LUYE PHARMA
绿叶制药

Luye Pharma Group Ltd.

(incorporated in Bermuda with limited liability)

Stock Code: 2186

ANNUAL REPORT 2014

Contents

Company Overview

Luye Pharma Group Ltd. (the "Company", together with its subsidiaries collectively the "Group" or "Luye") focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the People's Republic of China (the "PRC" or "China") — oncology, cardiovascular system and alimentary tract and metabolism. The Group's product portfolio consists of 30 products and centres around five key products, four of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. The Group has established production facilities and research and development ("R&D") centres in Beijing, Jiangsu, Shandong and Sichuan as well as offices in Malaysia and Singapore with over 3,200 employees, including over 260 R&D personnel. The Group's products are marketed and sold in a vast majority of provinces, autonomous regions and municipalities in the PRC, as well as a number of foreign countries and regions. The Group's nationwide sales and distribution network enabled it to sell its products to over 8,500 hospitals in the PRC.

The history of the Group began with the establishment of Shandong Luye Pharmaceutical Co. Ltd., formerly known as Yantai Luye Pharmaceutical Co. Ltd., on 8 June 1994, to engage in the manufacture and sale of pharmaceutical products as well as active pharmaceutical ingredients. As the Group's business continued to expand and required further capital to fund its operations and expansion plan, the 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 its corporate profile. To prepare for the listing on the SGX-ST, the Group carried out a corporate reorganisation and as part of such reorganisation, the Company was incorporated in Bermuda on 2 July 2003 to act as the holding company of the Group. In 2012, Luye Pharmaceutical Investment Co. Ltd. ("Luye Investment") made a privatisation offer, and as a result of which the Company became a wholly-owned subsidiary of Luye Investment. The Company's shares were delisted from the SGX-ST on 29 November 2012. On 9 July 2014, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Over the past 20 years, the Group has grown into an international pharmaceutical group with market leading position in its key therapeutic areas. With the corporate value of "Professional Technology Serves Human Health" and the corporate philosophy of "Customer Orientation, Efficiency, and Employee Achievement", the Group is committed to providing high quality pharmaceutical products and professional services for customers and patients.

Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Directors

Mr. PAN Jian
Mr. LIU Dong
Ms. WANG Xin

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

Company Secretary

Ms. LAI Siu Kuen

Authorized Representatives

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Audit Committee

Mr. LEUNG Man Kit *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Remuneration Committee

Mr. CHOY Sze Chung Jojo *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Nomination Committee

Professor LO Yuk Lam *(Chairman)*
Mr. ZHANG Hua Qiao
Mr. CHOY Sze Chung Jojo

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in the People's Republic of China

No. 15 Chuang Ye Road
High-tech Industrial Development Zone
Yantai, Shandong
264003
People's Republic of China

Unit D, 3rd Floor
Hongqiao Business Centre
No. 2272 Hongqiao Road
Shanghai 200336
People's Republic of China

Principal Place of Business in Hong Kong

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

Corporate Information (continued)

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Legal Advisers

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
People's Republic of China

as to Bermuda law:
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Compliance Adviser

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Auditor

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

Stock Code

2186

Company's Website

www.luye.cn

Principal Bankers

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

Financial Highlights

	2010 RMB Million	2011 RMB Million	2012 RMB Million	2013 RMB Million	**2014 RMB Million**
Revenue	1,340.9	1,774.4	2,135.9	2,515.1	**3,154.2**
Gross Profit	1,136.6	1,473.3	1,784.1	2,101.6	**2,671.7**
EBITDA	275.6	299.4	368.2	508.2	**875.9**
Net Profit	150.4	166.2	175.6	327.9	**614.4**
Profit attributable to owners of the parent	136.1	155.8	169.0	310.5	**605.5**
Total Assets	1,822.2	2,442.4	2,677.6	3,387.5	**6,130.8**
Total Liabilities	574.0	1,038.0	1,093.8	1,489.8	**1,093.2**
Equity	1,248.2	1,404.4	1,583.8	1,897.7	**5,037.6**

Chairman's Statement

Dear Shareholders:

I would like to take this opportunity to report the annual performance of Luye as at and for the year ended 31 December 2014, and at the same time offer a vision of the Group operation in 2015.

As a leading innovative pharmaceutical enterprise in China, Luye focuses on therapeutic areas with high morbidity and high growth rate including oncology, cardiovascular system and alimentary tract and metabolism. The Group's five key products are sold to 8,500 hospitals in 30 provinces and municipalities in China. All five production facilities of the Group have passed China's new Good Manufacturing Practice ("GMP") accreditation. The Group has a pipeline of 21 product candidates in China and seven product candidates overseas, among which four candidates have entered into the clinical trial stage in the United States (the "U.S.") under U.S. Food and Drug Administration rules.

In 2014, relying on its own advantages, Luye achieved rapid performance growth marked by a revenue of RMB3.154 billion, representing an increase of 25.4% compared to last year; profit attributable to owners of the parent of RMB606 million, an increase of 95.0% compared to last year and an EBITDA of RMB876 million, an increase of 72.4% compared to last year.

This annual report shows that Luye achieved significant growth in revenue and profitability in all business sectors in a well-balanced manner. Revenue from sales of oncology products, alimentary tract and metabolism products and cardiovascular system products increased by 32.8%, 20.9% and 15.0%, respectively. Market share of the Group's key products continued to rise with further expansion of market presence and deeper market penetration. The Group managed to maintain a stable gross profit margin by reducing operational expenditure and increasing sales and management efficiency.

2014 was a remarkable year in the history of the development of Luye. On 9 July 2014, the successful initial public offering ("IPO") of the Company on the Main Board of the Stock Exchange paved a way for the prospective exponential growth of the Group.

In terms of R&D, many of Luye's ongoing research projects achieved progress in clinical studies in both China and the U.S. in 2014. For example, an oncology product, mucoadhesive wound rinse was approved to market and sell in China; the Group signed a cooperative agreement with Hanmi Pharm. Co., Ltd. ("Hanmi") for developing small molecule Pan-HER inhibitor; the "State Key Laboratory for Long-acting and Targeting Drug Delivery System" which was established by the Group passed authentication by experts from Chinese Ministry of Science and Technology in September 2014, demonstrating Luye's leadership in technology within this field in China.

In 2014, the Group continuously upgraded its production and quality management. Five of the Company's subsidiaries were recognised as "High and New Technology Enterprises", and the new injection production line passed GMP certification. In addition, the Group further improved its productivity and efficiency.

In the second half of 2014, Luye signed a series of agreements on the acquisition of Beijing Jialin Pharmaceutical Co., Ltd ("Beijing Jialin"). This is expected to be a new growth driver of the Group and making the Group a leader in the area of lipid regulators in China.

Chairman's Statement (continued)

In 2015, Luye will speed up its pace of expansion and development. The Group will continue to uphold its mission and vision, firmly implement existing strategies including innovation and globalisation, and further improve the market share in the three key therapeutic areas, namely oncology, cardiovascular system and alimentary tract and metabolism. In 2015, Luye will escalate its R&D and globalisation process to a new level by strengthening international cooperation and striving to make key breakthroughs in international business. The Company's IPO in Hong Kong marks a new starting point for Luye, and the Company is determined to achieve significant progress and strives to become one of world's top 100 pharmaceutical manufacturers by 2020. We are fully confident about the fulfillment of our 2015 goals and the future of Luye.

Finally, on behalf of Luye Pharma Group Ltd., I give my sincerest thanks to our shareholders for your significant contributions to the Company.

Liu Dian Bo
Executive Chairman

30 March 2015

Management Discussion and Analysis

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC, namely oncology, cardiovascular system and alimentary tract and metabolism. The Group's product portfolio consists of 30 products and centres around five key products, four of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. During the year ended 31 December 2014, the Group's sales of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 25.4% in 2014 as compared to 2013, achieving a far higher growth rate than the average growth rate of the PRC pharmaceutical industry of 11.6% according to IMS Health Incorporated ("IMS").

Market Positioning

All of the Group's key products are competitively positioned in one of its three key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IMS, oncology-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2014. The Group's portfolio of oncology products includes Lipusu, the second best-selling domestically manufactured pharmaceutical product for cancer treatment in China in 2014 according to IMS, as well as CMNa, a Class I New Chemical Drug and the only China Food and Drug Administration (the "CFDA") approved sensitiser for cancer radiotherapy in China. IMS data showed that cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in 2014. According to IMS, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Chinese medicine for the treatment of hypercholesterolaemia and the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2014, respectively. According to IMS, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2014. According to IMS, the Group was the third largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2014 by revenue.

For the year ended 31 December 2014, the Group's revenue from sales of oncology products, cardiovascular system products and alimentary tract and metabolism products increased to RMB1,463.7 million, RMB831.4 million and RMB695.7 million, respectively, representing a growth rate of 32.8%, 15.0% and 20.9% as compared to the year ended 31 December 2013 for the respective therapeutic areas. The Group's revenue from sales of other products also increased by 42.6% to RMB163.4 million as compared to the year ended 31 December 2013.

Key Products

The Company believes that the Group's five key products are competitively positioned for high prevalence medical conditions that are expected to grow significantly in China.

Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IMS, the market for oncology pharmaceutical products in the PRC was RMB56.9 billion in 2014 and by revenue, Lipusu was the second most popular domestically manufactured pharmaceutical product for cancer treatment, in China in 2014, as well as the most popular paclitaxel product in China in 2014 with a market share of approximately 42.6%. As of 31 December 2014, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. According to the CFDA, CMNa was the only glycididazole product available for sale in China as of 31 December 2014. An independent third-party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2014. 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 RMB9.0 billion in 2014. According to IMS, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2014.

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral oedema and oedema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IMS, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.4 billion in 2014. Maitongna was the best-selling sodium aescinate product in China in 2014 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2014, according to IMS, with a market share of approximately 31.0% in 2014.

Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the CFDA, the Group was the only manufacturer of acarbose in capsule form in China as of 31 December 2014. According to IMS, the market for acarbose products in China was estimated to be approximately RMB2.8 billion in 2014 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 4.6% in 2014.

Research and Development

The Group's R&D activities are organised around three platforms — long-acting and extended release technology, liposome and targeted drug delivery and new compounds. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development.

As of 31 December 2014, the Group's R&D team consisted of 285 employees, including 35 Ph.D. degree holders and 133 Master's degree holders in medical, pharmaceutical and other related areas. As of 31 December 2014, the Group had been granted 260 patents and had 66 pending patent applications in the PRC, as well as 84 patents and 85 pending patent applications overseas.

Through the Group's three platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology and alimentary tract and metabolism, but also expands into the central nervous system ("CNS") therapeutic area which according to IMS was the fastest growing therapeutic area in China from 2010 to 2014. As of 31 December 2014, the Group had a pipeline of 21 PRC product candidates in various stages of development. These candidates included 7 oncology products, 3 alimentary tract and metabolism products, as well as 11 CNS products.

In March 2015, the Group completed three phase I clinical studies in China for ansofaxine hydrochloride extended release tablets, which is expected to be approved as a Class I New Chemical Drug for the treatment of major depressive disorder. The studies showed that the main active metabolite of ansofaxine hydrochloride extended release tablets was dose-proportional and demonstrated a good safety and tolerability profile. The Group has submitted the application to commence phase II and phase III clinical trials for ansofaxine hydrochloride extended release tablets to the CFDA.

In September 2014, mucoadhesive oral wound rinse developed by the Group obtained the registration certificate from the CFDA, and became a marketed oncology product of the Group as of 31 December 2014.

In July 2014, one of the Group's product candidates, evogliptin tartrate tablets, which is expected to be approved as a Class 1.1 New Chemical Drug, obtained approval to commence phase I clinical trials from the CFDA. The approval for clinical trials for evogliptin tartrate tablets is expected to provide an impetus to the Group's development in the diabetes therapeutic area and to further enrich the Group's product portfolio in the future.

In addition to the Group's development programmes for the PRC market, the Group also has four product candidates at various stages of clinical trials in the U.S. One of these product candidates, Xuezhikang, is already a key cardiovascular system product for the Group in the PRC market and has completed phase II clinical trials in the U.S. The Group has submitted its Investigational New Drug ("IND") application under the category for botanical drug products. The other three candidates are CNS products being concurrently developed for the PRC market and are currently in clinical trials in the U.S. For two of these product candidates, rotigotine extended release microspheres for injection and risperidone extended release microspheres for injection, the Group has submitted IND applications under section 505(b)(2) of the United States Federal Food, Drug, and Cosmetic Act in order to enable the product candidates to rely on pre-existing third-party data in respect of product safety and efficacy. The Group believes this implicates a higher success rate and reduces costs and risks associated with the process. For the other product candidate, ansofaxine hydrochloride extended release tablets, the Group has submitted IND application under the new drug registration route and it is currently undergoing phase I clinical trials.

