Beijing WPU	25 September 2001— 24 September 2021
Medicinal composition with blood sugar reducing action and its preparing method	ZL200510007230.1	Beijing WPU	5 February 2005— 4 February 2025
Nattokinase purification process and microcapsule formulation process	ZL200410086151.X	Beijing WPU	27 October 2004— 26 October 2024
An oral administered medicine for treating depression-Jin Yu Kang	ZL200610081116.8	Beijing WPU	25 September 2001— 24 September 2021
Antidiabetic pharmaceutical composition and method of preparing the same	ZL200610099050.5	Beijing WPU	17 July 2006— 16 July 2026
Monascus preparation for hyperlipemia and relevant cardiac and cerebral diseases	ZL97103970.4	Beijing WPU	9 April 1997— 8 April 2017
Quality detection method for red yeast medicine	ZL200610145837.0	Beijing WPU	17 November 2006— 16 November 2026
Method for detecting quality of blood fat recovery capsule	ZL200610145838.5	Beijing WPU	17 November 2006— 16 November 2026
Antilipemic monascus and its preparation	ZL97116744.3	Beijing WPU	13 August 1997— 12 August 2017
Method for preparing open-loop lovastatin	ZL200810118908.7	Beijing WPU	26 August 2008— 25 August 2028
Pravastatin sodium composition with function of reducing blood fat and preparation method thereof	ZL200910085113.5	Beijing WPU	31 May 2009— 30 May 2029
Simvastatin composite with function of reducing blood fat and preparation method thereof	ZL200910085110.1	Beijing WPU	31 May 2009— 30 May 2029
Rice fermented with red yeast extract, preparation method and quality detection method thereof	ZL200710099833.8	Beijing WPU	31 May 2007— 30 May 2027
Taxual-lipid composition and its preparing process	ZL00119039.3	Nanjing Luye Sike	19 October 2000— 18 October 2020
Cell-protecting amifostine and its preparing process	ZL 00119038.5	Nanjing Luye Sike	19 October 2000— 18 October 2020

Patent description	Patent no.	Registered owner	Validity period
Lentinan molecular weight and molecular weight distribution measuring method	ZL03112908.0	Nanjing Luye Sike	4 March 2003— 3 March 2023
Leurocristine sulfate liposome compositions, and its preparing method	ZL200410014200.9	Nanjing Luye Sike	2 March 2004— 1 March 2024

Patents Registered Outside China

As of the Latest Practicable Date, we had been granted the following patents overseas which we consider to be or may be material to our business:

Patent	Place of registration.	Patent no.	Registered owner	Validity period
Pharmaceutical composition with low toxicity for anti-inflammation and anti-exudation	United States	US6475520	Shandong Luye	30 December 1999— 29 December 2019
Metal Glycididaagolc, and preparation and uses thereof	United States	US6271250	Shandong Luye	6 April 2000— 5 April 2020
Glycidiazole metal salt of sensitive enhancer in radiotherapy and chemotherapy and its production and use	Japan	JP4598227	Shandong Luye	7 April 2000— 6 April 2020
Nitroimidazole derivatives as sensitivity enhancers for chemotherapy and radiotherapy	France, Germany, Switzerland, UK	EP1043316	Shandong Luye	5 April 2000— 4 April 2020
Compounds for inhibition of 5-hydroxytryptamine and norepinephrine reuptake or for treatment of depression disorders, their preparation processes and uses thereof	United States	US8178724	Shandong Luye & Li You Xin	16 June 2006— 6 December 2028 (inclusive of PTA[1] 905 days)
	United States	US8487132	Shandong Luye & Li You Xin	16 June 2006— 15 June 2026
Compositions containing red rice fermentation products, fermentation processes and monascus strains therefor	Canada	CA2309100	Beijing WPU	6 November 1998— 5 November 2018
Methods and compositions of employing red rice fermentation products	United States	US6632428	Beijing WPU	4 April 2000— 3 April 2020
Methods and compositions of employing red rice fermentation products	United States	US6046022	Beijing WPU	6 November 1997— 5 November 2017
Methods of treatment of osteoporosis with compositions of red rice fermentation products	United States	US7238348	Beijing WPU	28 January 2003— 27 May 2024 (inclusive of PTA[1] 486 days)
Compositions containing red rice fermentation products, fermentation processes and monascus strains therefor	Singapore	SG72467	Beijing WPU	6 November 1998— 5 November 2018
Compositions containing red rice fermentation products, fermentation processes and monascus strains	Korea	KR10-0683233	Beijing WPU	6 November 1998— 5 November 2018
A diabetes drug composition and its preparation method	Hong Kong	HK1108656	Beijing WPU	12 March 2008— 11 March 2028

