LUYE PHARMA
绿叶制药

Luye Pharma Group Ltd.

(incorporated in Bermuda with limited liability)

Stock Code: 2186

ANNUAL REPORT

2015

Contents

Company Overview

Luye Pharma Group Ltd.

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 3,400 employees, including over 300 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 10,000 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. 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 21 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

Building 4-1
Shanghai Business Park III
No. 1036 Tianlin Road
Shanghai
People's Republic of China

Principal Place of Business in Hong Kong

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

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 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

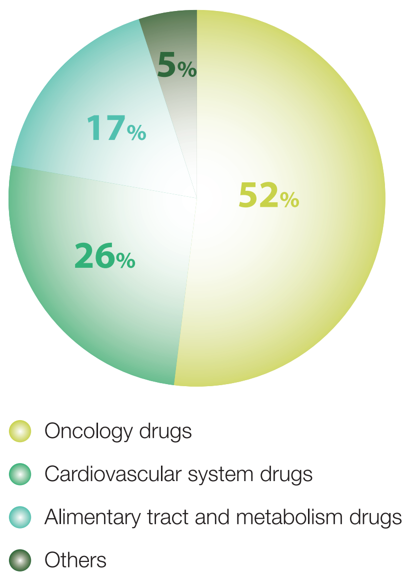
Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

Financial Highlights

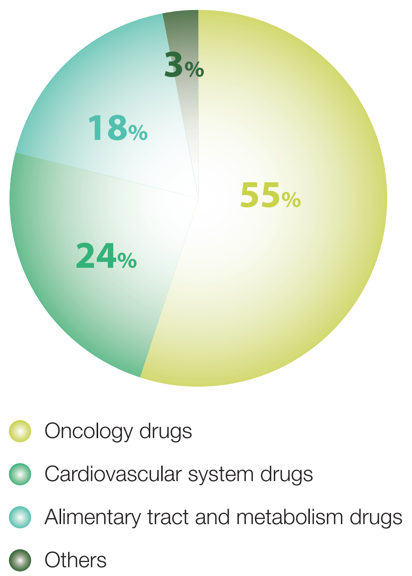
	2011 RMB Million (Restated)	2012 RMB Million (Restated)	2013 RMB Million (Restated)	2014 RMB Million (Restated)	**2015 RMB Million**
Revenue	1,510.2	1,713.8	1,996.5	2,544.0	**2,563.1**
Gross Profit	1,209.1	1,362.0	1,583.0	2,061.5	**2,087.4**
EBITDA	299.4	368.2	508.2	875.9	**1,028.9**
Net Profit	166.2	175.6	327.9	614.4	**764.7**
Profit attributable to owners of the parent	155.8	169.0	310.5	605.5	**754.5**
Total Assets	2,442.4	2,677.6	3,387.5	6,130.8	**7,052.9**
Total Liabilities	1,038.0	1,093.8	1,489.8	1,093.2	**1,253.4**
Equity	1,404.4	1,583.8	1,897.7	5,037.6	**5,799.5**

- Profit attributable to shareholders increased by RMB149.0 million or 24.6% to RMB754.5 million, as compared to the year ended 31 December 2014.
- EBITDA increased by RMB153.0 million or 17.5% to RMB1.0 billion, as compared to the year ended 31 December 2014.
- Gross profit increased by RMB25.9 million or 1.3% to RMB2,087.4 million, as compared to the year ended 31 December 2014, and gross profit margin reached 81.4%.
- Revenue increased by RMB19.1 million or 0.8% to RMB2,563.1 million, as compared to RMB2,544.0 million for the year ended 31 December 2014. The 2014 revenue is restated as a result of offsetting of certain third party promotion expenses against the revenue for that year. The adjustment did not affect the net profit or the net assets of the Group for the year ended/as at 31 December 2014 or any earlier financial year/end date.
- Earnings per share was RMB22.72 cents compared to RMB20.22 cents for the year ended 31 December 2014.
- No dividend was proposed for the year ended 31 December 2015.

2014 Segment revenue



2015 Segment revenue



Chairman's Statement

Dear Shareholders:

I would like to report the annual performance of Luye as at and for the year ended 31 December 2015, as well as present the outlook of the Group's operation in 2016.

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. In 2015, the Group's five key products are sold to over 10,000 hospitals in 30 provinces and municipalities in China. The Group has 21 product candidates in China and 7 product candidates overseas, among which five candidates have entered into the clinical trial stage in the United States of America (the "U.S.") under U.S. Food and Drug Administration rules.

Despite clear slowdown in the pharmaceutical sector's overall growth, Luye achieved steady growth in its results in 2015 with its own competitiveness. Revenue increased by 0.8% year-on-year to RMB2.563 billion; profit attributable to owners of the parent increased by 24.6% year-on-year to RMB755 million and EBITDA increased by 17.5% year-on-year to RMB1.029 billion.

This annual report indicated that Luye achieved revenue increase in all sectors in a well-balanced manner. Revenue from sales of oncology products and alimentary tract & metabolism products increased by 5.8% and 5.5%, respectively, while that from cardiovascular system products decreased by 5.9%. Market share of the Group's key products continued to rise with improved market presence and market penetration. The Group maintained a stable gross profit margin by reducing operational expenditure and enhancing sales and management efficiency.

2015 represented a milestone in Luye's launching of globalisation process and the Company achieved a series of encouraging progress in overseas R&D. In August 2015, the Group has completed phase 1 clinical studies for ansofaxine hydrochloride extended release tablets, a Class 1.1 New Chemical Drug for the treatment of major depressive disorder, in the U.S.. Besides, the medicine has obtained the approval from the China Food and Drug Administration ("CFDA") to commence phase 2 and phase 3 clinical trials. In October 2015, the U.S. Food and Drug Administration ("FDA") confirmed that the results of the completed pivotal study for the Group's investigational new drug, i.e. Risperidone Extended-release Microspheres for Injection can be used to support a New Drug Application ("NDA") submission in the U.S. via the 505(b)(2) pathway without any additional clinical trials. This will significantly cut down the capital and time cost required for obtaining FDA approval for the launching of the medicine, which is expected to become the first new drug to be launched in the U.S. by a Chinese pharmaceutical enterprise. In December 2015, the Group has also completed phase 1 clinical studies for Rotigotine Extended-release Microspheres for Injection, a new drug for the treatment of Parkinson's disease, in the U.S.. The successful development of the medicine will strongly promote the Group's expansion in the international market for central nervous system treatment. In addition, in March 2016, the Group's product candidate, Goserelin Acetate Extended Release Microspheres for Injection, has obtained the approval from FDA to initiate clinical trials for the treatment of carcinoma of the prostate. The medicine has a good marketing potential and will provide an impetus to the Group's development in the oncology therapeutic area. The Group's management is confident that Luye will stand out in the international market with its strong product pipeline and proven strengths in R&D.

In 2016, Luye will speed up its pace in international 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 China in the three key therapeutic areas, namely oncology, cardiovascular system and alimentary tract and metabolism. In addition, Luye will strengthen international cooperation, accelerate the launch of product candidates in international market and endeavour to make key breakthroughs in international business expansion. The Company strives to become one of world's top 100 pharmaceutical manufacturers by 2020. We are fully confident about the fulfillment of our 2016 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

29 March 2016

Management Discussion and Analysis

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fast 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 2015, the Group's sales of innovative pharmaceutical products maintained a stable growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a stable revenue growth of 0.8% in 2015 as compared to 2014.

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 Health Incorporated ("IMS"), oncology-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2015. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in 2015 according to IMS, as well as CMNa, a Class I New Chemical Drug and the only 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 2015. 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 2015, respectively. According to IMS, alimentary tract and metabolism related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2015. According to IMS, the Group was the third largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2015 by revenue. For the year ended 31 December 2015, the Group's revenue from sales of oncology products and alimentary tract and metabolism products increased to RMB1,395.4 million and RMB468.1 million, respectively, representing a growth rate of 5.8% and 5.5% as compared to the year ended 31 December 2014 for the respective therapeutic areas. The Group's revenue from sales of cardiovascular system products and other products achieved RMB621.3 million and RMB78.2 million, respectively in 2015 representing a decrease of 5.9% and 35.1% as compared to 2014.

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 stably 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 RMB60.3 billion in 2015 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment, in China in 2015, as well as the most popular paclitaxel product in China in 2015 with a market share of approximately 48.9%. As of 31 December 2015, 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 2015. 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 2015. 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 RMB10.2 billion in 2015. According to IMS, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2015.

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 RMB1.58 billion in 2015. Maitongna was the best-selling sodium aescinate product in China in 2015 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2015, according to IMS, with a market share of approximately 66.2% in 2015.

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 2015. According to IMS, the market for acarbose products in China was estimated to be approximately RMB3.0 billion in 2015 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 5.3% in 2015.

R&D

The Group's R&D activities are organized 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 2015, the Group's R&D team consisted of 301 employees, including 41 Ph.D. degree holders and 151 Master's degree holders in medical, pharmaceutical and other related areas. As of 31 December 2015, the Group had been granted 288 patents and had 51 pending patent applications in the PRC, as well as 115 patents and 70 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 one of the fastest growing therapeutic areas in China from 2013 to 2015 with a CAGR of 11.7%. As of 31 December 2015, the Group had a pipeline of 21 PRC product candidates in various stages of development. These candidates included 8 oncology products, 3 alimentary tract and metabolism products, as well as 10 CNS products.

In July 2015, the Group's product candidate, ansofaxine hydrochloride extended release tablets ("LY03005"), a Class 1.1 New Chemical Drug for the treatment of major depressive disorder has obtained the approval from the CFDA to commence phase 2 and phase 3 clinical trials. The approval for the commencement of phase 2 and phase 3 clinical trials for LY03005 is expected to provide an impetus to the Group's product development in the CNS therapeutic area and to further enrich the Group's product portfolio in the future. The phase 2 clinical trial has already started.