In March 2015, the Group completed a clinical study for risperidone extended release microspheres for injection, a CNS product candidate, in the U.S., which demonstrated generally similar pharmacokinetic and safety profiles in U.S. patients, as compared to an existing marketed product in the same dosage form, whilst reaching stable plasma drug level in a much shorter period. The Group is targeting to obtain regulatory approval for risperidone extended release microspheres for injection in the U.S. and Europe.

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

On 20 August 2014, the Group and Hanmi, a leading pharmaceutical company in Korea, the shares of which are listed on the Korean Exchange, entered into an agreement to co-develop Poziotinib, Hanmi's clinical small molecule inhibitor of Pan-HER, for the treatment of cancer. Poziotinib is expected to further enrich the Group's oncology drugs pipeline in China and to strengthen the Group's competitive position in the oncology therapeutic area.

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2014. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 800 third-party promoters and approximately 800 distributors that collectively enabled the Group to sell its products to over 8,500 hospitals, which comprised approximately 1,200 or approximately 66% of all Class III hospitals, approximately 2,800 or approximately 41% of all Class II hospitals and approximately 4,500 or approximately 28% of all Class I and other hospitals and medical institutions, in the PRC in 2014.

The Group develops its marketing and promotion strategies centrally in order to maximise its brand recognition and optimise its product positioning in the PRC market. The Group implements its strategies primarily through three internal sales teams that are aligned to its key therapeutic areas. The Group also utilises independent third-party promoters where the Group believes their capabilities can be leveraged upon to expand the Group's hospital coverage efficiently. The Group believes this approach enables it to optimise the allocation of its marketing resources. The Group also believes that the alignment of its internal sales team to its therapeutic areas positions it well to conduct specialised academic promotional activities that are specifically tailored to meet the needs of doctors and hospitals, thereby driving the recognition and demand for the Group's products within their respective therapeutic areas. The Group places strong emphasis on academic promotion and carries out various marketing activities throughout China, including organising academic conferences, seminars and symposia, to promote awareness and knowledge of its products in the industry.

In order to competitively position its products, the Group's marketing department establishes marketing strategies for each of its products through market research and analysis and coordinates the various other departments involved in its marketing and promotion activities. In addition, the Group's marketing department is responsible for devising 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.

The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model also provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

In addition to the Group's continued efforts to strengthen its sales force through enhanced recruitment, training and management programmes, the Group has also developed an internal management system and a robust compliance programme to manage and support its in-house and external sales and marketing team, as well as its nationwide distribution network.

Outlook

The PRC pharmaceutical industry has grown rapidly in recent years and is expected to continue in the foreseeable future. However, it is a highly competitive industry and inevitably all the pharmaceutical companies are facing intense competition from other market participants.

For 2015, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates. As described above, in July 2014, the Group's product candidate, evogliptin tartrate tablets, which is expected to be approved as a Class 1.1 New Chemical Drug, obtained the approval to commence phase I clinical trials from the CFDA, which the Group expects will provide an impetus to its development in the diabetes therapeutic area and to further enrich its product portfolio in the future. On 20 August 2014, the Group and Hanmi entered into an agreement to co-develop Poziotinib, Hanmi's clinical small molecule inhibitor of Pan-HER, for the treatment of cancer. Poziotinib is expected to further enrich the Group's oncology drugs pipeline in China and to strengthen the Group's competitive position in the oncology therapeutic area. In March 2015, the Group completed three phase 1 clinical studies in China for ansofaxine hydrochloride extended release tablets, which is expected to be approved as a Class I New Chemical Drug. The Group expects that the progress in clinical studies will provide an impetus to its development in the CNS therapeutic area. In March 2015, the Group completed a clinical study for risperidone extended release microspheres for injection, a CNS product candidate, in the U.S., which demonstrated generally similar pharmacokinetic and safety profiles in U.S. patients as compared to an existing marketed product in the same dosage form whilst reaching stable plasma drug level in a much shorter period. The Group is targeting to obtain regulatory approval for risperidone extended release microspheres for injection in the U.S. and Europe.

Accelerating business growth and expanding product portfolio through acquisitions and effective integration will continue to be one of the Group's key strategies. In the second half of 2014, the Group entered into a series of agreements to acquire the entire equity interest of Beijing Jialin. Beijing Jialin's business focuses on, among other areas, cardiovascular system, and its key product, A LE (阿樂), is a well-recognised brand in the cardiovascular system market and a leading lipid regulator in the PRC market. The Company believes that the acquisition will supplement the Group's existing cardiovascular system product portfolio, enhance the Group's market share, significantly increase its strategic competitiveness and considerably strengthen its competitive advantage in the cardiovascular system market, especially in the area of lipid regulators, in the PRC. The shareholders of the Company approved the acquisition on 16 January 2015. As of the date of this annual report, the acquisition is under progress and yet to be completed. For details, please refer to the Company's announcements and circular.

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

Management Discussion and Analysis (continued)

Financial Review

Revenue

For the year ended 31 December 2014, the Group's revenue amounted to RMB3,154.2 million, as compared to RMB2,515.1 million for the year ended 31 December 2013, representing an increase of RMB639.1 million, or 25.4%. The increase is mainly attributable to the increased hospital coverage and improved per person efficiency of the sales team.

For the year ended 31 December 2014, the Group's revenue from sales of oncology products increased to RMB1,463.7 million, as compared to RMB1,102.2 million for the year ended 31 December 2013, representing an increase of RMB361.5 million, or 32.8%, primarily attributable to the increase in sales volume of various oncology products of the Group.

For the year ended 31 December 2014, revenue from sales of cardiovascular system products increased to RMB831.4 million, as compared to RMB723.1 million for the year ended 31 December 2013, representing an increase of RMB108.3 million, or 15.0%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2014, revenue from sales of alimentary tract and metabolism products increased to RMB695.7 million, as compared to RMB575.2 million for the year ended 31 December 2013, representing an increase of RMB120.5 million, or 20.9%, primarily attributable to the increase in sales volume of alimentary tract and metabolism products of the Group.

For the year ended 31 December 2014, revenue from sales of other products increased to RMB163.4 million, as compared to RMB114.6 million for the year ended 31 December 2013, representing an increase of RMB48.8 million, or 42.6%.

Cost of Sales

The Group's cost of sales increased from RMB413.5 million for the year ended 31 December 2013 to RMB482.5 million for the year ended 31 December 2014, which accounted for 15.3% of the Group's total revenue for the year. The primary driver of the Group's increased cost of sales was the increased sales for the year ended 31 December 2014, as compared to the year ended 31 December 2013.

Gross Profit

For the year ended 31 December 2014, the Group's gross profit increased to RMB2,671.7 million, as compared to RMB2,101.6 million for the year ended 31 December 2013, representing an increase of RMB570.1 million, or 27.1%. The increase in the Group's gross profit was generally in line with its revenue growth. The Group's gross profit margin increased to 84.7% for the year ended 31 December 2014 from 83.6% for the year ended 31 December 2013. The increase in gross profit margin was contributed by increased sales of higher margin products.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and investment income. For the year ended 31 December 2014, the Group's other income and gains increased to RMB98.4 million, as compared to RMB35.9 million for the year ended 31 December 2013, representing an increase of RMB62.5 million. The increase was mainly attributable to a higher amount of government grants recognised as income during the year, as compared to the year ended 31 December 2013. The higher level of recognition of government grants primarily related to the timing of the Group's receipt from the government authority of the final assessment report for the relevant project, rather than the actual timing of receipt of the grant or incurrence of the related expenses or depreciation charges. Higher levels of both interest income and investment income also contributed to further increase in other income and gains. The Group has utilised the proceeds from IPO of the Company's shares on the Stock Exchange for better investment and cash return management.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2014, the Group's selling and distribution expenses amounted to RMB1,616.5 million, as compared to RMB1,378.1 million for year ended 31 December 2013, representing an increase of RMB238.4 million, or 17.3%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in staff cost for the sales and marketing team in line with market growth. On the other hand, however, as a percentage of revenue, the Group's selling and distribution expenses decreased from 54.8% for the year ended 31 December 2013 to 51.2% for the year ended 31 December 2014, primarily as a result of the Group's continued efforts to focus its marketing and promotion spendings on regions and products which yield higher returns and to improve the average per person contribution of the sales and marketing team.

Administrative Expenses

The Group's administrative expenses primarily consisted of general operating expenses, depreciation, amortisation and impairment charges, and other administrative expenses. For the year ended 31 December 2014, the Group's administrative expenses amounted to RMB195.0 million, as compared to RMB146.5 million for the year ended 31 December 2013, representing an increase of RMB48.5 million, or 33.1%. The increase was mainly due to one-off expenses related to the IPO, amounting to RMB32.7 million, incurred during the year ended 31 December 2014.

Other Expenses

The Group's other expenses primarily consisted of the R&D costs, foreign exchange losses, loss on disposals of property, plants and equipment and miscellaneous expenses. For the year ended 31 December 2014, the Group's other expenses amounted to RMB193.8 million, as compared to RMB206.7 million for the year ended 31 December 2013, representing a decrease of RMB12.9 million, or 6.2%. The minor decrease was mainly due to lower R&D costs incurred during the year. R&D cost decreased from RMB194.1 million for the year ended 31 December 2013 to RMB182.2 million for the year ended 31 December 2014.

Finance Costs

For the year ended 31 December 2014, the Group's finance costs amounted to RMB39.7 million, as compared to RMB24.1 million for the year ended 31 December 2013, representing an increase of RMB15.6 million, or 64.7%. The increase was mainly due to higher levels of monthly average outstanding bank borrowings during the year ended 31 December 2014 as compared to the year ended 31 December 2013. The increase in bank borrowings primarily reflected additional bank loans taken for the Group's general corporate purposes, as well as for the purchase of property, plant and equipment in connection with the construction of new production lines. Most of these bank borrowings had been repaid by the end of the 2014.

Income Tax Expense

For the year ended 31 December 2014, the Group's income tax expense amounted to RMB111.1 million, as compared to RMB55.2 million for the year ended 31 December 2013, representing an increase of RMB55.9 million, or 101.3%. The effective tax rate for the year ended 31 December 2014 and the year ended 31 December 2013 was 15.3% and 14.4% respectively. The slightly higher effective tax rate for the year ended 31 December 2014 was mainly due to the additional accrual of withholding tax at 10% on the profits of the Company's PRC subsidiaries to be distributed and the utilisation of less tax losses in 2014 as compared to 2013.

Net Profit

The Group's net profit for the year ended 31 December 2014 was RMB614.4 million, as compared to RMB327.9 million for the year ended 31 December 2013, representing an increase of RMB286.5 million, or 87.4%.

Liquidity, Financial and Capital Resources

Overview

The Group funded its working capital requirements principally from the cash generated from operations and bank borrowings. As at 31 December 2014, the Group's cash and cash equivalents remained stable at RMB331.9 million, slightly decreased by 0.4% compared to the year ended 31 December 2013.

For the year ended 31 December 2014, the Group had net cash generated from operating activities of approximately RMB319.1 million, net cash used in investing activities of approximately RMB2,978.8 million and net cash generated from financing activities of approximately RMB2,657.8 million.

Net Current Assets

As at 31 December 2014, the Group had net current assets of RMB2,637.7 million, as compared to RMB349.4 million as at 31 December 2013. The current ratio of the Group increased to 4.0 as at 31 December 2014 from 1.3 as at 31 December 2013. The increase in net current assets was mainly attributable to higher levels of trade and note receivables which increased in line with the growth in revenue, as well as significant increase in available-for-sale investments purchased by using IPO proceeds.

Borrowings and Pledge of Assets

As at 31 December 2014, the Group had an aggregate interest-bearing bank and other borrowings of RMB305.5 million, as compared to RMB745.3 million as at 31 December 2013. Amongst the bank and other borrowings, RMB304.9 million was repayable within one year and RMB0.6 million was repayable after one year. The decrease in bank and other borrowings was primarily due to the repayment of bank loans by using part of the IPO proceeds. The bank loans were secured by the Group's short-term deposits and notes receivables.

Gearing Ratio

As at 31 December 2014, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 6.1% from 39.3% as at 31 December 2013. The decrease was primarily due to the decrease in the Group's total borrowings resulting from repayment of bank loans during the year by using part of the IPO proceeds and the increase in the Group's total equity due to receipt of IPO proceeds.