Patent	Place of registration.	Patent no.	Registered owner	Validity period
Glucosidase inhibiting Morus alba extract and its preparation method	Hong Kong	HK1108655	Beijing WPU	12 March 2008— 11 March 2028
Lowering of red yeast rice and its preparation method	Hong Kong	HK1017614	Beijing WPU	13 August 1997— 12 August 2017
A natural compound isolated from xzk capsule and its preparation method	Hong Kong	HK1108696	Beijing WPU	12 March 2008— 11 March 2028
A valerian extract and its preparative method and use	Hong Kong	HK1126982	Beijing WPU	17 July 2009— 16 July 2029
A red rice extract and its preparative method, together with its quality control method	Hong Kong	HK1126141	Beijing WPU	26 May 2009— 25 May 2029
Compositions containing red rice fermentation products, fermentation processes and monascus strains therefor	European Union	EP1044009	Beijing WPU	6 November 1998— 5 November 2018
Lyophilized powder of lentinan and the process of preparation thereof	United States	US7091336	Nanjing Luye Sike	28 February 2001— 14 April 2021 (inclusive of PTA[1] 46 days)
Lyophilized powder of lentinan and the process of preparation thereof	Russia	RU2303978	Nanjing Luye Sike	28 February 2001— 28 February 2021
	Indonesia	ID0017474		28 February 2001— 27 February 2021
	India	IN193666		
	India	IN206223		
Amifostine powder injection and its method of process	Russia	RU2264808	Nanjing Luye Sike	28 February 2001— 28 February 2021
Liposomal composition with paclitaxel for treating cancer and method for its obtaining	Russia	RU2264807	Nanjing Zhenzhong Bioengineering Co. Ltd.[2]	28 February 2001— 28 February 2021
Taxol liposome composition for treatment of cancer and preparation thereof	Indonesia	ID P0025604	Nanjing Luye Sike	28 February 2001— 27 February 2021
Taxol liposome composition for treatment of cancer and preparation thereof	India	IN205351	Nanjing Zhenzhong Bioengineering Co. Ltd.[2]	28 February 2001— 27 February 2021
Paclitaxel liposome composition for treatment of cancer and preparation thereof	India	IN208865	Nanjing Zhenzhong Bioengineering Co. Ltd.[2]	28 February 2001— 27 February 2021
Taxol liposome composition for treatment of cancer and preparation thereof	Germany, UK, France, Spain, Holland, Switzerland, Italy, Austria	EP1332755	Nanjing Luye Sike Nanjing Zhenzhong Bioengineering Co. Ltd.[2]	28 February 2001— 27 February 2021
Taxol liposome composition for treatment of cancer and preparation thereof	Japan	JP4890732	Nanjing Zhenzhong Bioengineering Co. Ltd.[2]	28 February 2001— 27 February 2021

Notes:

1 PTA stands for patent term adjustment.

2 Nanjing Zhenzhong Bioengineering Co. Ltd. is the predecessor of Nanjing Kanghai Pharmaceutical Co. Ltd., the business of which was merged into Nanjing Luye Sike in August 2010.