In August 2015, the Group has completed two phase 1 clinical studies for LY03005, in the U.S.. The Group holds 14 patents over the chemical compound, crystal form and formulation of LY03005 in China and internationally.

In October 2015, FDA has confirmed the Company's NDA submission in the U.S. via a pathway under section 505(b)(2) of the United States Federal Food, Drug and Cosmetic Act for an investigational drug product of risperidone extended-release microspheres for injection ("LY03004") without additional clinical trials. This will significantly cut down costs and time required for obtaining FDA approval for LY03004. The Company is currently preparing the NDA report for LY03004.

In December 2015, the Group has completed two phase 1 clinical studies for rotigotine extended release microspheres for injection ("LY03003"), an investigational drug product for the treatment of Parkinson's disease, in the U.S.. LY03003 is one of the Group's key central nervous system product candidates developed based on the Group's long acting and extended-release formulation platform. To the best knowledge of the Group, LY03003 is the first product worldwide to produce long term Continuous Dopamine Stimulation (CDS), and it can improve efficacy and/or reduce side effects especially for the "on-off" effect.

In March 2016, the Group's product candidate, Goserelin Acetate Extended Release Microspheres for Injection ("LY01005"), has obtained the approval from the U.S. FDA to initiate clinical trials for the treatment of carcinoma of the prostate. The Group believes that LY01005 has a good marketing potential and will provide an impetus to the Group's development 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 2015. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 1,000 distributors that collectively enabled the Group to sell its products to over 10,000 hospitals, which comprised approximately 1,220 or approximately 67% of all Class III hospitals, approximately 2,950 or approximately 43% of all Class II hospitals and approximately 6,000 or approximately 37% of all Class I and other hospitals and medical institutions, in the PRC in 2015. The Group develops its marketing and promotion strategies centrally in order to maximize its brand recognition and optimize 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 believes that the alignment of its internal sales team to its therapeutic areas positions it well to conduct specialized 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 organizing 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

Due to policy and market factors, the Chinese pharmaceutical industry's growth rate has decreased significantly in these two years and is expected to continue in the near future. It is a highly competitive industry and inevitably all the pharmaceutical companies are facing intense competition from other market participants. For 2016, 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 2015, the Group's product candidate, LY03005, a Class 1.1 New Chemical Drug, has obtained the approval from the China Food and Drug Administration ("CFDA") to commence phase 2 and phase 3 clinical trials. The approval is expected to provide an impetus to the Group's product development in the central nervous system (CNS) therapeutic area and to further enrich the Group's product portfolio in the future. In August 2015, the Group has completed two phase 1 clinical studies for LY03005 in the U.S.. The results of these two phase 1 clinical studies have demonstrated that LY03005 treatment was well tolerated and produced good pharmacokinetic profile in the subjects, which provides a solid basis for further clinical development. In October 2015, the FDA has confirmed the Company's NDA submission in the U.S. via a pathway under section 505(b)(2) of the United States Federal Food, Drug and Cosmetic Act for an investigational drug product of LY03004 without additional clinical trials. This will significantly cut down costs and time required for obtaining FDA approval for LY03004. In December 2015, the Group has completed two phase 1 clinical studies for rotigotine extended release microspheres for injection ("LY03003"), LY03003 is the first product worldwide to produce long term Continuous Dopamine Stimulation ("CDS"), and it can improve efficacy and/or reduce side effects especially for the "on-off" effect. The drug is expected to provide an impetus to the Group's product development in the global CNS therapeutic area. In March 2016, the Group's product candidate, LY01005, has obtained the approval from the U.S. FDA to initiate clinical trials for the treatment of carcinoma of the prostate. The Group believes that LY01005 has a good marketing potential and will provide an impetus to the Group's development in the oncology therapeutic area.

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

Financial Review

Revenue

For the year ended 31 December 2015, the Group's revenue amounted to RMB2,563.1 million, as compared to approximately RMB2,544.0 million for the year ended 2014, representing an increase of RMB19.1 million, or 0.8%. The lower increase in sales is mainly attributable to the overall economic slowdown in China.

For the year ended 31 December 2015, the Group's revenue from sales of oncology products increased to RMB1,395.4 million, as compared to RMB1,319.3 million for the year ended 31 December 2014, representing an increase of RMB76.1 million, or 5.8%, primarily attributable to the increase in sales volume of our key oncology products, the increased was offset by lower sales of few non key products, this was in line with the Group strategy to allocate more resources to the Group's key products.

For the year ended 31 December 2015, the Group's revenue from sales of cardiovascular system products decreased to RMB621.3 million, as compared to RMB660.6 million for the year ended 31 December 2014, representing a decrease of RMB39.3 million, or 5.9%, primarily attributable to the lower sales of few non-key products, this was in line with the Group strategy to allocate more resources to the Group's key products.

For the year ended 31 December 2015, the Group's revenue from sales of alimentary tract and metabolism products increased to RMB468.1 million, as compared to RMB443.8 million for the year ended 31 December 2014, representing an increase of RMB24.3 million, or 5.5%, primarily attributable to the increase in sales volume of various key alimentary tract and metabolism products of the Group, the increase was offset by lower sales of few non-key products, this was in line with Group strategy to allocate more resources to the Group's key products.

For the year ended 31 December 2015, the Group's revenue from sales of other products decreased to RMB78.2 million, as compared to RMB120.4 million for the year ended 31 December 2014, representing a decrease of RMB42.2 million, or 35.1%, this was in line with the Group strategy to allocate more resources to the Group's key products.

Cost of Sales

The Group's cost of sales decreased from RMB482.5 million for the year ended 31 December 2014 to RMB475.7 million for the year ended 31 December 2015, which accounted for 18.6% of the Group's total revenue for the year. The primary driver of the Group's decreased cost of sales was attributable to the improved economies of scale, and since some of the products then manufactured by our subcontracting manufacturers is currently manufactured in the Group's new facilities.

Gross Profit

For the year ended 31 December 2015, the Group's gross profit increased to RMB2,087.4 million, as compared to RMB2,061.5 million for the year ended 31 December 2014, representing an increase of RMB25.9 million, or 1.3%. The increase in the Group's gross profit was broadly in line with its revenue growth. The Group's gross profit margin increased to 81.4% the year ended 31 December 2015 from 81.0% for the year ended 31 December 2014.

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 2015, the Group's other income and gains increased to RMB165.1 million, as compared to approximately RMB98.4 million for the year ended 31 December 2014, representing an increase of approximately RMB66.7 million. The increase is mainly attributable to a higher investment income and government grants for the year ended 31 December 2015. The Group has utilised the proceeds from initial public offering of the Company's shares on the Stock Exchange ("IPO") 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 2015, the Group's selling and distribution expenses amounted to approximately RMB964.1 million, as compared to RMB1,006.3 million for the year ended 31 December 2014, representing a decrease of RMB42.2 million, or 4.2%. The decrease was mainly attributable to the decrease in promotional activities for the Group's products and decline in staff cost as part of the Group sales team reform. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses decreased from 39.6% for the year ended 31 December 2014 to 37.6% for the year ended 31 December 2015, which has shown the Group's determination to reduce and control its cost.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2015, the Group's administrative expenses amounted to RMB184.8 million, as compared to RMB195.0 million for the year ended 31 December 2014, representing a decrease of approximately RMB10.2 million, or 5.2%. The decrease was mainly due to a one-off listing expense incurred for the year ended 31 December 2014 and offset by higher staff cost and general operating expenses for the year ended 31 December 2015.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, foreign exchange losses, donations, loss on disposals of property, plants and equipment and miscellaneous expenses. For the year ended 31 December 2015, the Group's other expenses amounted to RMB190.2 million, as compared to approximately RMB193.8 million for the year ended 31 December 2014, representing a decrease of RMB3.6 million, or 1.9%. The decrease was mainly due to the decreased R&D costs. The decrease is offset by other higher expenses during the year ended 31 December 2015.

Finance Costs

For the year ended 31 December 2015, the Group's finance costs amounted to RMB15.6 million, as compared to RMB39.7 million for the year ended 31 December 2014, representing a decrease of approximately RMB24.1 million, or 60.7%. The decrease was mainly due to the lower level of monthly average outstanding bank borrowings during the year as compared to the corresponding year of 2014.

Income Tax Expense

For the year ended 31 December 2015, the Group's income tax expense amounted to RMB133.4 million, as compared to RMB111.1 million for the year ended 31 December 2014, representing an increase of RMB22.3 million, or 20.1%. The effective tax rate for the year ended 31 December 2015 and the year ended 31 December 2014 was 14.9% and 15.3%, respectively.

Net Profit

For the year ended 31 December 2015, the Group's net profit amounted to RMB764.7 million, as compared to RMB614.4 million for the year ended 31 December 2014, representing an increase of RMB150.3 million, or 24.5%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 31 December 2015, the Group had net current assets of approximately RMB4,026.0 million, as compared to RMB2,637.7 million as at 31 December 2014. The current ratio of the Group increased slightly to approximately 4.9 as at 31 December 2015 from 4.0 as at 31 December 2014. The increase in net current assets was mainly attributable to higher level of trade and note receivables which is in line with the growth in revenue, as well as significant increase in cash and cash equivalents as a result of the deposit refund received following the termination of the acquisition of Beijing Jialin Pharmaceutical Co., Ltd. ("Beijing Jialin").

Borrowings and Pledge of Assets

As at 31 December 2015, the Group had an aggregate interest-bearing bank and other borrowings of approximately RMB502.7 million, as compared to RMB305.5 million as at 31 December 2014. Amongst the bank and other borrowings, approximately RMB502.2 million are repayable within one year, and approximately RMB0.5 million are repayable after one year. The increase in bank borrowings is mainly for the working capital of the Company. The bank loans were secured by the Group's time deposits.

Gearing Ratio

As at 31 December 2015, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 8.7% from approximately 6.1% as at 31 December 2014. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the year.