Foreign Currency Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position . The Group did not enter into any hedging transactions in respect of foreign currency risk during the year ended 31 December 2014. For details, please refer to note 39 to the consolidated financial statements in this annual report.

Interest Rate Risk

The Group adopts a policy to manage interest cost using a combination of fixed and floating rate debts. For details, please refer to note 27 to the consolidated financial statements in this annual report on interest rate the Group faced. The Group did not enter into any hedging transactions in respect of interest rate risk during the year ended 31 December 2014.

Contingent Liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities.

Material Acquisition and Disposal

The Group entered into a series of agreements to acquire the entire equity interest of Beijing Jialin. Beijing Jialin's business focuses on, among other areas, cardiovascular system, and its key product, A LE (阿樂), is a well-recognised brand in the cardiovascular system market and a leading lipid regulator in the PRC market. The shareholders of the Company approved the acquisition on 16 January 2015. As at the date of this annual report, the acquisition is under progress and yet to be completed. For details, please refer to the Company's announcements and circular.

During the year ended 31 December 2014, the Group had no other, material acquisition or disposal of subsidiaries and associated companies.

The Directors confirmed that as at the date of this annual report, there are no current plans to acquire any material investment other than the above-mentioned.

Use of Net Proceeds from Listing

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

As at 30 March 2015, the Group had utilised HK$1,591.6 million, representing 41.5% of the net proceeds received by the Company from the IPO. Set out below is a summary of the utilisation of the net proceeds:

Use of proceeds	**Amount (HK$'M)**	**%**	**Utilised (HK$'M)**	**%**	**Unutilized balance as at 30 March 2015**	**%**
To expand the Group's portfolio of pharmaceuticals products	769.0	20.0	291.0	7.6	478.0	12.4
For research and development	769.0	20.0	291.0	7.6	478.0	12.4
For selective acquisition of domestic or international companies	769.0	20.0	291.0	7.6	478.0	12.4
To fund capital expenditure projects to increase production capabilities	769.0	20.0	359.2	9.3	409.8	10.7
To expand sales and marketing networks	192.2	5.0	71.8	1.9	120.4	3.1
To partially repay borrowings under U.S. Dollar secured loan	192.2	5.0	179.6	4.7	12.6	0.3
For working capital and general corporate purposes	384.6	10.0	108.0	2.8	276.6	7.2
Total	3,845	100	1,591.6	41.5	2,253.4	58.5

Employee and Remuneration Policy

As at 31 December 2014, the Group had approximately 3,359 employees (2013: 3,347). For the year ended 31 December 2014, the staff costs of the Group, including Directors' emoluments but excluding any contributions to pension scheme, were RMB356.5 million as compared to RMB326.6 million for the year ended 31 December 2013.

Remuneration Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Apart from social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this annual report.

Directors and Senior Management

Directors

Executive Directors

Mr. Liu Dian Bo, aged 49, Executive Chairman, 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 Pharmaceutical Co., Ltd. ("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 Shandong Luye and Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU"), and a director of the following subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading"), Sichuan Luye Buoguang Pharmaceutical Co., Ltd. ("Sichuan Luye"), Shandong Luye Natural Drug R&D Co. Ltd., Shanghai Ge Lin Li Fu Business Consulting Co. Ltd., AsiaPharm Investments Limited, AsiaPharm Biotech Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd.

Mr. Yang Rong Bing, aged 49, holds the office of Vice Executive Chairman 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: Shandong Luye, Luye Trading and Nanjing Luye Sike.

Mr. Yuan Hui Xian, aged 56, 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: Shandong Luye, Nanjing Luye Sike Pharmaceutical Co., Ltd. ("Nanjing Luye Sike") and Nanjing New AIGE Eggs Co. Ltd.

Ms. Zhu Yuan Yuan, aged 34, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 9 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 Pharma Hong Kong Limited, Solid Success Holdings Limited, Apex Group Holdings Limited and Kang Hai Pharmaceutical Technology Development Limited. She is a supervisor of our subsidiary, Beijing WPU.

Non-Executive Directors

Mr. Pan Jian, aged 39, has been our Non-Executive Director since March 2014. Mr. Pan is a managing director at CDH Pharmaceutical Investments Limited, 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. He was a director of Shanghai M&G Stationary Inc. (a company listed on the Shanghai Stock Exchange with stock code 603899).

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 of Directors of the Company (the "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 37, 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 16 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. He 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.

Directors and Senior Management (continued)

As at the date of this annual report, Mr. Zhang holds or held directorships in the following listed companies in the past three years:

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
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
China Smartpay Group Holdings Limited (previously known as 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
Sinopec Yizheng Chemical Fibre Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1033)	February 2015 to present	Independent non-executive director
Wanda Hotel Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169)	September 2014 to present	Independent 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

Directors and Senior Management (continued)

Name of the listed company	Term	Position
Fuguiniao Co. Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1819)	May 2013 to June 2014	Independent non-executive director
Ernest Borel Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1856)	June 2014 to November 2014	Independent non-executive director

Professor Lo Yuk Lam, aged 66, has been the 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 Organization 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.

As at the date of this annual report, Professor Lo holds or held directorships in the following listed companies in the past three years:

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 non-executive director

Professor Lo obtained an Honorary Doctorate of Philosophy in Business Management from York University in June 2008.

Mr. Leung Man Kit, aged 61, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 31 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 (formerly known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

Directors and Senior Management (continued)

As at the date of this annual report, Mr. Leung holds or held directorships in the following listed companies in the past three years:

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.com Inc., a company listed on NASDAQ (stock code: 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

* *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 56, has been the 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 Coordinator 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.

As at the date of this annual report, Mr. Choy holds or held directorships in the following listed companies in the past three years:

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, Newport in October 2004 and a Master's degree in Business Law from Monash University in April 2007.

SENIOR MANAGEMENT

Our senior management comprises Executive Directors and the following persons:

Mr. Liu Yu Bo, aged 49, 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 51, 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 53, joined our Group in October 2007 and is currently our Senior 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. Under Dr. Li's leadership, the Company was 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 51, joined our Group in 1994 and is currently our Senior Vice President and the general manager of Shandong Luye and responsible for manufacturing and quality management of subsidiaries. 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 37, 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 16 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 (formerly 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).

Report of Directors

The directors of the Company (the "Directors") are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

Corporate Information and Global Offering

The Company was incorporated in the Bermuda on 2 July 2003 as an exempted company with limited liability under the laws of Bermuda (the "Companies Law"). The Company's shares (the "Shares") were listed on the Stock Exchange on 9 July 2014 (the "Listing" or "Listing Date").

Principal Activities

The principal activity of the Company is investment holding and the Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the consolidated financial statements of this annual report.

Results

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss on page 47 of this annual report.

Final Dividend

The Board did not propose any dividend for the year ended 31 December 2014 (2013: Nil).

Financial Summary

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

Use of Net Proceeds from Listing

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$3,845 million, which sum is intended to be applied in the manner consistent with that set out in the Company's prospectus dated 26 June 2014. For details of the utilisation of the net proceeds, please refer to "Use of Net Proceeds from Listing" under the Management Discussion and Analysis section of this annual report.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 16.8% of the total sales for the year ended 31 December 2014 and sales to the largest customer included therein amounted to 5.6% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 48.2% of the total purchase for the year ended 31 December 2014 and purchase from the Group's largest supplier included therein amounted to 18.5% of the total purchase for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2014 are set out in note 14 to the consolidated financial statements in this annual report.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 31 to the consolidated financial statements in this annual report.

Reserves

Details of movements in the reserves of the Group during the year are set out on page 51 in the consolidated statement of changes in equity of this annual report and in note 32 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB1.3 million (as at 31 December 2013: RMB97.5 million).

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2014 are set out in note 27 to the consolidated financial statements in this annual report.

Report of Directors (continued)

Directors

The Directors during the year ended 31 December 2014 and up to the date of this annual report were:

Executive Directors:

Mr. LIU Dian Bo *(Executive Chairman and Chief Executive Officer)*	*(appointed on 9 July 2003)*
Mr. YANG Rong Bing *(Vice Executive Chairman)*	*(appointed on 9 July 2003)*
Mr. YUAN Hui Xian	*(appointed on 9 July 2003)*
Ms. ZHU Yuan Yuan	*(appointed on 29 March 2014)*

Non-executive Directors:

Mr. PAN Jian	*(appointed on 29 March 2014)*
Mr. LIU Dong	*(appointed on 29 March 2014)*
Ms. WANG Xin	*(appointed on 29 March 2014)*

Independent non-executive Directors:

Mr. ZHANG Hua Qiao	*(appointed on 19 June 2014)*
Professor LO Yuk Lam	*(appointed on 19 June 2014)*
Mr. LEUNG Man Kit	*(appointed on 19 June 2014)*
Mr. CHOY Sze Chung Jojo	*(appointed on 19 June 2014)*

In accordance with the bye-laws of the Company (the "Bye-laws"), any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Shareholders 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.

In accordance with bye-law 84(1) of the Bye-laws, Mr. Yang Rong Bing, Mr. Yuan Hui Xian and Ms. Zhu Yuan Yuan will retire by rotation and being eligible, will offer themselves for re-election as the Directors at the forthcoming annual general meeting (the "AGM").

In accordance with bye-law 83(2) of the Bye-laws, Mr. Zhang Hua Qiao, Professor Lo Yuk Lam, Mr. Leung Man Kit and Mr. Choy Sze Chung Jojo will retire and being eligible, will offer themselves for re-election as the Directors at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 18 to 24 of this annual report.

Confirmation of Independence of Independent Non-executive Directors

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Directors' Service Contracts

Each of the executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of the non-executive Directors has entered into an appointment letter with the Company for an initial term of two years commencing from the date of appointment until the end of two years from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of two years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts of Significance

Other than those transactions disclosed in note 36 to the consolidated financial statements in this annual report, no Director has any material interest, either directly or indirectly, in any contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2014.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

Share Option Scheme

During the year ended 31 December 2014 and up to the date of this annual report, the Group has no share option scheme.

Emolument Policy

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

Changes to Information in respect of Directors

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules since the Listing Date.

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

As at 31 December 2014, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities[1]	Approximate percentage of shareholding
Liu Dian Bo	Founder of a discretionary trust	1,459,999,930 (L)	43.96% (L)

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

Notes:

1. *Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.), Luye Pharma Holdings Ltd., Luye Pharmaceutical International Co., Ltd. and Luye Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,459,999,930 ordinary shares in the Company held by Luye Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.)*

2. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

(ii) Interest in associated corporations

Name of Director	Associated Corporation	Nature of interest	Number of securities	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.)	Founder of a discretionary trust	8,400	70%
Liu Dian Bo	Ginkgo Trust Limited	Founder of a discretionary trust	1	100%
Liu Dian Bo	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852	100%
Liu Dian Bo	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988	100%
Liu Dian Bo	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1	100%
Liu Dian Bo	Nelumbo Investments Limited	Founder of a discretionary trust	1	100%
Yang Rong Bing	Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.)	Beneficial interest	1,800	15%
Yuan Hui Xian	Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.)	Beneficial interest	1,800	15%

Notes:

1. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo.*

2. *Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.) holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. Luye Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and Luye Pharmaceutical Investment Co., Ltd. is wholly-owned by Luye Pharmaceutical International Co., Ltd.*

Save as disclosed above, none of our Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate since the Listing Date.