Patents Applications Pending in China

As of the Latest Practicable Date, we had applied for the registration of the following patents (which are all invention) in the PRC which we consider to be or may be material to our business:

Patent description	Application no.	Applicant	Application date
Risperidone sustained-release microsphere composition	CN201280006994.7	Shandong Luye	10 April 2012
Demethylated venlafaxine benzoate compound clathrate and preparation method thereof	CN201110332409.X	Shandong Luye & Nanjing Luye Sike	28 October 2011
Polymorphs of 4-[2-dimethylamino-1-(1-hydroxycyclohexyl) ethyl]phenyl 4-methylbenzoate hydrochloride, methods for preparing the same and use of the same	CN201310462622.1	Shandong Luye	28 September 2011
Polymorphs of 4-[2-dimethylamino-1-(1-hydroxycyclohexyl) ethyl]phenyl 4-methylbenzoate hydrochloride, methods for preparing the same and use of the same	CN201310464696.9	Shandong Luye	28 September 2011
Goserelin sustained release microsphere composition	CN201310136505.6	Shandong Luye	18 April 2013
Application of demethyl venlafaxine benzoate compounds to preparation of medicaments for improving sexual dysfunction	CN201310605917.X	Shandong Luye	26 November 2013
Preparation method of 4-(2-dimethylamino-1-cyclovinylethyl)phenyl p-methylbenzoate hydrochloride compound and its application	CN201310643492.1	Shandong Luye	3 December 2013
Compound and preparation method thereof	CN200910088525.4	Beijing WPU	9 July 2009
New application of common aeschynomene herb and extract thereof	CN201010291565.1	Beijing WPU	26 September 2010
Method for realising quantitative analysis on Lovastatin acid and HMG-CoA reductase inhibitor in human plasma	CN201010270536.7	Beijing WPU	1 September 2010
Method for determining concentration of lovastatin and hydroxyl lovastatin acid in human plasma	CN201010270529.7	Beijing WPU	1 September 2010

Patent description	Application no.	Applicant	Application date
Use of sterol derivative in preparation of medicines for preventing and/or treating and/or adjunctively treating cancers	CN201210023584.5	Beijing WPU	2 February 2012
Pharmaceutical composition as well as preparation method and application thereof	CN201210163327.1	Beijing WPU	23 May 2012
Anticancer application of sterols derivative	CN201110442009.4	Beijing WPU	26 December 2011
Preparation method of medicament for treating chronic pharyngitis	CN201210107485.5	Nanjing Luye Sike	13 April 2012
Preparation method of methoxy polyethylene glycol-bi-fatty acryl phosphatidyl ethanolamine	CN201210107172.X	Nanjing Kanghai Phospholipid Biotech Technology Co. Ltd. & Nanjing Luye Sike	12 April 2012
Cabazitaxel lipidosome injection and preparation method thereof	CN201210394958.4	Nanjing Luye Sike	17 October 2012

Patents Applications outside China

As of the Latest Practicable Date, we had applied for registration of the following patents outside China which we consider to be or may be material to our business:

Patent description	Place of registration	Application no.	Applicant	Application date
Long acting sustained-release formulation containing dopamine receptor agonist and the preparation method thereof	United States	US11/663,411	Shandong Luye	21 September 2005
Polymorphs of 4-[2-dimethylamino-1-(1-hydroxycyclohexyl) ethyl]phenyl 4-methylbenzoate hydrochloride, methods for preparing the same and use of the same	United States	US13/846,773	Shandong Luye & Li You Xin	28 September 2011
Compositions of rotigotine, derivatives thereof, or pharmaceutically acceptable salts of rotigotine or its derivative	United States	US13/989,550	Shandong Luye	25 November 2011
Risperidone sustained release microsphere composition	United States	US14/113.738	Shandong Luye	10 April 2012
Method for industrially preparing nitrogen substituted amino-5, 6, 7, 8-tetrahydronaphthol	United States	US14/128,131	Shandong Luye	21 June 2012

DOMAIN NAMES

As of the Latest Practicable Date, we had registered the following domain names:

Domain name	Registered owner	Date of registration	Expiry Date
luye.cn	Shandong Luye	18 March 2003	18 March 2023
luye.com	Shandong Langhe Biotech Co. Ltd.	8 June 2009	8 June 2023
luye-pharm.com	Shandong Luye	10 August 1999	10 August 2016
kanghaipharm.com	Nanjing Luye Sike	12 December 2003	12 December 2015
luyesike.com	Nanjing Luye Sike	22 June 2010	21 June 2015
luyesike.cn	Nanjing Luye Sike	22 June 2010	21 June 2015
luyebg.com	Sichuan Luye	19 December 2011	18 December 2016
wpu.com.cn	Beijing WPU	26 March 1998	26 March 2015


LUYE PHARMA
绿叶制药