Debt Ratio

As at 31 December 2015, the debt ratio of the Group, which calculated by dividing total liabilities by total assets, was 17.8%, as compared with 17.8% as at 31 December 2014.

Return on Equity

As at 31 December 2015, the return on equity of the Group, which calculated by dividing net income by average shareholder equity, decreased to 14.1% from approximately 17.7% as at 31 December 2014. The decrease was primarily due to increase in Group shareholders equity.

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 2015. For details, please refer to note 37 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 25 to the consolidated financial statements in this annual report on interest rate risk the Group faced. The Group did not enter into any hedging transactions in respect of interest rate risk during the year ended 31 December 2015.

Contingent Liabilities

As at 31 December 2015, 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. Subsequently, the Group served notices terminating the relevant agreements in relation to the Group's proposed acquisition of equity interest in Beijing Jialin. For further information, please refer to the Company's announcements dated 27 August, 6 October, 24 October, 5 November, 20 November, 1 December, 15 December and 30 December 2014, and 16 January, 2 February, 9 February and 30 March, 1 June 2015, and the Company's circular dated 31 December 2014.

Save as disclosed above, during the year ended 31 December 2015, the Group had no other, material acquisition or disposal of subsidiaries and associated companies. As at the date of this annual report, the Directors confirm that there are no current plans to acquire any material investment.

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 29 March 2016, the Group had utilised HK$1,339.7 million, representing 34.8% 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 (HK$'MM)	Amount	%	Utilised	%	Unutilized balance as at 29 March 2016	%
To expand the Group's portfolio of pharmaceuticals products	769.0	20.0	NIL	NIL	769.0	20.0
For research and development	769.0	20.0	170.0	4.4	599.0	15.6
For selective acquisition of domestic or international companies	769.0	20.0	NIL	NIL	769.0	20.0
To fund capital expenditure projects to increase production capabilities	769.0	20.0	581.4	15.1	187.6	4.9
To expand sales and marketing networks	192.2	5.0	115.3	3.0	76.9	2.0
To partially repay borrowings under U.S. Dollar secured loan	192.2	5.0	192.2	5.0	NIL	NIL
For working capital and general corporate purposes	384.6	10.0	280.8	7.3	103.8	2.7

Significant Investment Held

As at 31 December 2015, the Group had available-for-sale financial assets of approximately RMB1,402.1 million, which represents the outstanding balance of the wealth management product subscribed by the Group with various bank as at the year ended 31 December 2015. For details, please refer to the Company's announcement dated 1 June 2015, 30 September 2015 and note 18 to the consolidated financial statements in this annual report.

Employee and Remuneration Policy

As at 31 December 2015, the Group had approximately 3,410 employees (2014: 3,359). For the year ended 31 December 2015, the staff costs of the Group, including Directors' emoluments but excluding any contributions to pension scheme, were RMB302.8 million as compared to RMB307.9 million for the year ended 31 December 2014.

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 2.5 to the consolidated financial statements in this annual report.

Directors and Senior Management

Directors

Executive Directors

Mr. Liu Dian Bo, aged 50, Executive Chairman, is a founding member of our Group. He was appointed as a director of the Company ("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 main subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading"), Sichuan Luye Buoguang Pharmaceutical Co., Ltd., 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. Liu is a director of each of Luye Group Ltd ("Luye Group"), Luye Pharma Holdings Ltd. ("Luye Pharma Holdings"), Luye Pharmaceutical International Co., Ltd. ("Luye Pharma Intl"), Luye Pharmaceutical Investment Co., Ltd. ("Luye Pharma Investment"), Shorea LBG, Gingko Trust Limited, and Nelumbo Investment Limited.

Mr. Yang Rong Bing, aged 50, 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 was appointed as a vice executive chairman of the Board with effect from 30 March 2015. 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 Pharmaceutical Co., Ltd.. ("Nanjing Luye") and a director of the following main subsidiaries of our Company: Shandong Luye, Luye Trading and Nanjing Luye. Mr. Yang is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Mr. Yuan Hui Xian, aged 57, 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 main subsidiaries of our Company: Shandong Luye, Nanjing Luye and Nanjing New AIGE Eggs Co. Ltd.. Mr. Yuan is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Ms. Zhu Yuan Yuan, aged 35, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 10 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. Ms. Zhu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Non-Executive Directors

Mr. Pan Jian, aged 40, 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 is a director of Shanghai M&G Stationary Inc. (a company listed on the Shanghai Stock Exchange with stock code 603899). Mr. Pan is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Mr. Liu Dong, aged 42, 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 Biosensors International Group, Ltd. (a company listed on the SGX-ST with symbol B20) and 3S Bio Inc. (a company listed on the stock Exchange with stock code 1530). Mr Liu was a director of Zhejiang Beingmate Technology Industry & Trade Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002570) from September 2012 to September 2015. 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. Mr. Liu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Ms. Wang Xin, aged 38, 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. Ms. Wang is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Independent Non-executive Directors

Mr. Zhang Hua Qiao, aged 52, 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.

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 June 2015	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 a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2012 to May 2015 May 2015 to present	Non-executive director 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 Oil field Service Corporation (formerly known as 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
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 67, 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
China Minsheng Drawin Technology Group Limited (formerly known as South East Group Limited), 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 62, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 32 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.

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 57, 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 the Institute of Public Account 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 Yuan Chong, aged 52, 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 54, 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 52, 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 38, 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 2015.

Corporate Information

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 1 to the consolidated financial statements of this annual report.

Business Review and Performance

A fair review of the Group's business during the year, including an analysis of which using financial key performance indicators, and the outlook of the Group's business are provided in the section headed "Management Discussion and Analysis" of this annual report, which discussion forms part of this "Report of Directors".

Results

The results of the Group for the year ended 31 December 2015 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 2015 (2014: 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.

Risks and Uncertainties Relating to the Group's Business

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Manpower and Retention Risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel.

Financial Risk

The Group's also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 37 to the consolidated financial statements of the Group.

Environmental Policies and Performance

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2015, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

Our Group also encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs — reduce, recycle and reuse and enhance environmental sustainability.

Compliance with Laws and Regulations

Our Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. Our Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. For the year ended 31 December 2015, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company.

Key Relationships with Employees, Customers and Suppliers

Being people-oriented, our Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

Our Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Our Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 24.1% of the total sales for the year ended 31 December 2015 and sales to the largest customer included therein amounted to 9.4% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 57.3% of the total purchase for the year ended 31 December 2015 and purchase from the Group's largest supplier included therein amounted to 22.6% 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 2015 are set out in note 13 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 2015 are set out in note 29 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 30 to the consolidated financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 25 to the consolidated financial statements in this annual report.

Directors

The Directors during the year ended 31 December 2015 and up to the date of this annual report were:

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

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. Liu Dian Bo, Mr. Liu Dong, Mr. Pan Jian and Ms. Wang Xin will retire by rotation at the forthcoming annual general meeting (the "AGM"). Mr. Liu Dian Bo, being eligible will offer himself for re-election as the Directors at the AGM. Mr. Pan Jian, Mr. Liu Dong and Ms. Wang Xin will retire at AGM and will not offer themselves for re-election at the AGM due to their business engagement/arrangements.

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 17 to 23 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 Transactions, Arrangements and Contracts

Other than those transactions disclosed in note 34 to the consolidated financial statements in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Controlling Shareholders' Interests in Contracts

Save as disclosed in this annual report, at no time during the year had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

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 2015.

Equity-Linked Agreements

No equity-linked agreement that will or may result in the Company issuing shares nor require the Company to enter into an agreement that will or may result in the Company issuing shares was entered into by the Company during the year or subsisted at the end of the year.

Share Option Scheme

During the year ended 31 December 2015 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. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations and our Group make contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. The Company's subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC.

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 for the year ended 31 December 2015.

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

As at 31 December 2015, 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	1,484,999,930 (L)	44.71% (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, Luye Pharma Holdings Ltd., Luye Pharmaceutical International Co., Ltd. and Luye Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,484,999,930 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.*

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	Founder of a discretionary trust	8,400 (L)	70%
Liu Dian Bo	Ginkgo Trust Limited	Founder of a discretionary trust	1 (L)	100%
Liu Dian Bo	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852 (L)	100%
Liu Dian Bo	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988 (L)	100%
Liu Dian Bo	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1 (L)	100%
Liu Dian Bo	Nelumbo Investments Limited	Founder of a discretionary trust	1 (L)	100%
Yang Rong Bing	Luye Group Ltd	Beneficial interest	1,800 (L)	15%
Yuan Hui Xian	Luye Group Ltd	Beneficial interest	1,800 (L)	15%

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

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 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 for the year ended 31 December 2015.

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

As at 31 December 2015, 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	1,484,999,930 (L)	44.71%
Luye Pharmaceutical International Co., Ltd.[1]	Interest in controlled corporation	1,484,999,930 (L)	44.71%
Luye Pharma Holdings Limited[1]	Interest in controlled corporation	1,484,999,930 (L)	44.71%
Luye Group Ltd[2]	Interest in controlled corporation	1,484,999,930 (L)	44.71%
Nelumbo Investments Limited[2]	Interest in controlled corporation	1,484,999,930 (L)	44.71%
Ginkgo Trust Limited[2]	Trustee	1,484,999,930 (L)	44.71%
Shorea LBG[2]	Interest in controlled corporation	1,484,999,930 (L)	44.71%
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%

Remark: The Letter "L" denotes long position 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.*

Save as disclosed above, as at 31 December 2015, 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 Company's 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 2015.

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.

Permitted Indemnity Provision

According to the Bye-laws of the Company, among others, the Directors acting in relation to any of the affairs of the Company may be entitled to indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain.

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

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.