Report of Directors (continued)

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

As at 31 December 2014, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of securities[1]	Approximate percentage of shareholding
Luye Pharmaceutical Investment Co., Ltd.[1]	Beneficial owner	1,459,999,930 (L)	43.96%
Luye Pharmaceutical International Co., Ltd.[1]	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Luye Pharma Holdings Limited[1]	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.)[2]	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Nelumbo Investments Limited[2]	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Ginkgo Trust Limited[2]	Trustee	1,459,999,930 (L)	43.96%
Shorea LBG[2]	Interest in controlled corporation	1,459,999,930 (L)	43.96%
CPE Greenery Ltd.[3]	Beneficial owner	196,561,695 (L)	5.92%
CPEChina Fund, L.P.[3]	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Associates, L.P.[3]	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Funds Limited[3]	Interest in controlled corporation	196,561,695 (L)	5.92%
Tropical Excellence Infrastructure Pte Ltd.[4]	Beneficial owner	195,796,853 (L)	5.90%
GIC (Ventures) Pte. Ltd.[4]	Interest in controlled corporation	195,796,853 (L)	5.90%
GIC Special Investments Pte. Ltd.[4]	Interest in controlled corporation	195,796,853 (L)	5.90%
GIC Private Limited[4]	Interest in controlled corporation	195,796,853 (L)	5.90%
CDH Flower Limited[5]	Beneficial owner	185,945,580 (L)	5.60%
CDH Pharmaceutical Investments Limited[5]	Interest in controlled corporation	185,945,580 (L)	5.60%
CDH Fund IV, L.P.[5]	Interest in controlled corporation	185,945,580 (L)	5.60%
CDH IV Holdings Company Limited[5]	Interest in controlled corporation	185,945,580 (L)	5.60%
China Diamond Holdings Company Limited[5]	Interest in controlled corporation	185,945,580 (L)	5.60%
China Diamond Holdings IV, L.P.[5]	Interest in controlled corporation	185,945,580 (L)	5.60%
Value Partners Group Limited[6]	Interest in controlled corporation	233,958,500 (L)	7.04%
The Northern Trust Company (ALA)	Approved lending Agent	175,270,073 (P)	5.28%

Remark:

The Letter "L" denotes long position in such securities and the letter "P" denotes lending pool in such securities.

Notes:

1. *Luye Pharmaceutical Investment Co., Ltd. is wholly owned by Luye Pharmaceutical International Co., Ltd., which is in turn wholly owned by Luye Pharma Holdings Limited.*

2. *Nelumbo Investments Limited holds 70% of the issued share capital of Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.) The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

3. *CPE Greenery Ltd. is wholly owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P. The general partner of CITIC PE Associates, L.P. is CITIC PE Funds Limited.*

4. *Tropical Excellence Infrastructure Pte Ltd. is wholly owned by GIC (Ventures) Pte. Ltd. and managed by GIC Special Investments Pte. Ltd. GIC Special Investments Pte. Ltd. is wholly owned by GIC Private Limited.*

5. *CDH Flower Limited is wholly owned by CDH Pharmaceutical Investments Limited, which in turn is wholly owned by CDH Fund IV L.P. CDH IV Holdings Company Limited is the general partner of CDH Fund IV L.P., which is a subsidiary of China Diamond Holdings IV, L.P. China Diamond Holdings Company Limited is the general partner of China Diamond Holdings IV, L.P.*

6. *Value Partners Group Limited is wholly owned by Value Partners Hong Kong Limited, which is in turn wholly owned by Value Partners Limited.*

7. *Messrs. Liu Dian Bo, Yang Rong Bing and Yuan Hui Xian, each being an executive Director, is also a director of Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.), Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., and Luye Pharmaceutical Investment Co., Ltd. Further, Mr. Liu Dian Bo is a director of Nelumbo Investments Limited, Ginkgo Trust Limited and Shorea LBG.*

8. *Ms. Zhu Yuan Yuan, an executive Director, is a director of Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., and Luye Pharmaceutical Investment Co., Ltd.*

Save as disclosed above, as at 31 December 2014, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2014.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company’s Bye-laws or the Companies Law that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

Director's and Controlling Shareholder's Interest in Competing Business

A deed of non-compete undertaking dated 19 June 2014 (the “Deed of Non-compete Undertaking”) was entered into between the Company and the controlling shareholder and the executive chairman of the Company, Mr. Liu Dian Bo, who 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 shareholder of our Group in relation to developing, producing, marketing and selling innovative pharmaceutical products.

The Company has received an annual written confirmation from the controlling shareholder, Mr. Liu Dian Bo, in respect of his compliance with the Deed of Non-compete Undertaking.

The independent non-executive Directors have reviewed the Deed of Non-compete Undertaking and assessed whether the controlling shareholder has abided by the non-competition undertaking. The independent non-executive Directors confirmed that the controlling shareholder has not been in breach of the non-competition undertaking during the year ended 31 December 2014.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2014.

Connected Transactions

The Company has complied with the disclosure requirements, to the extent they are not waived by the Stock Exchange, in accordance with Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year ended 31 December 2014.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2014 is contained in note 36 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

Charitable Donations

During the year ended 31 December 2014, the Group made charitable and other donations in a total amount of RMB6.6 million.

Post Balance Sheet Events

Please see note 40 to the consolidated financial statements in this annual report for a summary of the major events that have occurred in relation to the Company since the balance sheet date.

Audit Committee

The audit committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2014.

Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2014.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 35 to 44 of this annual report.

Closure of register of shareholders

The register of shareholders of the Company will be closed form 3 June 2015 to 5 June 2015, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 2 June 2015.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2014.

Ernst & Young shall retire in the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as independent auditor of the Company will be proposed at the AGM.

On behalf of the Board
Liu Dian Bo
Chairman

Hong Kong 30 March 2015

Corporate Governance Report

Corporate Governance Practices

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

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code during the period since the Listing Date and up to 31 December 2014.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

As at the date of this annual report, the Board comprises 11 members, consisting of 4 executive Directors, 3 non-executive Directors and 4 independent non-executive Directors as set out below:

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

Non-executive Directors
Mr. PAN Jian
Mr. LIU Dong
Ms. WANG Xin

Independent Non-executive Directors
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company also complied Rule 3.10A of the Listing Rules, which relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant status, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

According to A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, all the existing Directors have received continuous and professional development and training.

Chairman and Chief Executive Officer

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organization structure of the Company, Mr. Liu Dian Bo is our Executive Chairman of the Board and the Chief Executive Officer. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

Appointment and Re-Election of Directors

Each of the executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of the non-executive Directors has entered into an appointment letter with the Company for an initial term of two years commencing from the date of appointment until the end of two years from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of two years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company has adopted the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

Since the Listing Date and up to the date of this annual report, six board meetings and one special general meeting ("SGM") were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend Board meeting	SGM
Mr. LIU Dian Bo	6/6	1/1
Mr. YANG Rong Bing	4/6	1/1
Mr. YUAN Hui Xian	5/6	1/1
Ms. ZHU Yuan Yuan	6/6	1/1
Mr. PAN Jian	5/6	0/1
Mr. LIU Dong	5/6	0/1
Ms. WANG Xin	6/6	0/1
Mr. ZHANG Hua Qiao	5/6	0/1
Professor LO Yuk Lam	4/6	0/1
Mr. LEUNG Man Kit	6/6	1/1
Mr. CHOY Sze Chung Jojo	6/6	1/1

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2014.

Since the Listing Date and up to the date of this annual report, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2014 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2014 fell within the following bands as follows:

Remuneration Band	**No. of employees**
Nil to RMB1,000,000	3
RMB1,000,001 to RMB1,500,000	2
	5

Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Board Committees

Nomination Committee

The Nomination Committee currently comprises three members, namely Professor Lo Yuk Lam (chairman), Mr. Zhang Hua Qiao and Mr. Choy Sze Chung Jojo, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee adopted certain criteria and procedure in the nomination of new directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

From the Listing Date and up to the date of this annual report, two meetings of the Nomination Committee were held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Professor LO Yuk Lam	2/2
Mr. ZHANG Hua Qiao	2/2
Mr. CHOY Sze Chung Jojo	2/2

During the year 2014, the Nomination Committee reviewed the Board composition and considered that the existing Board was appropriately structured.

Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board Diversity Policy to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Choy Sze Chung Jojo (chairman), Mr. Zhang Hua Qiao and Professor LO Yuk Lam, all of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

From the Listing Date and up to the date of this annual report, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. CHOY Sze Chung Jojo	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2014, the Remuneration Committee assessed the performance of the Directors and reviewed the Company's policy and structure for all directors' and senior management remuneration.

Corporate Governance Report (continued)

Audit Committee

The Audit Committee comprises three members namely, Mr. Leung Man Kit (chairman), Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, all of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

— To review the financial statements and reports before submission to the Board;

— To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;

— To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; and

— To oversee the internal control system of the Group, report to the Board on any material issue, and make recommendations to the Board.

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

From the Listing Date and up to the date of this annual report, three meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. LEUNG Man Kit	3/3
Mr. ZHANG Hua Qiao	3/3
Professor LO Yuk Lam	3/3

During the year 2014, the Audit Committee had reviewed the interim results of the Company and its subsidiaries for the period ended 30 June 2014, the risk management systems and processes for the re-appointment of the external auditor. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 45 of this annual report.

Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group.

The Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate.

Auditor's Remuneration

For the year ended 31 December 2014, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for annual audit and other audit services totally RMB7,360,000.

In addition, Ernst & Young was appointed as the Company's reporting accountant for its IPO of shares, in relation to which total fees paid or payable to Ernst & Young during the year ended 31 December 2014 was RMB3,000,000.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditors' services	**Amount (RMB)**
Audit services:	
Annual audit service	4,180,000
Reporting accountant's services in relation to the Listing	3,000,000
Other audit service	3,180,000
Total	10,360,000

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2015 and the proposal will be submitted for approval at the AGM to be held on 8 June 2015.

Company Secretary

Ms. Lai Siu Kuen ("Ms. Lai") was appointed as the Company Secretary. She is a senior manager of KCS Hong Kong Limited (a company secretarial service provider). Ms. Zhu Yuan Yuan, an executive Director of the Company, is the main internal liaison between her and the Company.

During the year 2014, Ms. Lai undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairman of the Board Committee of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at *www.luye.cn,* where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Convening of Special General Meeting and Putting Forward Proposals

In accordance with the Bye-laws, a special general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition.

Shareholders may put forward proposals for consideration at an annual general meeting in accordance with the Companies Act 1981 of Bermuda and the Bye-laws.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Written enquiries may be put to the Board through the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Citibank Tower, 3 Garden Road, Central, Hong Kong for the attention to the Chairman of the Board.

Change in Constitutional Documents

An altered Bye-laws of the Company was adopted by the Company on 19 June 2014 and was effective on the Listing Date.

Independent Auditor's Report

EY 安永

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Luye Pharma Group Ltd.
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2015

Consolidated Statement of Profit or Loss

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**3,154,220**	2,515,111
Cost of sales		**(482,505)**	(413,506)
Gross profit		**2,671,715**	2,101,605
Other income and gains	5	**98,375**	35,902
Selling and distribution expenses		**(1,616,493)**	(1,378,061)
Administrative expenses		**(194,984)**	(146,508)
Other expenses		**(193,786)**	(206,669)
Finance costs	7	**(39,661)**	(24,091)
Share of profit of an associate	19	**348**	990
PROFIT BEFORE TAX	6	**725,514**	383,168
Income tax expense	10	**(111,068)**	(55,224)
PROFIT FOR THE YEAR		**614,446**	327,944
Attributable to:			
Owners of the parent		**605,524**	310,498
Non-controlling interests		**8,922**	17,446
		614,446	327,944
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the year	13	**20.22 cents**	11.48 cents

Details of the dividends for the year are disclosed in note 12.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR	**614,446**	327,944
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**18,033**	3,085
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(15,892)**	(1,008)
Exchange differences on translation of foreign operations	**304**	(3,953)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**2,445**	(1,876)
Other comprehensive income for the year, net of tax	**2,445**	(1,876)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**616,891**	326,068
Attributable to:		
Owners of the parent	**607,969**	308,622
Non-controlling interests	**8,922**	17,446
	616,891	326,068

Consolidated Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,092,151**	925,824
Advance payments for property, plant and equipment		**34,227**	48,948
Prepayments, deposits and other receivables	23	**700,000**	—
Prepaid land lease payments	15	**194,193**	187,290
Goodwill	16	**347,356**	347,356
Other intangible assets	17	**145,888**	136,301
Investment in an associate	19	**5,485**	5,323
Available-for-sale investments	20	**2,242**	4,331
Long-term deferred expenditure		**—**	292
Deferred tax assets	30	**83,259**	79,428
Total non-current assets		**2,604,801**	1,735,093
CURRENT ASSETS			
Inventories	21	**251,198**	234,733
Trade and notes receivables	22	**914,130**	535,562
Prepayments, deposits and other receivables	23	**53,502**	46,413
Due from related parties	36(b)(i)	**2,655**	314,209
Pledged short-term deposits	24	**127,215**	177,485
Available-for-sale investments	20	**1,845,392**	10,000
Cash and cash equivalents	24	**331,863**	333,150
		3,525,955	1,651,552
Non-current assets held for sale		**—**	818
Total current assets		**3,525,955**	1,652,370
CURRENT LIABILITIES			
Trade and notes payables	25	**59,044**	69,369
Other payables and accruals	26	**439,576**	351,913
Interest-bearing loans and borrowings	27	**304,899**	735,921
Government grants	29	**37,049**	74,436
Tax payable		**47,668**	34,488
Due to related parties	36(b)(ii)	**—**	36,856
Total current liabilities		**888,236**	1,302,983
NET CURRENT ASSETS		**2,637,719**	349,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,242,520**	2,084,480