As disclosed in the Company's prospectus dated 26 June 2014 ("Prospectus"), separately from Mr. Liu Dian Bo's interest in our Group, he is interested in the equity interest of 蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) ("Wuhu Luye"), which is owned as to 90% by 綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.) ("Luye Investment Group") and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party. Luye Investment Group is owned by the founding shareholders (namely, Messrs. Liu Dian Bo, Yuan Hui Xian ("Mr. Yuan") and Yang Rong Bing ("Mr. Yang")) as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang and Mr. Yuan (each an executive Director). Wuhu Luye is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology, which competes or is likely to compete, either directly or indirectly, with our Group's business.

By reasons of the fact that Wuhu Luye and our Group have (i) different management teams; (ii) separate production facilities and respective procurement teams to source raw materials and suppliers; (iii) independent sales and marketing activities; and (iv) independent financial and accounting systems, and that Mr. Liu Dian Bo has already given an undertaking pursuant to the Deed of Non-compete Undertaking, our Group is therefore capable of carrying on its business independently of, and at arms length from, the excluded business as described above.

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 2015.

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 2015.

Disclosure Under Rule 13.21 of the Listing Rules

On 28 January 2015, Luye Pharmaceutical Investment Co. Ltd., a controlling shareholder of the Company ("Luye Investment") entered into two security agreements with two lenders which are authorised institutions (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) (the "Lenders"), pursuant to which Luye Investment agreed to (among other things) pledge an aggregate of 232,475,000 Shares (representing approximately 7% of the Company's issued share capital as at the date of this report) held by it in favour of the Lenders as security for two loan facilities granted by the Lenders to Luye Investment. As at the date of this annual report, such pledge of Shares continued to exist.

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 2015.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2015 is contained in note 34 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 2015, the Group made charitable and other donations in a total amount of RMB3.3 million.

Post Balance Sheet Events

There are no material events after the reporting period.

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 2015.

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 2015.

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 36 to 44 of this annual report.

Closure of Register of Shareholders

The register of shareholders of the Company will be closed from Monday, 6 June 2016 to Wednesday, 8 June 2016, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend and vote at 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 Friday, 3 June 2016.

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 as at the latest practicable date prior to the issue of this annual report.

Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2015.

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, 29 March 2016

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 year ended 31 December 2015.

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.

During the year ended 31 December 2015, 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 during the year ended 31 December 2015.

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.

During the year end, seven board meetings, one annual general meeting ("2015 AGM") 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	2015 AGM	SGM
Mr. LIU Dian Bo	7/7	1/1	1/1
Mr. YANG Rong Bing	7/7	1/1	1/1
Mr. YUAN Hui Xian	7/7	1/1	1/1
Ms. ZHU Yuan Yuan	7/7	1/1	1/1
Mr. PAN Jian	5/7	0/1	0/1
Mr. LIU Dong	5/7	0/1	0/1
Ms. WANG Xin	7/7	0/1	0/1
Mr. ZHANG Hua Qiao	5/7	0/1	0/1
Professor LO Yuk Lam	4/7	1/1	0/1
Mr. LEUNG Man Kit	7/7	1/1	1/1
Mr. CHOY Sze Chung Jojo	7/7	1/1	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 for the Listing Date to 31 December 2015.

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 2015 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 2015 fell within the following bands as follows:

Remuneration Band	**No. of employees**
Nil to RMB1,000,000	2
RMB1,000,001 to RMB1,500,000	2
RMB1,500,001 to RMB2,000,000	1
	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.

During the year ended 31 December 2015, one meeting 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	1/1
Mr. ZHANG Hua Qiao	1/1
Mr. CHOY Sze Chung Jojo	1/1

During the year 2015, the Nomination Committee reviewed the Board composition and considered that the existing Board was appropriately structured. The Nomination Committee also assessed the independence of the independent non-executive Directors and made recommendation to the Board for the re-election of Directors.

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.

During the year ended 31 December 2015, 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	1/2
Professor LO Yuk Lam	2/2

During the year 2015, the Remuneration Committee assessed the performance of the Directors and reviewed and made recommendation to the Board on the Company's policy and structure for all directors' and senior management remuneration.

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 risk management and internal control systems 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 has been amended on 30 December 2015 which are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2015, two 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	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2015, the Audit Committee had reviewed the annual results and interim results of the Company and its subsidiaries for the year ended 31 December 2014 and for the period ended 30 June 2015 respectively, 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 2015 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

An analysis of the remuneration paid or payable to the Company's auditors, Ernst & Young, in respect of audit and non-audit services for the year ended 31 December 2015 is set out below:

Items of auditors' services	**Amount (RMB'000)**
Audit services	4,860
Non-audit services	—
Total	4,860

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2016 and the proposal will be submitted for approval at the AGM to be held on 8 June 2016.

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 2015, 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. There was no change in the Bye-laws of the Company for the year ended 31 December 2015.

Independent Auditors' Report

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 set out on pages 47 to 124, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
REVENUE	5	**2,563,129**	2,543,986
Cost of sales		**(475,717)**	(482,505)
Gross profit		**2,087,412**	2,061,481
Other income and gains	5	**165,132**	98,375
Selling and distribution expenses		**(964,097)**	(1,006,259)
Administrative expenses		**(184,821)**	(194,984)
Other expenses		**(190,164)**	(193,786)
Finance costs	7	**(15,606)**	(39,661)
Share of profit of an associate	17	**276**	348
PROFIT BEFORE TAX	6	**898,132**	725,514
Income tax expense	10	**(133,433)**	(111,068)
PROFIT FOR THE YEAR		**764,699**	614,446
Attributable to:			
Owners of the parent		**754,523**	605,524
Non-controlling interests		**10,176**	8,922
		764,699	614,446
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the year	12	**22.72 cents**	20.22 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	764,699	614,446
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	74,684	18,033
Reclassification adjustments for gains included in the consolidated statement of profit or loss	(76,895)	(15,892)
Exchange differences on translation of foreign operations	4,051	304
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1,840	2,445
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	1,840	2,445
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	766,539	616,891
Attributable to:		
Owners of the parent	756,363	607,969
Non-controlling interests	10,176	8,922
	766,539	616,891

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**1,196,262**	1,092,151
Advance payments for property, plant and equipment		**48,762**	34,227
Prepayments, deposits and other receivables	*21*	**—**	700,000
Prepaid land lease payments	*14*	**185,813**	194,193
Goodwill	*15*	**347,356**	347,356
Other intangible assets	*16*	**126,216**	145,888
Investment in an associate	*17*	**4,350**	5,485
Available-for-sale investments	*18*	**3,342**	2,242
Deferred tax assets	*28*	**69,377**	83,259
Total non-current assets		**1,981,478**	2,604,801
CURRENT ASSETS			
Inventories	*19*	**285,609**	251,198
Trade and notes receivables	*20*	**1,193,103**	914,130
Prepayments, deposits and other receivables	*21*	**118,249**	53,502
Due from related parties	*34(b)(i)*	**1,600**	2,655
Pledged time deposits	*22*	**266,500**	127,215
Available-for-sale investments	*18*	**1,402,118**	1,845,392
Time deposits with original maturity of over three months	*22*	**960,591**	180,000
Cash and cash equivalents	*22*	**843,674**	151,863
Total current assets		**5,071,444**	3,525,955
CURRENT LIABILITIES			
Trade and notes payables	*23*	**83,219**	59,044
Other payables and accruals	*24*	**366,457**	439,576
Interest-bearing loans and borrowings	*25*	**502,222**	304,899
Government grants	*27*	**25,155**	37,049
Tax payable		**64,946**	47,668
Due to related parties	*34(b)(ii)*	**3,428**	—
Total current liabilities		**1,045,427**	888,236
NET CURRENT ASSETS		**4,026,017**	2,637,719
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,007,495**	5,242,520

	Notes	2015 RMB'000	2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,007,495**	5,242,520
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**493**	638
Government grants	27	**115,150**	106,605
Deferred tax liabilities	28	**92,321**	97,717
Total non-current liabilities		**207,964**	204,960
Net assets		**5,799,531**	5,037,560
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**427,269**	427,269
Share premium		**2,936,817**	2,936,817
Reserves	30	**2,299,875**	1,543,512
		5,663,961	4,907,598
Non-controlling interests		**135,570**	129,962
Total equity		**5,799,531**	5,037,560

Mr. Liu Dianbo
Director

Mr. Yang Rongbing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	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 30)	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 2015	**427,269**	**2,936,817**	**41,387**	**297,796**	**1,206,771**	**4,253**	**(6,695)**	**4,907,598**	**129,962**	**5,037,560**
Profit for the year	–	–	–	–	**754,523**	–	–	**754,523**	**10,176**	**764,699**
Other comprehensive income for the year:										
Fair value change on available-for-sale investments, net of tax	–	–	–	–	–	**(2,211)**	–	**(2,211)**	–	**(2,211)**
Currency realignment	–	–	–	–	–	–	**4,051**	**4,051**	–	**4,051**
Total comprehensive income for the year	–	–	–	–	**754,523**	**(2,211)**	**4,051**	**756,363**	**10,176**	**766,539**
Transfer to statutory reserves	–	–	–	**30,388**	**(30,388)**	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	**(4,568)**	**(4,568)**
At 31 December 2015	**427,269**	**2,936,817**	**41,387**	**328,184**	**1,930,906**	**2,042**	**(2,644)**	**5,663,961**	**135,570**	**5,799,531**
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

* *These reserve accounts comprise the consolidated reserves of RMB2,299,875,000 (2014: RMB1,543,512,000) 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 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**898,132**	725,514
Adjustments for:			
Share of profit of an associate		**(276)**	(348)
Depreciation of items of property, plant and equipment	*13*	**86,280**	79,813
Amortisation of other intangible assets	*16*	**23,657**	25,491
Amortisation of prepaid land lease payments	*14*	**5,272**	5,141
Amortisation of long-term deferred expenditure		**—**	292
(Gain)/loss on disposal of items of property, plant and equipment		**(21)**	3,966
Interest income	*5*	**(21,776)**	(25,175)
Investment income from available-for-sale investments	*5*	**(76,895)**	(15,892)
Interest expense	*7*	**15,606**	39,545
		929,979	838,347
Increase in trade and notes receivables		**(278,973)**	(378,568)
Increase in prepayments, deposits and other receivables		**(44,959)**	(5,976)
Decrease in amounts due from related parties		**1,055**	2,808
Increase in inventories		**(34,411)**	(16,465)
Decrease in government grants		**(6,019)**	(786)
Increase/(decrease) in trade and notes payables		**24,175**	(10,325)
(Decrease)/increase in other payables and accruals		**(76,523)**	70,622
Increase/(decrease) in amounts due to related parties		**3,428**	(36,856)
Decrease in pledged time deposits		**2,015**	175,470
Cash generated from operations		**519,767**	638,271
Interest paid		**(13,971)**	(40,321)
Income tax paid		**(111,088)**	(103,384)
Net cash flows from operating activities		**394,708**	494,566

	Notes	2015 RMB'000	2014 RMB'000
Net cash flows from operating activities		**394,708**	494,566
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(204,107)**	(268,836)
Prepayment of land lease payments		**–**	(12,285)
Purchases of other intangible assets	*16*	**(3,985)**	(8,154)
Purchases of available-for-sale investments		**(5,138,720)**	(1,840,465)
Proceeds from sales of available-for-sale investments		**5,578,185**	10,000
Receipt of investment income from available-for-sale investments		**76,895**	15,892
Proceeds from disposal of items of property, plant and equipment		**971**	25,162
Refund of prepayment for/(prepayment for) acquisition of a subsidiary	*21*	**700,000**	(700,000)
Increase/(decrease) in government grants		**2,670**	(8,680)
Increase in time deposits with original maturity of over three months		**(780,591)**	(180,000)
Increase in an amount due from the immediate holding company		**–**	(213,520)
Interest received		**9,000**	22,099
Net cash flows from/(used in) investing activities		**240,318**	(3,158,787)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans		**(1,294,293)**	(2,187,013)
Proceeds from loans		**1,491,471**	1,747,242
Increase in pledged time deposits		**(141,300)**	(125,200)
Dividends paid to non-controlling shareholders		**(4,568)**	(7,613)
Payment of listing expenses		**–**	(84,414)
Issue of shares		**–**	3,139,340
Net cash flows from financing activities		**51,310**	2,482,342
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**686,336**	(181,879)
Net foreign exchange difference		**5,475**	592
Cash and cash equivalents at beginning of year	*22*	**151,863**	333,150
CASH AND CASH EQUIVALENTS AT END OF YEAR	*22*	**843,674**	151,863

1. Corporate and group 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 principal place of business of the Company in Hong Kong is Unit 3207, 32/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

In the opinion of the directors of the Company, the ultimate holding company of the Company is AsiaPharma Holdings Ltd., which is incorporated in Bermuda.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AsiaPharm Investments Ltd. ("AsiaPharm Investments")	Bermuda 2 July 2003	US$120,000	100	—	Investment holding
Luye Pharma (Singapore) Pte. Ltd. ("LPPL", formerly known as AsiaPharm Biotech Pte. Ltd.)	Singapore 23 April 1991	SG$1,700,000	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")	Hong Kong 31 July 2007	HK$1	100	—	Investment holding
Luye Pharma (USA) Ltd. ("LPU")	United States of America ("USA") 3 August 2015	—	100	—	Manufacture and sale of pharmaceutical products

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Luye Pharma Venture Capital ("LPV")	Cayman Islands 26 November 2015	US$50,000	100	—	Investment holding
Solid Success Holdings Ltd. ("Solid Success")	British Virgin Islands 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
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$12,500,000	—	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd. ("Luye Biotech")	Singapore 6 November 2009	SG$26,100,000	—	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

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye")[i]	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB271,800,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")[i]	PRC/ Mainland China 27 March 1997	RMB20,000,000	—	100	Distribution and sale of pharmaceutical products
Shandong Langhe Biotechnology Ltd.("Shandong Langhe")[i]	PRC/ Mainland China 11 March 2010	RMB10,000,000	—	100	Research and development
Shandong Luye Natural Drug Research and Development Co., Ltd. ("Luye R&D")[i]	PRC/ Mainland China 31 December 2002	RMB5,000,000	—	100	Research and development of Chinese and Western medicines and provision of related services
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye")[i]	PRC/ Mainland China 22 February 2004	RMB70,000,000	—	100	Manufacture and sale of pharmaceutical products
Beijing WBL Peking University Biotech Co., Ltd. ("WPU")[i]	PRC/ Mainland China 1 September 1994	RMB80,000,000	—	69.55	Manufacture and sale of pharmaceutical products
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE")[i]	PRC/ Mainland China 25 June 2010	RMB300,000	—	100	Manufacture and sale of eggs and technology development

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Kanghai Phospholipid Biological Technology Co., Ltd. ("Nanjing Kanghai Phospholipid")(i)	PRC/ Mainland China 13 September 2010	RMB1,500,000	—	100	Manufacture and sale of pharmaceutical products
Shanghai Ge Lin Li Fu Consulting Co., Ltd. ("Shanghai Ge Lin")(i)	PRC/ Mainland China 28 June 2010	RMB1,000,000	—	100	Provision of business and investment consultation services
Sichuan Luye Baoguang Pharmaceutical Co., Ltd. ("Sichuan Baoguang")(i)	PRC/ Mainland China 21 December 2000	RMB36,000,000	—	100	Manufacture and sale of pharmaceutical products
Chengdu Bomai Technology Co., Ltd. ("Chengdu Bomai")(i)	PRC/ Mainland China 1 December 2004	RMB500,000	—	100	Research and development
Yantai Luye Pharma Holdings Co., Ltd. ("Yantai Luye")(ii)	PRC/ Mainland China 15 May 2014	US$173,600,000	—	100	Investment holding
Yantai Lujian Drugs Retail Co.,Ltd. ("Yantai Lujian")(i)	PRC/ Mainland China 12 August 2015	RMB200,000	—	100	Retail of pharmaceutical products

(i) These entities are limited liability enterprises established under PRC law.
(ii) The entity is a wholly-foreign-owned enterprise established under PRC law.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These 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 2015. 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 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 Prior year restatement

Certain of the marketing and promotion expenses paid by the Group to the third party promoters were passed onto the distributors and the directors of the Company considered that the relevant expenses should be adjusted and accounted for as a reduction of the revenue earned from the distributors instead of recorded as selling and distribution expenses in the consolidated financial statements of the Group. As a result, a prior year adjustment was recorded to offset the related revenue and selling and distribution expenses of RMB610,234,000 for the year ended 31 December 2014.

The above adjustment did not affect the net profit or net assets of the Group as at 31 December 2014 or before.

2.3 Changes in accounting policies and disclosures

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

Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs

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

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.4 Issued but not yet effective International Financial Reporting Standards

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*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Leases*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*
2 *Effective for annual periods beginning on or after 1 January 2017*
3 *Effective for annual periods beginning on or after 1 January 2018*
4 *Effective for annual periods beginning on or after 1 January 2019*
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*
6 *No mandatory effective date yet determined but is available for adoption*

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

2.5 Summary of significant accounting policies

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.

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.

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 *Non-current Assets Held for Sale and Discontinued Operations*.

2.5 Summary of significant accounting policies (continued)

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 is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating 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.

2.5 Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

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.

2.5 Summary of significant accounting policies (continued)

Foreign currencies

These financial statements are presented in RMB, which the Company adopted as the presentation currency of the Group. The functional currency of the Company is the United States dollar ("US$") and certain subsidiaries incorporated outside Mainland China use the Singapore dollar ("SG$"), the Hong Kong dollar ("HK$") and Malaysian Ringgit ("MYR") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is RMB. 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 recognised 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 RMB 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 statement 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.

2.5 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.

2.5 Summary of significant accounting policies (continued)

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.

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 an 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 an 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.

2.5 Summary of significant accounting policies (continued)

Income tax (continued)

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.

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.

Other employee benefits

Pension scheme

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 loans and receivables and available-for-sale investments, 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.

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.

2.5 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.

2.5 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).

2.5 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 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.

2.5 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, 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 statement 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.

2.5 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.

2.5 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
Leasehold improvements	2–5 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.

2.5 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 if 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.

2.5 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.

2.5 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 are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Cash and cash equivalents

For the purpose of the consolidated statement 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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.5 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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 2015 was RMB347,356,000 (2014: RMB347,356,000). Further details are given in note 15.

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 tax losses at 31 December 2015 was RMB994,000 (2014: Nil). The carrying amount of deferred tax assets relating to recognised deductible temporary differences at 31 December 2015 was RMB68,383,000 (2014: RMB83,259,000). Further details are contained in note 28.

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 judgements 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 2015 was RMB5,124,000 (2014: RMB3,865,000).

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

4. Operating segment information (continued)

Year ended 31 December 2015

	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	1,395,446	621,348	468,146	78,189	2,563,129
Total revenue	1,395,446	621,348	468,146	78,189	2,563,129
Segment results	657,296	239,462	203,356	23,201	1,123,315
Other income and gains					165,132
Administrative expenses					(184,821)
Other expenses					(190,164)
Finance costs					(15,606)
Share of profit of an associate					276
Profit before tax					898,132

Year ended 31 December 2014

	Oncology drugs RMB'000 (Restated)	Cardio-vascular system drugs RMB'000 (Restated)	Alimentary tract and metabolism drugs RMB'000 (Restated)	Others RMB'000 (Restated)	Total RMB'000 (Restated)
Segment revenue					
External customers	1,319,255	660,586	443,761	120,384	2,543,986
Total revenue	1,319,255	660,586	443,761	120,384	2,543,986
Segment results	598,993	253,827	174,083	28,319	1,055,222
Other income and gains					98,375
Administrative expenses					(194,984)
Other expenses					(193,786)
Finance costs					(39,661)
Share of profit of an associate					348
Profit before tax					725,514

4. Operating segment information (continued)

Geographic information

(a) Revenue from external customers

	2015 RMB'000	2014 RMB'000 (Restated)
Mainland China	2,546,373	2,520,383
Other countries	16,756	23,603
Total	2,563,129	2,543,986

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 2015 and 2014.