Consolidated Statement of Financial Position (continued)

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,242,520**	2,084,480
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*27*	**638**	9,387
Government grants	*29*	**106,605**	78,684
Deferred tax liabilities	*30*	**97,717**	98,714
Total non-current liabilities		**204,960**	186,785
Net assets		**5,037,560**	1,897,695
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**427,269**	81,180
Share premium	*31*	**2,936,817**	427,980
Reserves	*32*	**1,543,512**	1,259,882
		4,907,598	1,769,042
Non-controlling interests		**129,962**	128,653
Total equity		**5,037,560**	1,897,695

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium account RMB'000	Other reserves* RMB'000	Statutory surplus reserves* RMB'000 (note 32)	Retained earnings* RMB'000	Unrealised gain reserves* RMB'000	Foreign currency translation reserves* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	81,180	427,980	41,387	231,324	992,058	2,112	(6,999)	1,769,042	128,653	1,897,695
Profit for the year	—	—	—	—	605,524	—	—	605,524	8,922	614,446
Other comprehensive income for the year:										
Fair value change on available-for-sale investments, net of tax	—	—	—	—	—	2,141	—	2,141	—	2,141
Currency realignment	—	—	—	—	—	—	304	304	—	304
Total comprehensive income for the year	—	—	—	—	605,524	2,141	304	607,969	8,922	616,891
Transfer to statutory reserves	—	—	—	66,472	(66,472)	—	—	—	—	—
Share repurchase**	(8,556)	(191,444)	—	—	—	—	—	(200,000)	—	(200,000)
Issue of shares	82,195	3,057,145	—	—	—	—	—	3,139,340	—	3,139,340
Capitalisation issue	272,450	(272,450)	—	—	—	—	—	—	—	—
Share issue expenses	—	(84,414)	—	—	—	—	—	(84,414)	—	(84,414)
Dividends paid	—	—	—	—	(324,339)	—	—	(324,339)	—	(324,339)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(7,613)	(7,613)
At 31 December 2014	427,269	2,936,817	41,387	297,796	1,206,771	4,253	(6,695)	4,907,598	129,962	5,037,560
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, net of tax	—	—	—	—	—	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 RMB1,543,512,000 (2013: RMB1,259,882,000) in the consolidated statement of financial position.*

** *On 30 May 2014, the Company repurchased 51,932,992 shares from the immediate holding company Luye Pharmaceutical Investment Co., Ltd. ("Luye Investment") at a total consideration of RMB200,000,000 and declared a dividend of US$52,865,878 (equivalent to RMB324,339,000) to Luye Investment. Luye Investment used the dividend receivable and the share repurchase consideration from the Company to offset its amount due to the Company on the same date.*

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**725,514**	383,168
Adjustments for:			
Share of profit of an associate		**(348)**	(990)
Depreciation of items of property, plant and equipment	*14*	**79,813**	57,953
Amortisation of other intangible assets	*17*	**25,491**	37,629
Amortisation of prepaid land lease payments	*15*	**5,141**	4,852
Amortisation of long-term deferred expenditure		**292**	500
Loss on disposal of items of property, plant and equipment		**3,966**	430
Loss on disposal of other intangible assets		**—**	1,440
Interest income	*5*	**(25,175)**	(3,030)
Investment income from available-for-sale investments		**(15,892)**	(1,008)
Interest expense	*7*	**39,545**	23,955
		838,347	504,899
Increase in trade and notes receivables		**(378,568)**	(21,304)
(Increase)/decrease in prepayments, deposits and other receivables		**(5,976)**	5,814
Decrease in amounts due from related parties		**2,808**	568
Increase in inventories		**(16,465)**	(92,047)
(Decrease)/increase in government grants		**(786)**	15,885
(Decrease)/increase in trade and notes payables		**(10,325)**	14,966
Increase in other payables and accruals		**70,622**	77,344
(Decrease)/increase in amounts due to related parties		**(36,856)**	36,856
Cash generated from operations		**462,801**	542,981
Interest paid		**(40,321)**	(26,360)
Income tax paid		**(103,384)**	(78,003)
Net cash flows from operating activities		**319,096**	438,618

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Net cash flows from operating activities		**319,096**	438,618
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(268,836)**	(265,016)
Prepayment of land lease payments		**(12,285)**	(4,300)
Purchases of other intangible assets		**(8,154)**	(1,607)
Purchases of available-for-sale investments		**(1,840,465)**	(10,000)
Proceeds from sale of available-for-sale investments		**10,000**	—
Receipt of investment income from available-for-sale investments		**15,892**	1,008
Proceeds from disposal of items of property, plant and equipment		**25,162**	642
Prepayment for acquisition of a subsidiary	*23*	**(700,000)**	—
(Decrease)/increase in government grants		**(8,680)**	25,440
Increase in an amount due from the immediate holding company		**(213,520)**	(302,565)
Interest received		**22,099**	3,030
Net cash flows used in investing activities		**(2,978,787)**	(553,368)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans		**(2,187,013)**	(1,023,915)
Proceeds from loans		**1,747,242**	1,298,436
Receipts in pledged short-term deposits		**158,970**	2,464
Payments in pledged short-term deposits		**(108,700)**	(177,485)
Dividends paid to non-controlling shareholders		**(7,613)**	(12,180)
Payment of listing expenses		**(84,414)**	—
Issue of shares		**3,139,340**	—
Net cash flows from financing activities		**2,657,812**	87,320
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,879)**	(27,430)
Net foreign exchange difference		**592**	(3,451)
Cash and cash equivalents at beginning of year	*24*	**333,150**	364,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	*24*	**331,863**	333,150

Major Non-cash transaction:

On 30 May 2014, the immediate holding company utilised its dividend receivable of RMB324,339,000 and share repurchase consideration receivable of RMB200,000,000 from the Company to offset its amounts due to the Company (notes 12 and 31).

Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*18*	**116,135**	116,135
Total non-current assets		**116,135**	116,135
CURRENT ASSETS			
Due from related parties	*36(b)(i)*	**—**	174,780
Due from subsidiaries	*18*	**3,459,400**	411,334
Prepayments, deposits and other receivables	*23*	**33,790**	33,086
Cash and cash equivalents	*24*	**13,587**	215,745
Total current assets		**3,506,777**	834,945
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*27*	**244,760**	304,845
Due to subsidiaries	*18*	**148,976**	164,479
Other payables and accruals	*26*	**6,248**	1,789
Total current liabilities		**399,984**	471,113
NET CURRENT ASSETS		**3,106,793**	363,832
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,222,928**	479,967
Net assets		**3,222,928**	479,967
EQUITY			
Issued capital	*31*	**427,269**	81,180
Share premium	*31*	**2,936,817**	427,980
Reserves	*32*	**(141,158)**	(29,193)
Total equity		**3,222,928**	479,967

Notes to the Consolidated Financial Statements

31 December 2014

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, and delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK").

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The correspondence office address of the Company is Unit 3207, 32/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The consolidated financial statements have 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 2.4. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014. 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 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendments to IFRS 13 *included in Annual Improvements 2010–2012 Cycle*	*Short-term Receivables and Payables*
Amendments to IFRS 1 *included in Annual Improvements 2011–2013 Cycle*	*Meaning of Effective IFRSs*

The adoption of the above revised standards and interpretation has had no significant financial effect on the financial statements.

2.3 New and Revised IFRSs and New Disclosure Requirements under the Hong Kong Companies Ordinance Not Yet Adopted

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the financial statements.

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[2]

1 *Effective for annual periods beginning on or after 1 July 2014*
2 *Effective for annual periods beginning on or after 1 January 2016*
3 *Effective for annual periods beginning on or after 1 January 2017*
4 *Effective for annual periods beginning on or after 1 January 2018*
5 *Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*

2.3 New and Revised IFRSs and New Disclosure Requirements under the Hong Kong Companies Ordinance Not Yet Adopted (continued)

The directors of the Company anticipate that the application of the new and revised IFRSs will have no material impact on the financial statements.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes. So far it has concluded that the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. 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 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investments in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2.4 Summary of Significant Accounting Policies (continued)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement 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 associates and joint ventures 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 or joint venture, 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 or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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 or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture 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.

The results of associates and joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5.

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 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 of 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.

2.4 Summary of Significant Accounting Policies (continued)

Business combination and goodwill (continued)

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, 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.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

The financial statements are presented in RMB, which the Company adopted 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing 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. Differences arising on settlement or translation of monetary items are recongised in 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 statements 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 entities. 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.

2.4 Summary of Significant Accounting Policies (continued)

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;

(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 labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Income tax

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 tax assets and liabilities 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 tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred 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 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 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 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 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 by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of Significant Accounting Policies (continued)

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 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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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 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 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 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" above.

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.

2.4 Summary of Significant Accounting Policies (continued)

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.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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).

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

For available-for-sale 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.

The determination of what is "significant" or "prolonged" required judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 Summary of Significant Accounting Policies (continued)

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 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.

2.4 Summary of Significant Accounting Policies (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

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, including prepaid land lease payments under 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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 Summary of Significant Accounting Policies (continued)

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.

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. The useful lives of intangible assets are assessed to be 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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

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.

2.4 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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.

2.4 Summary of Significant Accounting Policies (continued)

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 statements 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 amount of goodwill at 31 December 2014 was RMB347,356,000 (2013: RMB347,356,000). 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.

3. Significant accounting judgements, estimates and assumptions (continued)

Estimation and assumptions (continued)

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 amount of deferred tax assets relating to recognised deductible temporary differences at 31 December 2014 was RMB83,259,000 (2013: RMB79,428,000). Further details are contained in note 30.

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 at 31 December 2014 was RMB3,865,000 (2013: RMB5,792,000).

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 2.4. Segment result is evaluated based on gross profit less selling expense allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2014

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
External customers	**1,463,698**	**831,444**	**695,662**	**163,416**	**3,154,220**
Total revenue	**1,463,698**	**831,444**	**695,662**	**163,416**	**3,154,220**
Segment results	**585,081**	**309,413**	**142,755**	**17,973**	**1,055,222**
Other income and gains					**98,375**
Administrative expenses					**(194,984)**
Other expenses					**(193,786)**
Finance costs					**(39,661)**
Share of profit an of associate					**348**
Profit before tax					**725,514**

Year ended 31 December 2013

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Others RMB'000	Total 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

4. Operating Segment Information (continued)

Geographic information

(a) Revenue from external customers

	2014 RMB'000	2013 RMB'000
Mainland China	**3,130,617**	2,495,120
Other countries	**23,603**	19,991
Total	**3,154,220**	2,515,111

The revenue information above is based on the locations 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 2014 and 2013.

(b) Non-current assets

	2014 RMB'000	2013 RMB'000
Mainland China	**2,513,601**	1,645,478
Other countries	**5,699**	5,856
Total	**2,519,300**	1,651,334

The non-current asset information above is based on the locations 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 year.