(b) Non-current assets

	2015 RMB'000	2014 RMB'000
Mainland China	1,902,785	2,513,601
Other countries	5,974	5,699
Total	1,908,759	2,519,300

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

5. Revenue, other income and gains

Revenue, 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:

	2015 RMB'000	2014 RMB'000 (Restated)
Revenue		
Sale of drugs	2,621,019	2,601,265
Less: Business tax and government surcharges	(57,890)	(57,279)
	2,563,129	2,543,986
Other income and gains		
Bank interest income	21,776	25,175
Government grants	62,904	46,959
Investment income	76,895	15,892
Foreign exchange gain, net	—	8,780
Others	3,557	1,569
	165,132	98,375

6. Profit before tax

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

	Notes	**2015 RMB'000**	2014 RMB'000
Depreciation of items of property, plant and equipment	*13*	**86,280**	79,813
Amortisation of other intangible assets*	*16*	**23,657**	25,491
Amortisation of prepaid land lease payments**	*14*	**5,272**	5,141
Amortisation of long-term deferred expenditure**		**—**	292
Provision/(reversal of provision) for impairment of trade receivables	*20*	**1,458**	(503)
Reversal of provision for impairment of other receivables	*21*	**—**	(600)
Listing expenses		**—**	32,749
Operating lease expenses		**15,827**	11,503
Auditors' remuneration		**4,860**	7,360
Employee benefit expenses (excluding directors' remuneration):			
Wages and salaries		**276,091**	276,352
Pension scheme contributions		**59,851**	54,350
Central Provident Fund in Singapore		**329**	348
Staff welfare expenses		**20,126**	25,452
		356,397	356,502
Other expenses:			
Research and development costs		**170,439**	182,332
Foreign exchange loss, net		**16,139**	—
Donation		**3,288**	6,587
Loss on disposal of items of property, plant and equipment		**—**	3,966
Others		**298**	901
		190,164	193,786

6. Profit before tax (continued)

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

	2015 **RMB'000**	2014 RMB'000
Cost of inventories sold***	**475,717**	482,505
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:		
Depreciation	**67,716**	59,604
Amortisation of other intangible assets*	**23,017**	25,032
Staff costs	**117,741**	113,609

* *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 RMB965,000 for the year ended 31 December 2015 (2014: RMB2,605,000) is included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

7. Finance costs

	2015 **RMB'000**	2014 RMB'000
Interest on bank loans	**15,576**	39,513
Finance charges payable under a hire purchase contract	**30**	32
Total interest expense	**15,606**	39,545
Others	**—**	116
	15,606	39,661

8. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 **RMB'000**	2014 RMB'000
Fees	**1,063**	621
Other emoluments:		
Salaries, allowances and benefits in kind	**4,673**	4,677
Performance related bonuses	**797**	810
Pension scheme contributions	**194**	178
	5,664	5,665
	6,727	6,286

Independent non-executive directors

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

	2015 **RMB'000**	2014 RMB'000
Choy Sze Chung Jojo	**253**	148
Leung Man Kit	**304**	177
Lo Yuk Lam	**253**	148
Zhang Hua Qiao	**253**	148
	1,063	621

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

8. Directors' and chief executive's 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
2015					
Executive directors:					
Liu Dian Bo	—	2,603	420	54	3,077
Yang Rong Bing	—	1,084	200	54	1,338
Yuan Hui Xian	—	693	108	5	806
Zhu Yuan Yuan	—	293	69	81	443
	—	4,673	797	194	5,664
Non-executive directors:					
Liu Dong	—	—	—	—	—
Wang Xin	—	—	—	—	—
Pan Jian	—	—	—	—	—
	—	—	—	—	—
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	—	—	—	—	—
	—	—	—	—	—

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

Liu Dian Bo is the chief executive officer and an executive director of the Group.

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2014: Nil).

9. Five highest paid employees

The five highest paid employees of the Group during the year included 2 directors (2014: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 3 (2014: 3) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	2,999	2,661
Performance related bonuses	848	957
Pension scheme contributions	138	100
	3,985	3,718

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 2015	2014
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	2	2
	3	3

10. Income tax

The Group is subject to income tax on an entity basis on profits 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, the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2014: Nil).

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.

Pursuant to the rules and regulations of the USA, no provision for income tax has been made as the Group did not generate any taxable income in the USA during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye, WPU, Sichuan Baoguang and Nanjing Kanghai Phospholipid are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% during the year.

Nanjing AIGE is exempted from income tax as it is involved in the production and trading of agricultural products.

	2015 **RMB'000**	2014 RMB'000
Current tax:		
Income tax charge	**126,818**	113,972
Adjustments in respect of income tax of previous years	**(1,617)**	2,663
Deferred tax *(note 28)*	**8,232**	(5,567)
Total tax charge for the year	**133,433**	111,068

10. Income tax (continued)

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 rate is as follows:

	2015 RMB'000	2014 RMB'000
Profit before tax	**898,132**	725,514
At the PRC's statutory income tax rate of 25%	**224,533**	181,379
Effect of tax rate differences in other jurisdictions	**2,567**	3,633
Preferential income tax rates applicable to subsidiaries	**(92,671)**	(67,299)
Additional deductible allowance for research and development expenses	**(12,768)**	(12,520)
Effect of tax levied on a deemed income basis	**(159)**	467
Adjustments in respect of current income tax of previous years	**(1,617)**	2,663
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	**3,868**	4,162
Income not subject to tax	**(746)**	(1,619)
Tax losses utilised from previous years	**(2,228)**	(2,994)
Tax losses not recognised	**3,913**	113
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**8,741**	—
Tax charge at the Group's effective rate	**133,433**	111,068

The effective tax rate of the Group for the year ended 31 December 2015 was 14.9% (2014: 15.3%).

11. Dividends

No dividends were declared or paid by the Company during the year ended 31 December 2015.

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

12. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,321,073,843 (2014: 2,994,929,593) in issue during the year.

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

	2015	2014
	RMB'000	RMB'000
Earnings		
Profit attributable to equity holders of the parent	**754,523**	605,524

	Number of shares	
	2015	2014
Shares		
Weighted average number of shares in issue during the year	**3,321,073,843**	2,994,929,593

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

13. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
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
At 1 January 2015, net of accumulated depreciation and impairment	447,391	410,978	11,337	35,606	–	186,839	1,092,151
Additions	17	69,282	2,695	9,554	7,073	102,720	191,341
Disposals	(358)	(350)	(206)	(36)	–	–	(950)
Depreciation provided during the year	(19,719)	(55,163)	(2,196)	(8,694)	(508)	–	(86,280)
Transfers	12,888	54,002	–	1,070	–	(67,960)	–
At 31 December 2015, net of accumulated depreciation and impairment	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262
At 31 December 2015:							
Cost	534,447	693,188	18,812	69,334	7,073	221,599	1,544,453
Accumulated depreciation and impairment	(94,228)	(214,439)	(7,182)	(31,834)	(508)	–	(348,191)
Net carrying amount	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262

13. Property, plant and equipment (continued)

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements 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

As at 31 December 2015, the Group is applying for certificates of ownership for certain properties with a net book value of RMB1,519,000 (2014: RMB1,570,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those 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.

14. Prepaid land lease payments

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**196,446**	189,302
Additions	**—**	12,285
Recognised	**(5,272)**	(5,141)
Carrying amount at 31 December	**191,174**	196,446
Current portion included in prepayments, deposits and other receivables	**(5,361)**	(2,253)
Non-current portion	**185,813**	194,193

15. Goodwill

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January and 31 December	**347,356**	347,356

There was no impairment charge made against goodwill for the year (2014: Nil).

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, of which Maitongna is one of the Group's key products;

(c) Solid Success Group cash-generating unit ("SSL unit"), which relates to Lipusu and Tiandixin, of which Lipusu is one of the Group's key products;

(d) Luye Pharma (Singapore) Pte. Ltd. ("LPPL") cash-generating unit ("LPPL 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.

15. Goodwill (continued)

Impairment testing of goodwill (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2015 RMB'000	2014 RMB'000
CMNa unit	**38,444**	38,444
Other products unit	**5,954**	5,954
SSL unit	**114,185**	114,185
LPPL unit	**7,353**	7,353
WPU unit	**22,276**	22,276
SB unit	**159,144**	159,144
	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 was 15% (2014: 15%) and the growth rate beyond the five-year period had been projected as 3% (2014: 3%).

Key assumptions used in the value in use calculation

The calculation of value in use is based on assumptions of the following:

- Gross margins and operating expenses
- Discount rate
- Growth rate

Gross margins and operating expenses — Gross margins are based on the average gross margins achieved in the year immediately before the 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 — the rate reflects management's estimate of the risks specific to each unit.

Growth rate — the rate is based on published industry research.

16. Other intangible assets

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2015				
At 1 January 2015:				
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
Cost at 1 January 2015, net of accumulated amortisation	24,281	117,603	4,004	145,888
Additions	—	14	3,971	3,985
Amortisation provided during the year	(3,179)	(19,838)	(640)	(23,657)
At 31 December 2015	21,102	97,779	7,335	126,216
At 31 December 2015:				
Cost	41,971	357,636	9,222	408,829
Accumulated amortisation	(20,869)	(259,857)	(1,887)	(282,613)
Net carrying amount	21,102	97,779	7,335	126,216

16. Other intangible assets (continued)

	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

17. Investment in an associate

	2015 RMB'000	2014 RMB'000
At 1 January	**5,485**	5,323
Share of profit	**(1,060)**	348
Foreign currency translation differences	**(75)**	(186)
At 31 December	**4,350**	5,485

The Group's trade receivable balance with the associate is disclosed in note 34 to the financial statements.

Particulars of the associate are as follows:

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Steward Cross Pte. Ltd. ("Steward Cross")	Singapore	SG$620,002	36	Distribution and sale of pharmaceutical drugs

The Group's shareholdings in this associate all comprise equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not individually material:

	2015 RMB'000	2014 RMB'000
Share of the associate's profit for the year	**276**	348
Share of the associate's total comprehensive income	**276**	348
Carrying amount of the Group's investment in the associate	**4,350**	5,485

As at 31 December 2015, the unrealised profit from the related party transaction between Steward Cross and LPPL was RMB1,336,000 (31 December 2014: RMB544,000).

18. Available-for-sale investments

	2015 RMB'000	2014 RMB'000
Current		
Investment in bank financial products, at fair value	**1,402,118**	1,845,392
Non-current		
Listed equity investment, at fair value	**2,842**	1,742
Unlisted investment, at cost	**500**	500
	3,342	2,242

Current available-for-sale investments were structured financial products issued by banks with expected interest rates ranging from 2.6% to 4.0% 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 investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses.

19. Inventories

	2015 RMB'000	2014 RMB'000
Raw materials	**117,214**	108,431
Work in progress	**61,989**	60,523
Finished goods	**106,406**	82,244
	285,609	251,198

20. Trade and notes receivables

	2015 RMB'000	2014 RMB'000
Trade receivables	622,554	633,867
Notes receivable	572,673	281,128
	1,195,227	914,995
Less: Impairment of trade receivables	(2,124)	(865)
	1,193,103	914,130

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:

	Individually impaired RMB'000	Collectively impaired RMB'000	Total RMB'000
At 1 January 2015	445	420	865
Charge for the year	—	2,071	2,071
Reversal	—	(613)	(613)
Write-off	(199)	—	(199)
At 31 December 2015	246	1,878	2,124
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

20. Trade and notes receivables (continued)

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

	2015 RMB'000	2014 RMB'000
Less than 3 months	530,615	564,098
Between 3 and 6 months	50,876	47,432
Between 6 and 12 months	37,347	20,090
Between 1 and 2 years	2,145	791
Over 2 years	1,571	1,456
	622,554	633,867

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	515,336	625,798
Less than 3 months past due	91,986	5,822
Over 3 months past due	13,108	1,382
	620,430	633,002

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 2015, the Group has pledged notes receivable of RMB15,805,000 (2014: RMB4,500,000) to secure notes payable of RMB10,235,000 (2014: RMB3,340,000) (note 23).

As at 31 December 2015, the Group has pledged intra-group trade receivables of RMB80,000,000 to secure a short-term loan of RMB80,000,000 (2014: Nil) (note 25).

The notes receivable are due within six months. No notes receivable were discounted as at 31 December 2015 (2014: Nil).

21. Prepayments, deposits and other receivables

	2015 RMB'000	2014 RMB'000
Current		
Other receivables	**80,427**	38,660
Prepaid income tax	**3,904**	—
Prepayments	**36,918**	17,760
Prepaid expense	**—**	82
	121,249	56,502
Less: Impairment of other receivables	**(3,000)**	(3,000)
	118,249	53,502
Non-current		
Deposit*	**—**	700,000

* *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. On 1 June 2015, the Group announced the termination of the proposed acquisition of Beijing Jialin. On 12 June 2015, the Group had received the full refund of the deposit, which was paid to the shareholders of Beijing Jialin in relation to the acquisition.*

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

	Individually impaired RMB'000
At 1 January 2015	**3,000**
Charge for the year	**—**
Reversal	**—**
At 31 December 2015	**3,000**
At 1 January 2014	3,600
Charge for the year	21
Reversal	(621)
At 31 December 2014	3,000

21. Prepayments, deposits and other receivables (continued)

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	118,249	753,502

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.

22. Cash and cash equivalents and pledged time deposits

	2015 RMB'000	2014 RMB'000
Cash and bank balances	843,674	151,863
Time deposits	1,227,091	307,215
	2,070,765	459,078
Less:		
Pledged time deposits for bank loans and notes payable	(266,500)	(127,215)
Non-pledged time deposits with original maturity of over three months when acquired	(960,591)	(180,000)
Cash and cash equivalents	843,674	151,863
Denominated in RMB	561,697	134,116
Denominated in US$	267,366	3,647
Denominated in others	14,611	14,100
Cash and cash equivalents	843,674	151,863

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve 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 time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2015, time deposits of RMB266,500,000 (2014: RMB125,200,000) have been pledged to secure bank loans (note 25).

23. Trade and notes payables

	2015 RMB'000	2014 RMB'000
Trade payables	**72,984**	55,704
Notes payable	**10,235**	3,340
	83,219	59,044

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

	2015 RMB'000	2014 RMB'000
Within 3 months	**71,221**	26,748
3 to 6 months	**9,751**	25,203
6 to 12 months	**1,420**	5,050
1 to 2 years	**513**	1,136
Over 2 years	**314**	907
	83,219	59,044

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

As at 31 December 2015, notes payable of RMB10,235,000 (2014: RMB3,340,000) were secured by the Group's notes receivable with a carrying amount of RMB15,805,000 (2014: RMB4,500,000) (note 20). The maturity date of the notes payable is within six months.

24. Other payables and accruals

	2015 RMB'000	2014 RMB'000
Other payables	**70,309**	60,584
Accrued liabilities	**25,856**	122,431
Accrued payroll	**66,654**	70,411
Advances from customers	**10,978**	14,910
Taxes payable other than corporate income tax	**94,489**	74,838
Payables for purchases of property, plant and equipment, and other intangible assets	**98,171**	96,402
	366,457	439,576

Other payables are non-interest-bearing.

25. Interest-bearing loans and borrowings

2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.77	15 March 2016	80,000
US$25,000,000 bank loan	3-Month LIBOR+1.8	1 April 2016	162,340
US$40,000,000 bank loan	12-Month LIBOR+0.75	28 July 2016	259,744
Finance lease payables, current portion *(note 26)*	2.2	31 December 2016	138
			502,222
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2017 ~ 30 August 2020	493
			502,715

2014

	Effective interest rate (%)	Maturity	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
Finance lease payables, current portion *(note 26)*	2.2	31 December 2015	139
			304,899
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2016 ~ 30 August 2020	638
			305,537

25. Interest-bearing loans and borrowings (continued)

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans and overdrafts repayables:		
Within one year or on demand	502,222	304,899
In the second year	138	139
In the third to fifth years, inclusive	355	417
Beyond five years	—	82
	502,715	305,537

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

(i) the pledge of certain of the Group's time deposits of RMB266,500,000 (2014: RMB125,200,000) (note 22); and

(ii) the pledge of certain of the Group's intra-group trade receivables of RMB80,000,000 (2014: Nil) (note 20).

26. 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:

	Minimum lease payments 2015 RMB'000	Minimum lease payments 2014 RMB'000	Present value of minimum lease payments 2015 RMB'000	Present value of minimum lease payments 2014 RMB'000
Amounts payable:				
Within one year	168	170	138	139
In the second year	168	170	138	139
In the third to fifth years, inclusive	435	510	355	417
After five years	—	97	—	82
Total minimum finance lease payments	771	947	631	777
Future finance charges	(140)	(170)		
Total net finance lease payables	631	777		
Portion classified as current liabilities *(note 25)*	(138)	(139)		
Non-current portion *(note 25)*	493	638		

27. Government grants

	2015 RMB'000	2014 RMB'000
At 1 January	**143,654**	153,120
Grants received during the year	**20,156**	25,575
Amount released	**(23,505)**	(35,041)
At 31 December	**140,305**	143,654
Current	**25,155**	37,049
Non-current	**115,150**	106,605
	140,305	143,654

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.

28. Deferred tax

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

	2015 RMB'000	2014 RMB'000
Deferred tax assets	**69,377**	83,259
Deferred tax liabilities	**(92,321)**	(97,717)
	(22,944)	(14,458)

Deferred tax assets

	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2015	39,108	368	–	779	560	17,990	24,454	83,259
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	(18,965)	342	994	(300)	254	459	3,334	(13,882)
At 31 December 2015	20,143	710	994	479	814	18,449	27,788	69,377

	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 inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2014	35,514	254	289	1,284	866	19,479	21,742	79,428
Deferred tax credited/(charged) to the statement 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

28. Deferred tax (continued)

Deferred tax liabilities

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation for tax purposes RMB'000	Fair value adjustments arising from available-for-sale investments RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2015	**(57,251)**	**(38,845)**	**(882)**	**(739)**	**(97,717)**
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	**—**	**4,734**	**177**	**739**	**5,650**
Deferred tax charged to other comprehensive income during the year	**—**	**—**	**—**	**(254)**	**(254)**
At 31 December 2015	**(57,251)**	**(34,111)**	**(705)**	**(254)**	**(92,321)**

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation for tax purposes RMB'000	Fair value adjustments arising from available-for-sale investments RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2014	(54,168)	(44,546)	—	—	(98,714)
Deferred tax (charged)/credited to the statement 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)

28. 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 2015, the directors of the Company, based on the Group's expansion plan in Mainland China and the cash flow needs overseas at the end of each year, estimated that part of the retained earnings of its subsidiaries established in Mainland China amounting to RMB572,510,000 (2014: RMB572,510,000) would be subject to future dividend distribution, and a 10% deferred tax liability amounting to RMB57,251,000 (2014: RMB57,251,000) was 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 RMB52,096,000 (2014: RMB50,508,000) that are available indefinitely for offsetting against future taxable profits.

The Group has tax losses arising in USA of RMB760,000 (2014: Nil) that are available for offsetting against future taxable profits in twenty years.