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

	2014 RMB'000	2013 RMB'000
Revenue		
Sale of drugs	**3,211,499**	2,557,215
Sale of research and development results	—	1,140
	3,211,499	2,558,355
Less: Business tax and government surcharges	**(57,279)**	(43,244)
	3,154,220	2,515,111
Other income and gains		
Bank interest income	**25,175**	3,030
Government grants	**46,959**	30,839
Investment income	**15,892**	1,008
Exchange gain, net	**8,780**	—
Others	**1,569**	1,025
	98,375	35,902

6. Profit Before Tax

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

	Notes	2014 RMB'000	2013 RMB'000
Depreciation of items of property, plant and equipment	*14*	**79,813**	57,953
Amortisation of other intangible assets*	*17*	**25,491**	37,629
Amortisation of prepaid land lease payments**	*15*	**5,141**	4,852
Amortisation of long-term deferred expenditure**		**292**	500
(Reversal of provision for)/ provision for impairment of trade receivables	*22*	**(503)**	286
Reversal of provision for impairment of other receivables	*23*	**(600)**	(9)
Listing expenses		**32,749**	—
Operating lease expenses		**11,503**	10,924
Auditors' remuneration		**7,360**	2,800
Employee benefit expenses (excluding directors' remuneration):			
Wages and salaries		**276,352**	255,315
Pension		**54,350**	46,084
Central Provident Fund in Singapore		**348**	288
Staff welfare expenses		**25,452**	24,880
		356,502	326,567
Other expenses:			
Research and development costs		**182,332**	194,081
Net foreign exchange loss		—	3,268
Donation		**6,587**	6,199
Loss on disposal of items of property, plant and equipment		**3,966**	430
Loss on disposal of items of other intangible assets		—	1,440
Others		**901**	1,251
		193,786	206,669

6. Profit Before Tax (continued)

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

	2014 RMB'000	2013 RMB'000
Cost of inventories sold***	**482,505**	413,264
Cost of services provided	**—**	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	**59,604**	39,807
Amortisation of other intangible assets*	**25,032**	37,299
Staff costs	**113,609**	80,784

* *The amortisation of trademarks, patents and technology know-how is included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

The amortisation of software 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 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 RMB2,605,000 for the year ended 31 December 2014 (2013: RMB1,757,000) is included in "Cost of sales" on the face of the consolidated statement of profit or loss .*

7. Finance Costs

	2014 RMB'000	2013 RMB'000
Interest on bank loans	**39,513**	26,519
Less: Interest capitalised	**—**	(2,596)
	39,513	23,923
Finance charges payable under a hire purchase contract	**32**	32
Total interest expense	**39,545**	23,955
Others	**116**	136
	39,661	24,091

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 RMB'000	2013 RMB'000
Fees	**621**	1,399
Other emoluments:		
Salaries, allowances and benefits in kind	**4,677**	4,355
Performance related bonuses	**810**	675
Pension scheme contributions	**178**	134
	5,665	5,164
	6,286	6,563

Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2014 RMB'000	2013 RMB'000
Choy Sze Chung Jojo	**148**	—
Leung Man Kit	**177**	—
Lo Yuk Lam	**148**	—
Zhang Hua Qiao	**148**	—
Tan Soo Kiat	—	321
Tan Chong Huat	—	258
Hong Hai	—	258
	621	837

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

8. Directors' remuneration (continued)

Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014					
Executive directors:					
Liu Dian Bo	—	**2,742**	**420**	**49**	**3,211**
Yang Rong Bing	—	**1,099**	**200**	**49**	**1,348**
Yuan Hui Xian	—	**594**	**120**	**5**	**719**
Zhu Yuan Yuan	—	**242**	**70**	**75**	**387**
	—	**4,677**	**810**	**178**	**5,665**
Non-executive directors:					
Liu Dong	—	—	—	—	—
Wang Xin	—	—	—	—	—
Pan Jian	—	—	—	—	—
	—	—	—	—	—
2013					
Executive directors:					
Liu Dianbo	228	2,634	367	86	3,315
Yang Rongbing	179	1,079	200	43	1,501
Yuan Huixian	155	642	108	5	910
	562	4,355	675	134	5,726

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees of the Group during the year included 2 directors (2013: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 3 (2013: 3) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	**2,661**	2,510
Performance related bonuses	**957**	841
Pension scheme contributions	**100**	94
	3,718	3,445

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2014	2013
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**2**	—
	3	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 for the year ended 31 December 2014.

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.

10. Income Tax Expense (continued)

Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye"), Nanjing Sike Pharmaceutical Co., Ltd ("Nanjing Luye Sike"), Beijing WBL Peking University Biotech Co., Ltd. ("WPU"), Sichuan Luye Baoguang Pharmaceutical Co., Ltd. ("Sichuan Baoguang") and Nanjing Kanghai Phospholipid Biological Technology Co., Ltd. ("Nanjing Kanghai Phospholipid") are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% for the year ended 31 December 2014.

Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE") is exempted from income tax as it is involved in the production and trading of agricultural products.

	2014 RMB'000	2013 RMB'000
Current tax:		
Income tax charge	**113,972**	87,053
Adjustments in respect of income tax of previous years	**2,663**	1,612
Deferred tax *(note 30)*	**(5,567)**	(33,441)
Total tax charge for the year	**111,068**	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:

	2014 RMB'000	2013 RMB'000
Profit before tax	**725,514**	383,168
At the PRC's statutory income tax rate of 25%	**181,379**	95,792
Effect of tax rate differences in other jurisdictions	**3,633**	4,381
Preferential income tax rates applicable to subsidiaries	**(67,299)**	(37,661)
Additional deductible allowance for research and development expenses	**(12,520)**	(9,681)
Effect of tax levied on a deemed income basis	**467**	584
Adjustments in respect of current income tax of previous years	**2,663**	1,612
Effect of withholding tax at 10% on the profits of the Group's PRC subsidiaries to be distributed	**3,083**	—
Effect of non-deductible expenses	**4,162**	5,963
Income not subject to tax	**(1,619)**	(2,196)
Tax losses utilised from previous years	**(2,994)**	(3,841)
Tax losses not recognised	**113**	271
Tax charge at the Group's effective rate	**111,068**	55,224

The effective tax rate of the Group for the year ended 31 December 2014 was 15.3% (2013: 14.4%).

11. Profit/(Loss) Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB228,105,000 (2013: a loss of RMB820,000) which has been dealt with in the financial statements of the Company (note 32).

12. Dividend

On 30 May 2014, the Company declared a dividend of US$52,865,878 (equivalent to RMB324,339,000) to Luye Investment. Luye Investment utilised the dividends to settle a portion of the amount due to the Company.

No other dividends were declared or paid by the Company during the year ended 31 December 2014 (2013: Nil).

13. Earnings Per Share Attributable to Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and on the weighted average number of ordinary shares in issue during the year, and assuming the Capitalisation Issue had been completed on 1 January 2013, as further detailed in note 31 to the financial statements.

The following reflects the income and share data used in the basic earnings per share computation:

	2014 RMB'000	2013 RMB'000
Earnings		
Profit attributable to owners of the parent	**605,524**	310,498
	Number of shares	
	2014	2013
Shares		
Weighted average number of shares in issue during the year	**2,994,929,593**	2,705,466,835

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

14. Property, Plant and Equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014						
At 1 January 2014:						
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
At 1 January 2014, net of accumulated depreciation and impairment	456,615	407,071	12,431	36,351	13,356	925,824
Additions	9,313	37,038	1,221	5,096	221,782	274,450
Disposals	(3,398)	(23,919)	(83)	(910)	—	(28,310)
Depreciation provided during the year	(19,791)	(50,267)	(2,232)	(7,523)	—	(79,813)
Transfers	4,652	41,055	—	2,592	(48,299)	—
At 31 December 2014, net of accumulated depreciation and impairment	447,391	410,978	11,337	35,606	186,839	1,092,151
At 31 December 2014:						
Cost	524,622	593,474	17,508	59,938	186,839	1,382,381
Accumulated depreciation and impairment	(77,231)	(182,496)	(6,171)	(24,332)	—	(290,230)
Net carrying amount	447,391	410,978	11,337	35,606	186,839	1,092,151

14. Property, Plant and Equipment (continued)

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
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

14. Property, Plant and Equipment (continued)

As at 31 December 2014, the Group was applying for certificates of ownership for certain properties with the net book value of RMB1,570,000 (2013: RMB275,252,000). 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

	2014 RMB'000	2013 RMB'000
Carrying amount at 1 January	**189,302**	189,854
Additions	**12,285**	4,300
Recognised	**(5,141)**	(4,852)
Carrying amount at 31 December	**196,446**	189,302
Current portion included in prepayments, deposits and other receivables	**(2,253)**	(2,012)
Non-current portion	**194,193**	187,290

The leasehold land is situated in Mainland China and is held under a long term lease.

16. Goodwill

	2014 RMB'000	2013 RMB'000
At 1 January	**347,356**	347,356
Carrying amount at 31 December	**347,356**	347,356

There was no impairment charge made against goodwill for the year.

16. Goodwill (continued)

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 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) AsiaPharm Biotech Pte. Ltd. ("ABPL") cash-generating unit ("ABPL 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:

	2014 RMB'000	2013 RMB'000
CMNa unit	**38,444**	38,444
Other products unit	**5,954**	5,954
SSL unit	**114,185**	114,185
ABPL unit	**7,353**	7,353
WPU unit	**22,276**	22,276
SB unit	**159,144**	159,144
Total	**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 rate applied to cash flow projections as at 31 December 2014 is 15% (2013: 15%) and the growth rate beyond the five-year period had been projected as 3%.

16. Goodwill (continued)

Impairment testing of goodwill (continued)

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 budget 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 RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2014				
At 1 January 2014:				
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
Cost at 1 January 2014, net of accumulated amortisation	27,504	105,604	3,193	136,301
Additions	—	33,808	1,270	35,078
Amortisation provided during the year	(3,223)	(21,809)	(459)	(25,491)
At 31 December 2014	24,281	117,603	4,004	145,888
At 31 December 2014:				
Cost	41,971	370,434	5,586	417,991
Accumulated amortisation	(17,690)	(252,831)	(1,582)	(272,103)
Net carrying amount	24,281	117,603	4,004	145,888

Notes to the Consolidated Financial Statements (continued)
31 December 2014

17. Other Intangible Assets (continued)

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
31 December 2013					
At 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
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

	2014 RMB'000	2013 RMB'000
Unlisted shares	**116,135**	116,135

At 31 December 2014, the amount due from subsidiaries included in the Company's current assets was RMB3,459,400,000 (2013: RMB411,334,000) and the amount due to subsidiaries included in the Company's current liabilities was RMB148,976,000 (2013: RMB164,479,000). They are unsecured, interest-free and have no fixed terms of repayment.

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")*	Bermuda 2 July 2003	US$0.12 million	100	—	Investment holding
AsiaPharm Biotech Pte. Ltd. ("ABPL")	Singapore 23 April 1991	SG$1.70 million	100	—	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd. ("Luye Pharma Investments")*	Singapore 26 August 2010	SG$2	100	—	Investment holding
Luye Pharma Hong Kong Limited ("Luye Hong Kong", formerly known as "Pacific Target Holdings Limited")*	Hong Kong 31 July 2007	HK$1	100	—	Investment holding
Solid Success Holdings Ltd. ("Solid Success")*	BVI 22 August 2002	US$100	—	100	Investment holding
Kanghai Pharmaceutical Technology Development Limited ("Kang Hai")*	Hong Kong 22 June 2002	HK$100	—	100	Investment holding

18. Investments in Subsidiaries (continued)

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 Direct %	Indirect %	Principal activities
Apex Group Holding Limited ("Apex")*	Hong Kong 10 June 1993	HK$10,000	—	100	Investment holding
A-Bio Pharma Pte. Ltd. ("A-Bio")	Singapore 17 August 2001	SG$12.5 million	—	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd. ("Luye Biotech")	Singapore 6 November 2009	SG$26.1 million	—	100	Research and development on oncological, cardiovascular and other tropical diseases
AsiaPharm Biotech Sdn. Bhd. ("AsiaPharm Biotech")*	Malaysia 15 September 2010	MYR100,000	—	100	Distribution and sale of pharmaceutical products
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye")	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB271.8 million	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")*	PRC/Mainland China 27 March 1997	RMB20 million	—	100	Distribution and sale of pharmaceutical products
Shandong Langhe Biotechnology Ltd. ("Shandong Langhe")*	PRC/Mainland China 11 March 2010	RMB10 million	—	100	Research and development
Shandong Luye Natural Drug Research and Development ("Luye R&D")*	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")*	PRC/Mainland China 22 February 2004	RMB70 million	—	100	Manufacture and sale of pharmaceutical products

18. Investments in Subsidiaries (continued)

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 %	
Beijing WBL Peking University Biotech Co., Ltd. ("WPU")*	PRC/Mainland China 1 September 1994	RMB80 million	—	69.55	Manufacture and sale of pharmaceutical products
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE")*	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")*	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")*	PRC/Mainland China 28 June 2010	RMB1 million	—	100	Provision of business and investment consultation services
Sichuan Luye Baoguang Pharmaceutical Co., Ltd. ("Sichuan Baoguang")*	PRC/Mainland China 21 December 2000	RMB36 million	—	100	Manufacture and sale of pharmaceutical products
Chengdu Bomai Technology Co., Ltd. ("Chengdu Bomai")*	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$173.6 million	—	100	Investment holding

* *Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network*

19. Investment in an Associate

Group

	2014 RMB'000	2013 RMB'000
At 1 January	**5,323**	4,749
Share of profit	**348**	990
Foreign currency translation differences	**(186)**	(416)
	5,485	5,323

The Group's trade receivable balance with the associate is disclosed in note 36 to the financial statements.

Particulars of the associate as at 31 December 2014 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 statements of the Group's associate extracted from its management accounts:

	2014 RMB'000	2013 RMB'000
Total assets	**22,726**	22,111
Total liabilities	**8,234**	6,169

	2014 RMB'000	2013 RMB'000
Revenue	**48,533**	45,367
Profit for the year	**2,478**	2,750

20. Available-for-sale Investments

	2014 RMB'000	2013 RMB'000
Current		
Investment in bank financial products, at fair value	**1,845,392**	10,000
Non-Current		
Listed equity investment, at fair value	**1,742**	3,831
Unlisted investment, at cost	**500**	500
	2,242	4,331

Current available-for-sale investments were structured financial products issued by banks with expected interest rates ranging from 2.4% to 5.7% per annum with a maturity period within one year in the PRC. The principals are all protected. The fair values of the financial products approximate to their costs plus expected interest.

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

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

The fair value of unlisted 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

	2014 RMB'000	2013 RMB'000
Raw materials	**108,431**	95,854
Work in progress	**60,523**	81,523
Finished goods	**82,244**	57,356
	251,198	234,733

22. Trade and Notes Receivables

	2014 RMB'000	2013 RMB'000
Trade receivables	**633,867**	393,459
Notes receivable	**281,128**	144,295
	914,995	537,754
Less: Impairment of trade receivables	**(865)**	(2,192)
	914,130	535,562

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

Movements in the provision for impairment of trade receivables were as follows:

Group

	Individually impaired RMB'000	**Collectively impaired** RMB'000	**Total** RMB'000
At 1 January 2014	**1,538**	**654**	**2,192**
Charge for the year	**33**	**65**	**98**
Reversal	**(302)**	**(299)**	**(601)**
Write-off	**(824)**	**—**	**(824)**
At 31 December 2014	**445**	**420**	**865**
At 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

22. Trade and Notes Receivables (continued)

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

	2014 RMB'000	2013 RMB'000
Less than 3 months	**564,098**	370,021
Between 3 and 6 months	**47,432**	18,139
Between 6 and 12 months	**20,090**	2,346
Between 1 and 2 years	**791**	813
Over 2 years	**1,456**	2,140
	633,867	393,459

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	**625,798**	386,232
Less than 3 months past due	**5,822**	2,817
Over 3 months past due	**1,382**	2,218
	633,002	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 2014, the Group has pledged notes receivable of RMB4,500,000 (2013: RMB4,555,000) to secure notes payable of RMB3,340,000 (2013: RMB4,555,000) (note 25). 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 27).

The notes receivable are due within six months. No notes receivable were discounted as at 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements (continued)
31 December 2014

23. Prepayments, Deposits and Other Receivables

Group

	2014 RMB'000	2013 RMB'000
Current		
Other receivables	**38,660**	30,749
Prepayments	**17,760**	19,096
Prepaid expense	**82**	168
	56,502	50,013
Less: Impairment of other receivables	**(3,000)**	(3,600)
	53,502	46,413
Non-current		
Deposit*	**700,000**	—

Company

	2014 RMB'000	2013 RMB'000
Prepayments	**992**	406
Dividend receivable	**32,798**	32,680
	33,790	33,086
Less: Impairment of other receivables	**—**	—
	33,790	33,086

* *In 2014, Shandong Luye entered into a series of share transfer agreements with shareholders of Beijing Jialin to conditionally purchase a 100% equity interest of Beijing Jialin at a total consideration of RMB6,100,020,000 ("Beijing Jialin Acquisition"). As at 31 December 2014, RMB700,000,000 was paid to the shareholders of Beijing Jialin as deposit for the acquisition (note 40).*

23. Prepayments, Deposits and Other Receivables (continued)

Movements in the provision for impairment of other receivables were as follows:

Group

	Individually impaired RMB'000
At 1 January 2013	3,609
Charge for the year	—
Reversal	(9)
At 31 December 2013 and 1 January 2014	3,600
Charge for the year	21
Reversal	(621)
At 31 December 2014	3,000

The aging analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

Group

	2014 **RMB'000**	2013 RMB'000
Neither past due nor impaired	**753,502**	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

	2014 RMB'000	2013 RMB'000
Cash and bank balances	**151,898**	333,150
Short-term deposits	**307,180**	177,485
	459,078	510,635
Less: Pledged short-term deposits for letter of credit	**—**	(9,347)
Pledged short-term deposits for bank loans and notes payables	**(127,215)**	(168,138)
Cash and cash equivalents	**331,863**	333,150
Denominated in RMB	**314,116**	96,070
Denominated in US$	**3,647**	221,103
Denominated in others	**14,100**	15,977
Cash and cash equivalents	**331,863**	333,150

Company

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents	**13,587**	215,745
Denominated in RMB	**8,035**	—
Denominated in US$	**1,073**	214,250
Denominated in others	**4,479**	1,495
Cash and cash equivalents	**13,587**	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.

24. Cash and Cash Equivalents and Pledged Short-term Deposits (continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged 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.

As at 31 December 2014, short-term deposits of RMB125,200,000 (2013: RMB163,605,000) have been pledged to secure bank loans (note 27).

As at 31 December 2014, short-term deposits of RMB2,015,000 have been pledged to secure intragroup notes payable. As at 31 December 2013, short-term deposits of RMB4,533,000 have been pledged to secure notes payable (note 25).

25. Trade and Notes Payables

	2014 RMB'000	2013 RMB'000
Trade payables	**55,704**	56,266
Notes payable	**3,340**	13,103
	59,044	69,369

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

	2014 RMB'000	2013 RMB'000
Within 3 months	**26,748**	66,073
3 to 6 months	**25,203**	2,023
6 to 12 months	**5,050**	765
1 to 2 years	**1,136**	142
Over 2 years	**907**	366
	59,044	69,369

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

As at 31 December 2014, notes payables of RMB3,340,000 (2013:RMB4,555,000) were secured by the Group's notes receivable with a carrying amount of RMB4,500,000 (2013: RMB4,555,000) (note 22). The maturity date of the notes payable 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).

Notes to the Consolidated Financial Statements (continued)

31 December 2014

26. Other Payables and Accruals

Group

	2014 RMB'000	2013 RMB'000
Other payables	**60,584**	48,869
Accrued liabilities	**122,431**	82,497
Accrued payroll	**70,411**	59,440
Advances from customers	**14,910**	16,602
Taxes payable other than corporate income tax	**74,838**	65,919
Payables for purchases of property, plant and equipment, and other intangible assets	**96,402**	78,586
	439,576	351,913

Company

	2014 RMB'000	2013 RMB'000
Accrued liabilities	**4,747**	1,061
Accrued payroll	**1,406**	728
Other payables	**95**	—
	6,248	1,789

Other payables are non-interest-bearing.

27. Interest-bearing Loans and Borrowings

2014

	Effective interest rate (%)	Maturity	Group RMB'000	Company RMB'000
Current				
Bank loans — secured				
RMB60,000,000 bank loan	5.60	2 March 2015	60,000	—
US$40,000,000 bank loan	3-Month LIBOR+2.3	29 June 2015	244,760	244,760
Finance lease payables, current portion *(note 28)*	2.2	31 December 2015	139	—
			304,899	244,760
Non-current				
Finance lease payables *(note 28)*	2.2	1 January 2016 – 30 August 2020	638	—
			305,537	244,760

Notes to the Consolidated Financial Statements (continued)
31 December 2014

27. Interest-bearing Loans and Borrowings (continued)

2013

	Effective interest rate (%)	Maturity	Group RMB'000	Company 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 January2014	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, current portion *(note 28)*	2.2	31 December 2014	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 28)*	2.2	1 January 2015 – 30 August 2020	801	—
			9,387	—
			745,308	304,845

27. Interest-bearing Loans and Borrowings (continued)

Group

	2014 RMB'000	2013 RMB'000
Bank loans and overdrafts repayable		
Within one year or on demand	**304,899**	735,921
In the second year	**139**	8,715
In the third year to fifth years, inclusive	**417**	462
Beyond five years	**82**	210
	305,537	745,308

Company

	2014 RMB'000	2013 RMB'000
Bank loans and overdrafts repayable:		
Within one year or on demand	**244,760**	304,845
	244,760	304,845

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

(i) the pledge of certain of the Group's short-term deposits as at 31 December 2014 of RMB125,200,000 (2013: RMB163,605,000) (note 24); and

(ii) the pledge of certain of the Group's notes receivable as at 31 December 2013 of RMB73,168,000 (note 22).

28. 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 2014 RMB'000	Minimum lease payments 2013 RMB'000	**Present value of minimum lease payments 2014 RMB'000**	Present value of minimum lease payments 2013 RMB'000
Amounts payable:				
Within one year	**170**	175	**139**	144
In the second year	**170**	175	**139**	129
In the third to fifth years, inclusive	**510**	525	**417**	462
After five years	**97**	278	**82**	210
Total minimum finance lease payments	**947**	1,153	**777**	945
Future finance charges	**(170)**	(208)		
Total net finance lease payables	**777**	945		
Portion classified as current liabilities *(note 27)*	**(139)**	(144)		
Non-current portion *(note 27)*	**638**	801		

29. Government Grants

	2014 RMB'000	2013 RMB'000
At 1 January	**153,120**	111,795
Grants received during the year	**25,575**	60,334
Amount released	**(35,041)**	(19,009)
At 31 December	**143,654**	153,120
Current	**37,049**	74,436
Non-current	**106,605**	78,684
	143,654	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.

30. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Group

	2014 RMB'000	2013 RMB'000
Deferred tax assets	**83,259**	79,428
Deferred tax liabilities	**(97,717)**	(98,714)
	(14,458)	(19,286)

30. Deferred Tax (continued)

Deferred tax asset

	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of non-current assets held-for-sale RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from intercompany transactions RMB'000	Total deferred tax assets RMB'000
At 31 December 2013 and 1 January 2014	**35,514**	**254**	**289**	**1,284**	**866**	**19,479**	**21,742**	**79,428**
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	**3,594**	**114**	**(289)**	**(505)**	**(306)**	**(1,489)**	**2,712**	**3,831**
At 31 December 2014	**39,108**	**368**	**—**	**779**	**560**	**17,990**	**24,454**	**83,259**

	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of non-current assets held-for-sale RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from intercompany transactions RMB'000	Total deferred tax assets RMB'000
At 31 December 2012 and 1 January 2013	22,336	731	—	329	852	13,882	26,262	64,392
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
At 31 December 2013	35,514	254	289	1,284	866	19,479	21,742	79,428

30. Deferred Tax (continued)

Deferred tax liabilities

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation for tax purpose RMB'000	Available for-sale investment revaluation RMB'000	Total deferred tax liabilities RMB'000
At 31 December 2013 and 1 January 2014	**(54,168)**	**(44,546)**	**—**	**—**	**(98,714)**
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	**(3,083)**	**5,701**	**(882)**	**—**	**1,736**
Deferred tax charged to other comprehensive income during the year	**—**	**—**	**—**	**(739)**	**(739)**
At 31 December 2014	**(57,251)**	**(38,845)**	**(882)**	**(739)**	**(97,717)**

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation for tax purpose RMB'000	Available for-sale investment revaluation RMB'000	Total deferred tax liabilities RMB'000
At 31 December 2012 and 1 January 2013	(63,168)	(53,951)	—	—	(117,119)
Deferred tax credited/(charged) to the statements of profit or loss during the year *(note 10)*	9,000	9,405	—	—	18,405
At 31 December 2013	(54,168)	(44,546)	—	—	(98,714)

30. Deferred Tax (continued)

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 2014, 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 year, estimated that a part of the retained earnings of its subsidiaries established in Mainland China amounted to RMB572,510,000 (2013: RMB541,680,000) would be subject to future dividends distribution, and a 10% deferred tax liability amounted to RMB57,251,000 (2013: RMB54,168,000) were recognised.

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 RMB50,508,000 (2013: RMB52,399,000) that are available indefinitely for offsetting against future taxable profits.

The Group also has tax losses arising in Mainland China RMB3,525,000 (2013: RMB4,518,000) that will expire in one to five years for offsetting against future taxable profits.

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.