The Group also has tax losses arising in Mainland China of RMB8,809,000 (2014: RMB3,525,000) 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, the USA and Mainland China as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

29. Issued capital

	2015 RMB'000	2014 RMB'000
Issued and fully paid:		
3,321,073,843 (2014: 3,321,073,843) ordinary shares of US$0.02 each		
US$'000	**66,421**	66,421
RMB'000	**427,269**	427,269

29. Issued capital (continued)

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

	Number of shares in issue	Issued capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
At 1 January 2014	492,764,900	81,180	427,980	509,160
Share repurchase	(51,932,992)	(8,556)	(191,444)	(200,000)
Issue of shares	667,540,000	82,195	3,057,145	3,139,340
Capitalisation issue	2,212,701,935	272,450	(272,450)	—
Share issue expenses	—	—	(84,414)	(84,414)
At 31 December 2014, 1 January 2015 and 31 December 2015	**3,321,073,843**	**427,269**	**2,936,817**	**3,364,086**

30. Reserves

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 reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

31. Partly-owned subsidiary with material non-controlling interests

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	2015	2014
WPU	PRC/Mainland China	**30.45%**	30.45%

	2015	2014
	RMB'000	RMB'000
Accumulated balances of material non-controlling interests:		
WPU	**135,570**	129,962
Profit allocated to material non-controlling interests:		
WPU	**10,176**	8,922
Dividends paid to material non-controlling interests:		
WPU	**4,568**	7,613

31. Partly-owned subsidiary with material non-controlling interests (continued)

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

	2015 RMB'000	2014 RMB'000
Revenue	247,715	297,030
Total expenses	(224,157)	(251,915)
Profit for the year	23,558	45,115
Total comprehensive income for the year	23,558	45,115
Current assets	177,739	222,373
Non-current assets	332,234	322,885
Current liabilities	(24,896)	(71,294)
Non-current liabilities	(33,899)	(31,344)
Net cash flows from operating activities	30,996	48,634
Net cash flows used in investing activities	(19,994)	(21,403)
Net cash flows used in financing activities	(15,000)	(25,108)
Net foreign exchange difference	62	3
Net (decrease)/increase in cash and cash equivalents	(3,936)	2,126

As at 31 December 2015, the unrealised profit from the inter-company transaction between WPU and Luye Trading was RMB5,954,000 (31 December 2014: RMB15,814,000).

32. 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 2015 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	8,495	3,367
In the second to fifth years, inclusive	7,943	1,719
After five years	2,625	2,675
	19,063	7,761

33. Commitments

In addition to the operating lease commitments detailed in note 32, the Group had the following capital commitments at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Land and buildings	75,467	104,102
Plant and machinery	106,215	84,979
	181,682	189,081

34. Related party transactions

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

Company	Relationship
Luye Investment	Immediate holding company
Luye Pharma Holdings Ltd. ("Luye Holdings")	Intermediate holding company
Steward Cross	Associate
Shandong International Biological Technology Co., Ltd. ("Shandong Biological Tech")	An entity controlled by a director of the Company
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	A subsidiary wholly controlled by Shandong Biological Tech

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

	Notes	2015 RMB'000	2014 RMB'000
Sales of products to Steward Cross	*(i)*	4,886	10,526
Loans to Luye Investment		–	213,520
Payment for purchase of buildings to Shandong Biological Tech		–	105,863
Sales of inventories to Shandong Boan	*(ii)*	2,873	36,063
Sales of machinery and equipment to Shandong Boan		–	23,236

Notes:

(i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transactions.

34. Related party transactions (continued)

(b) Outstanding balances with related parties:

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

(i) *Due from related parties*

	2015 RMB'000	2014 RMB'000
Steward Cross	**1,600**	2,219
Shandong Boan	**—**	436
	1,600	2,655

(ii) *Due to related parties*

	2015 RMB'000	2014 RMB'000
Shandong Boan	**3,428**	—
	3,428	—

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

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**15,629**	14,612
Pension scheme contributions	**851**	796
Total compensation paid to key management personnel	**16,480**	15,408

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

35. Financial instruments by category

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

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	1,405,460	1,405,460
Trade and notes receivables	1,193,103	–	1,193,103
Financial assets included in prepayments, deposits and other receivables	80,427	–	80,427
Cash and cash equivalents	843,674	–	843,674
Time deposits with original maturity of over three months	960,591	–	960,591
Pledged time deposits	266,500	–	266,500
Due from related parties	1,600	–	1,600
	3,345,895	1,405,460	4,751,355

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	83,219	83,219
Financial liabilities included in other payables and accruals	194,336	194,336
Interest-bearing loans and borrowings	502,715	502,715
	780,270	780,270

35. Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

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	151,863	—	151,863
Time deposits with original maturity of over three months	180,000	—	180,000
Pledged time 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 other payables and accruals	280,726	280,726
Interest-bearing loans and borrowings	305,537	305,537
	645,307	645,307

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.

35. Financial instruments by category (continued)

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 18).

As at 31 December 2015, 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 amount of the Endorsed Notes was RMB73,157,000 as at 31 December 2015 (2014: RMB80,179,000). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amount of RMB44,662,000 ("Derecognised Notes") as at 31 December 2015 (2014: RMB64,224,000). 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 is equal 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 amount of the remaining Endorsed Notes and associated trade payables settled of RMB28,495,000 (2014: 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.

36. 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:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (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	**2,842**	**—**	**—**	**2,842**
Investment in bank financial products	**—**	**1,402,118**	**—**	**1,402,118**
	2,842	**1,402,118**	**—**	**1,404,960**

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (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

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 (2014: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2015 (2014: Nil).

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, trade and notes receivables, deposits and other receivables, amounts due from/to related parties, trade and notes payables, other payables 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.

37. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings and cash and time 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 interest-bearing loans and borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

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
2015		
RMB	**50**	**—**
RMB	**(50)**	**—**
US$	**50**	**(16)**
US$	**(50)**	**16**
2014		
RMB	50	(3)
RMB	(50)	3
US$	50	(15)
US$	(50)	15

37. 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 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
2015		
If RMB weakens against US$	**5**	**(14,481)**
If RMB strengthens against US$	**(5)**	**14,481**
If US$ weakens against SG$	**5**	**(881)**
If US$ strengthens against SG$	**(5)**	**881**
If US$ weakens against HK$	**5**	**(14)**
If US$ strengthens against HK$	**(5)**	**14**
If HK$ weakens against SG$	**5**	**4**
If HK$ strengthens against SG$	**(5)**	**(4)**
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)

37. 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 time 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 amounts 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 20 and 21.

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 and 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.

37. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

31 December 2015

	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	—	82,523	423,556	603	—	506,682
Trade and notes payables	11,998	71,221	—	—	—	83,219
Financial liabilities included in other payables and accruals	93,270	101,066	—	—	—	194,336
	105,268	254,810	423,556	603	—	783,607

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
Financial liabilities included in other payables and accruals	177,915	102,811	—	—	—	280,726
	185,008	216,924	246,416	777	—	649,125

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 2015 and 2014.

37. Financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 30%. Net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents and pledged time 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:

	2015 RMB'000	2014 RMB'000
Interest-bearing loans and borrowings	502,715	305,537
Trade and notes payables	83,219	59,044
Other payables and accruals	366,457	439,576
Due to related parties	3,428	–
Less: Cash and cash equivalents	(843,674)	(151,863)
Time deposits with original maturity of over three months	(960,591)	(180,000)
Pledged time deposits	(266,500)	(127,215)
Net (cash)/debt	(1,114,946)	345,079
Equity attributable to owners of the parent	5,663,961	4,907,598
Less: Net unrealised gain reserves	(2,042)	(4,253)
Total capital	5,661,919	4,903,345
Total capital and net (cash)/debt	4,546,973	5,248,424
Gearing ratio	(25%)	7%

38. Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**116,460**	116,135
Total non-current assets	**116,460**	116,135
CURRENT ASSETS		
Due from subsidiaries	**3,404,824**	3,459,400
Prepayments, deposits and other receivables	**40,836**	33,790
Time deposits with original maturity of over three months	**290,591**	—
Cash and cash equivalents	**250,286**	13,587
Total current assets	**3,986,537**	3,506,777
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	**259,744**	244,760
Due to subsidiaries	**436,898**	148,976
Other payables and accruals	**3,355**	6,248
Total current liabilities	**699,997**	399,984
NET CURRENT ASSETS	**3,286,540**	3,106,793
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,403,000**	3,222,928
Net assets	**3,403,000**	3,222,928
EQUITY		
Issued capital	**427,269**	427,269
Share premium *(Note)*	**2,936,817**	2,936,817
Reserves *(Note)*	**38,914**	(141,158)
Total equity	**3,403,000**	3,222,928

38. Statement Of Financial Position of the Company (continued)

Note:

A summary of the Company's share premium account and reserves is as follows:

	Share premium account RMB'000	Retained earnings RMB'000	Foreign currency translation reserves RMB'000	Total RMB'000
At 1 January 2014	427,980	97,516	(126,709)	398,787
Profit for the year	—	228,105	—	228,105
Other comprehensive income for the year:				
Currency realignment	—	—	(15,731)	(15,731)
Total comprehensive income for the year	—	228,105	(15,731)	212,374
Share repurchase	(191,444)	—	—	(191,444)
Issue of shares	3,057,145	—	—	3,057,145
Capitalisation issue	(272,450)	—	—	(272,450)
Share issue expenses	(84,414)	—	—	(84,414)
Dividends paid	—	(324,339)	—	(324,339)
At 31 December 2014 and 1 January 2015	2,936,817	1,282	(142,440)	2,795,659
Loss for the year	—	(9,683)	—	(9,683)
Other comprehensive income for the year:				
Currency realignment	—	—	189,755	189,755
Total comprehensive income for the year	—	(9,683)	189,755	180,072
At 31 December 2015	**2,936,817**	**(8,401)**	**47,315**	**2,975,731**

39. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2016.

Luye Pharma Group Ltd.

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