31. Issued Capital

	Notes	2014 RMB'000	2013 RMB'000
Authorised:			
10,000,000,000 (2013:5,000,000,000) ordinary shares of US$0.02 each			
US$'000	*(a)*	**200,000**	100,000
RMB'000		**1,443,960**	828,650
Issued and fully paid:			
3,321,073,843 (2013:492,764,900) ordinary shares of US$0.02 each			
US$'000		**66,421**	9,855
RMB'000		**427,269**	81,180

A summary of movements in the Company's issued share capital and share premium is as follows:

	Notes	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2013 and 31 December 2013		492,764,900	81,180	427,980	509,160
Share repurchase	*(b)*	(51,932,992)	(8,556)	(191,444)	(200,000)
Issue of shares	*(c)*	667,540,000	82,195	3,057,145	3,139,340
Capitalisation issue	*(d)*	2,212,701,935	272,450	(272,450)	—
Share issue expenses		—	—	(84,414)	(84,414)
At 31 December 2014		3,321,073,843	427,269	2,936,817	3,364,086

31. Issued Capital (continued)

(a) Pursuant to the written resolution of the sole shareholder passed on 19 June 2014, the authorised share capital of the Company was increased from US$100,000,000 to US$200,000,000 by the creation of further 5,000,000,000 shares.

(b) On 30 May 2014, the Company repurchased 51,932,992 shares from Luye Investment at a total consideration of RMB200,000,000, 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 the Company.

(c) In connection with the Company's initial public offering, 667,540,000 new shares of US$0.02 each were issued at a price of HK$5.92 per share for a total cash consideration, before expenses, equivalent to RMB3,139,340,000. Dealings in these shares on the SEHK commenced on 9 July 2014.

(d) Pursuant to the written resolution of the sole shareholder passed on 19 June 2014, conditional upon the share premium account of the Company being credited as a result of the issue of the Offer Shares as defined in the Prospectus dated 26 June 2014, upon the authorisation of the Directors, a sum of RMB272,450,000, being part of the amount which would then be standing to the credit of the share premium account of the Company, would be capitalised and applied in paying up in full 2,212,701,935 shares to be allotted credited as fully paid at par to the persons whose names appear on the register of members of the Company immediately following the Hong Kong Underwriting Agreement becoming unconditional (the "Capitalisation Issue").

32. 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 RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2013	(110,239)	98,336	(11,903)
Total comprehensive loss for the year	—	(820)	(820)
Currency realignment	(16,470)	—	(16,470)
At 31 December 2013	(126,709)	97,516	(29,193)
Total comprehensive income for the year	—	**228,105**	**228,105**
Dividends	—	**(324,339)**	**(324,339)**
Currency realignment	**(15,731)**	—	**(15,731)**
At 31 December 2014	**(142,440)**	**1,282**	**(141,158)**

33. 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	2014	2013
WPU	Mainland China	**30.45%**	30.45%

	2014 RMB'000	2013 RMB'000
Accumulated balances of material non-controlling interests:		
WPU	**129,962**	128,653
Profit allocated to material non-controlling interests:		
WPU	**8,922**	17,446
Dividends paid to material non-controlling interests:		
WPU	**7,613**	12,180

33. Material Partly-owned Subsidiary (continued)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2014 RMB'000	2013 RMB'000
Revenue	**297,030**	314,916
Total expenses	**(251,915)**	(257,623)
Profit for the year	**45,115**	57,293
Total comprehensive income for the year	**45,115**	57,293
Current assets	**222,373**	189,842
Non-current assets	**322,885**	311,567
Current liabilities	**(71,294)**	(48,232)
Non-current liabilities	**(31,344)**	(30,672)
Net cash flows from operating activities	**48,634**	53,830
Net cash flows used in investing activities	**(21,403)**	(46,462)
Net cash flows used in financing activities	**(25,108)**	(61,312)
Net foreign exchange difference	**3**	(285)
Net increase/(decrease) in cash and cash equivalents	**2,126**	(54,229)

As at 31 December 2014, the unrealised profit from the intercompany transaction between WPU and Luye Trading was RMB15,814,000(31 December 2013: Nil).

34. 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 2013 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 RMB'000	2013 RMB'000
Within one year	**3,367**	4,267
In the second to fifth years, inclusive	**1,719**	4,419
After five years	**2,675**	2,700
	7,761	11,386

35. Commitments

In addition to the operating lease commitments detailed in note 34, the Group had the following capital commitments as at the end of the year:

	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
Land and buildings*	**104,102**	138,952
Plant and machinery	**84,979**	41,906
	189,081	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 36(a)(iii)), and was fully paid during the year ended 31 December 2014.*

** *In 2014, Shandong Luye entered into a series of share transfer agreements with shareholders of Beijing Jialin to conditionally purchase a 100% equity interest of Beijing Jialin at a total consideration of RMB6,100,020,000. As at 31 December 2014, a deposit of RMB700,000,000 was paid to the shareholders of Beijing Jialin (note 23). The remaining RMB5,400,020,000 will be paid once the acquisition is completed in 2015 as expected (note 40).*

36. Related Party Transactions

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

Company	Relationship
Luye Pharmaceutical Investment Co., Ltd. ("Luye Investment")	Immediate holding company
Luye Pharma Holdings Ltd. ("Luye Holdings")	Intermediate holding company
Steward Cross Pte. Ltd. ("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
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	Shandong Boan is a subsidiary wholly controlled by Shandong Biological Tech

36. Related Party Transactions (continued)

(a) The Group had the following transactions with related parties during the year:

Group

	Notes	**2014 RMB'000**	2013 RMB'000
Sales of products to Steward Cross	*(i)*	**10,526**	6,609
Loans to:			
Luye Investment	*(ii)*	**213,520**	302,565
AsiaPharm Singapore	*(ii)*	**—**	321
Payment for purchase of buildings to Shandong Biological Tech	*(iii)*	**105,863**	12,000
Sales of inventories to Shandong Boan		**36,063**	953
Sales of machinery and equipment to Shandong Boan		**23,236**	—
Advances received for sale of inventories to Shandong Boan		**—**	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. The Group prepaid RMB12,000,000 to Shandong Biological Tech and the outstanding amount of RMB105,863,000 was disclosed as capital commitment (note 35) as at 31 December 2013. The Group paid the remaining amount of RMB105,863,000 in 2014.

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties:

(i) Due from related parties

Group

	2014 RMB'000	2013 RMB'000
Steward Cross	**2,219**	2,253
AsiaPharm Singapore	**—**	2,019
Luye Group Ltd. (formerly known as "AsiaPharm Holdings Ltd.")	**—**	206
Luye Investment	**—**	308,746
Luye Holdings	**—**	32
Shandong Biological Tech	**—**	12,953
Shandong Boan	**436**	—
	2,655	326,209

36. Related Party Transactions (continued)

(b) Outstanding balances with related parties: (continued)

(i) Due from related parties (continued)

Company

	2014 RMB'000	2013 RMB'000
AsiaPharm Singapore	—	2,019
Luye Group Ltd. (formerly known as "AsiaPharm Holdings Ltd.")	—	205
Luye Investment	—	172,524
Luye Holdings	—	32
	—	174,780

(ii) Due to related parties

Group

	2014 RMB'000	2013 RMB'000
AsiaPharm Singapore	—	856
Shandong Biological Tech	—	36,000
	—	36,856

(c) Compensation of key management personnel of the Group:

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	**14,048**	13,535
Pension scheme contributions	**733**	574
Total compensation paid to key management personnel	**14,781**	14,109

Further details of directors' remuneration are included in note 8.

37. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

Group

2014

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	1,847,634	1,847,634
Trade and notes receivables	914,130	—	914,130
Financial assets included in prepayments, deposits and other receivables	38,660	—	38,660
Cash and cash equivalents	331,863	—	331,863
Pledged short-term deposits	127,215	—	127,215
Due from related parties	2,655	—	2,655
	1,414,523	1,847,634	3,262,157

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	59,044	59,044
Financial liabilities included in accrued liabilities and other payables	156,986	156,986
Interest-bearing loans and borrowings	305,537	305,537
	521,567	521,567

37. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the year are as follows:

Group

2013

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total 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 RMB'000	Total 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

37. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the year are as follows:

Company

2014

Financial assets

	Loans and receivables RMB'000	Total RMB'000
Cash and cash equivalents	13,587	13,587
Due from subsidiaries	3,459,400	3,459,400
	3,472,987	3,472,987

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing loans and borrowings	244,760	244,760
Due to subsidiaries	148,976	148,976
	393,736	393,736

37. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the year are as follows:

Company

2013

Financial assets

	Loans and receivables RMB'000	Total 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 RMB'000	Total 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).

37. Financial Instruments by Category (continued)

In March 2013, one of the subsidiaries of the Company entered into one-year loan contracts of US$9,167,880 and US$11,240,000 with a bank in the PRC, and correspondingly deposited one-year deposits of RMB57,100,000 and RMB70,100,000 respectively with the same bank. The deposits can only be used to settle the US$ loans 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. The loans were settled in March 2014 using the corresponding deposits.

As at 31 December 2013 and 2014, the Group endorsed certain notes receivable 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 RMB73,620,000 and RMB80,179,000 as at 31 December 2013 and 2014. 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 amounts of RMB56,064,000 and RMB64,224,000 ("Derecognised Notes") as at 31 December 2013 and 2014. 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 recognise the full carrying amounts of the remaining Endorsed Notes and associated trade payables settled of RMB17,556,000 and RMB15,955,000 since the directors believe the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

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

38. 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 2014

	Fair value measurement using			
	Quoted prices in active inputs (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments:				
Equity investment	**1,742**	**—**	**—**	**1,742**
Investment in bank financial products	**—**	**1,845,392**	**—**	**1,845,392**
	1,742	**1,845,392**	**—**	**1,847,134**

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active inputs (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investment	3,831	—	—	3,831
Investment in bank financial products	—	10,000	—	10,000
	3,831	10,000	—	13,831

38. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Assets measured at fair value (continued):

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2013: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2014 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, amounts 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 amounts of long term interest-bearing loans and borrowings, which incur interest at floating interest rate, also approximate to their fair values as the interest rate is periodically adjusted to market rate.

39. 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.

39. Financial Risk Management Objectives and Policies (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the RMB and US$ interest rates, 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
2014		
RMB	**50**	**(3)**
RMB	**(50)**	**3**
US$	**50**	**(15)**
US$	**(50)**	**15**
2013		
RMB	50	(33)
RMB	(50)	33
US$	50	(36)
US$	(50)	36

39. Financial Risk Management Objectives and Policies (continued)

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
2014		
If RMB weakens against US$	**5**	**(7)**
If RMB strengthens against US$	**(5)**	**7**
If US$ weakens against SG$	**5**	**(34)**
If US$ strengthens against SG$	**(5)**	**34**
If US$ weakens against HK$	**5**	**13**
If US$ strengthens against HK$	**(5)**	**(13)**
If HK$ weakens against SG$	**5**	**7**
If HK$ strengthens against SG$	**(5)**	**(7)**
2013		
If RMB weakens against US$	5	39
If RMB strengthens against US$	(5)	(39)
If US$ weakens against SG$	5	(148)
If US$ strengthens against SG$	(5)	148
If US$ weakens against HK$	5	(4)
If US$ strengthens against HK$	(5)	4
If HK$ weakens against SG$	5	10
If HK$ strengthens against SG$	(5)	(10)

39. Financial Risk Management Objectives and Policies (continued)

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.

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.

39. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013, based on contractual undiscounted payments, is as follows:

Year ended 31 December 2014

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	62,162	246,416	777	—	309,355
Trade and notes payables	7,093	51,951	—	—	—	59,044
Other payables	54,175	102,811	—	—	—	156,986
	61,268	216,924	246,416	777	—	525,385

Year ended 31 December 2013

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total 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 2014 and 2013 based on contractual undiscounted payments, is as follows:

Year ended 31 December 2014

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	1,550	246,289	—	247,839
Due to subsidiaries	148,976	—	—	—	148,976
	148,976	1,550	246,289	—	396,815

Year ended 31 December 2013

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total 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

39. Financial Risk Management Objectives and Policies (continued)

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 2014 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 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 gain reserves. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2014 RMB'000	2013 RMB'000
Interest-bearing loans and borrowings	**305,537**	745,308
Trade and notes payables	**59,044**	69,369
Other payables and accruals	**439,576**	351,913
Due to related parties	**—**	36,856
Less: Cash and cash equivalents	**(331,863)**	(333,150)
Pledged short-term deposits	**(127,215)**	(177,485)
Net debt	**345,079**	692,811
Equity attributable to owners of the parent	**4,907,598**	1,769,042
Less: Net unrealised gain reserves	**(4,253)**	(2,112)
Total capital	**4,903,345**	1,766,930
Total capital and net debt	**5,248,424**	2,459,741
Gearing ratio	**7%**	28%

40. Events after the Reporting Period

On 30 January 2015, Shandong Luye paid additional RMB500,000,000 as deposit to the shareholders of Beijing Jialin. The Beijing Jialin Acquisition is expected to be completed in 2015 (note 23).

41. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2015.

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