LUYE PHARMA GROUP LTD.
绿 叶 制 药 集 团 有 限 公 司

(Incorporated in the Bermuda with limited liability)

(Stock Code: 02186)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB639.1 million or 25.4% to RMB3,154.2 million.
- EBITDA increased by RMB367.7 million or 72.4% to RMB875.9 million.
- Profit attributable to shareholders increased by RMB295.0 million or 95.0% to RMB605.5 million.
- Earnings per share was RMB20.22 cents compared to RMB11.48 cents for the previous year.
- No dividend was proposed for the year ended 31 December 2014.

RESULTS

The board of directors (the "**Board**") of Luye Pharma Group Ltd. (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**3,154,220**	2,515,111
Cost of sales		**(482,505)**	(413,506)
Gross profit		**2,671,715**	2,101,605
Other income and gains	5	**98,375**	35,902
Selling and distribution expenses		**(1,616,493)**	(1,378,061)
Administrative expenses		**(194,984)**	(146,508)
Other expenses		**(193,786)**	(206,669)
Finance costs	7	**(39,661)**	(24,091)
Share of profit of an associate		**348**	990
PROFIT BEFORE TAX	6	**725,514**	383,168
Income tax expense	8	**(111,068)**	(55,224)
PROFIT FOR THE YEAR		**614,446**	327,944
Attributable to:			
Owners of the parent		**605,524**	310,498
Non-controlling interests		**8,922**	17,446
		614,446	327,944
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the year	9	**20.22 cents**	11.48 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,092,151**	925,824
Advance payments for property, plant and equipment		**34,227**	48,948
Prepayments, deposits and other receivables		**700,000**	—
Prepaid land lease payments		**194,193**	187,290
Goodwill		**347,356**	347,356
Other intangible assets		**145,888**	136,301
Investment in an associate		**5,485**	5,323
Available-for-sale investments		**2,242**	4,331
Long-term deferred expenditure		**—**	292
Deferred tax assets		**83,259**	79,428
Total non-current assets		**2,604,801**	1,735,093
CURRENT ASSETS			
Inventories		**251,198**	234,733
Trade and notes receivables	*11*	**914,130**	535,562
Prepayments, deposits and other receivables		**53,502**	46,413
Due from related parties		**2,655**	314,209
Pledged short-term deposits		**127,215**	177,485
Available-for-sale investments		**1,845,392**	10,000
Cash and cash equivalents		**331,863**	333,150
		3,525,955	1,651,552
Non-current assets held for sale		**—**	818
Total current assets		**3,525,955**	1,652,370
CURRENT LIABILITIES			
Trade and notes payables	*12*	**59,044**	69,369
Other payables and accruals		**439,576**	351,913
Interest-bearing loans and borrowings	*13*	**304,899**	735,921
Government grants		**37,049**	74,436
Tax payable		**47,668**	34,488
Due to related parties		**—**	36,856
Total current liabilities		**888,236**	1,302,983

	Notes	2014 RMB'000	2013 RMB'000
NET CURRENT ASSETS		**2,637,719**	349,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,242,520**	2,084,480
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*13*	**638**	9,387
Government grants		**106,605**	78,684
Deferred tax liabilities		**97,717**	98,714
Total non-current liabilities		**204,960**	186,785
Net assets		**5,037,560**	1,897,695
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**427,269**	81,180
Share premium		**2,936,817**	427,980
Reserves		**1,543,512**	1,259,882
		4,907,598	1,769,042
Non-controlling interests		**129,962**	128,653
Total equity		**5,037,560**	1,897,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. CORPORATE INFORMATION

Luye Pharma Group Ltd. (the "**Company**") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited on 5 May 2004, and delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of the Stock Exchange of Hong Kong Limited ("**SEHK**").

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

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

2. BASIS OF PREPARATION

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

These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The consolidated financial statements have been prepared on a historical cost convention, except for available-for-sale investments that have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell.

The consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

3. **IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

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

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

4. **OPERATING SEGMENT INFORMATION**

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue and results of major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment result is evaluated based on gross profit less selling expense allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2014

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

Year ended 31 December 2013

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue					
External customers	1,102,165	723,079	575,237	114,630	2,515,111
Total revenue	1,102,165	723,079	575,237	114,630	2,515,111
Segment results	386,471	224,044	93,733	19,296	723,544
Other income and gains					35,902
Administrative expenses					(146,508)
Other expenses					(206,669)
Finance costs					(24,091)
Share of profit an of associate					990
Profit before tax					383,168

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

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

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

6. PROFIT/LOSS BEFORE TAXATION

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

	2014	2013
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**79,813**	57,953
Amortisation of other intangible assets	**25,491**	37,629
Amortisation of prepaid land lease payments	**5,141**	4,852
Amortisation of long-term deferred expenditure	**292**	500
(Reversal of provision for)/provision for impairment of trade receivables	**(503)**	286
Reversal of provision for impairment of other receivables	**(600)**	(9)
Listing expense	**32,749**	—
Operating lease expenses	**11,503**	10,924
Auditors' remuneration	**7,360**	2,800
Employee benefit expense (excluding directors' remuneration)	**356,502**	326,567
Other expenses:		
Research and development costs	**182,332**	194,081
Net foreign exchange loss	**—**	3,268
Donation	**6,587**	6,199
Loss on disposal of items of property, plant and equipment	**3,966**	430
Loss on disposal of items of other intangible assets	**—**	1,440
Others	**901**	1,251
	193,786	206,669

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Group calculates the income tax expenses using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expenses are:

	2014	2013
	RMB'000	*RMB'000*
Current tax:		
Income tax charge	**113,972**	87,053
Adjustments in respect of income tax of previous years	**2,663**	1,612
Deferred tax	**(5,567)**	(33,441)
Total tax charge for the year	**111,068**	55,224

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and on the weighted average number of ordinary shares in issue during the year, and assuming the capitalisation issue had been completed on 1 January 2013.

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

	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the parent	**605,524**	310,498

	Number of shares	
	2014	2013
Shares		
Weighted average number of shares in issue during the year	**2,994,929,593**	2,705,466,835

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

10. DIVIDEND

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

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

11. TRADE AND NOTES RECEIVABLES

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

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

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

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

12. TRADE AND NOTES PAYABLES

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

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

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

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

13. INTEREST-BEARING LOANS AND BORROWINGS

2014

	Effective interest rate (%)	Maturity	Group *RMB'000*
Current			
Bank loans — secured	3-Month LIBOR + 2.3~5.6	2015	304,760
Finance lease payables	2.2	2015	139
			304,899
Non-current			
Finance lease payables	2.2	2016–2020	638
			305,537

2013

	Effective interest rate *(%)*	Maturity	Group *RMB'000*
Current			
Bank loans — secured	3-Month LIBOR + 2.2~6.765	2014	715,777
Bank loans — unsecured	5.6	2014	20,000
Finance lease payables	2.2	2014	144
			735,921
Non-current			
Bank loans — secured	6.765	2015	8,586
Finance lease payables	2.2	2015–2020	801
			9,387
			745,308

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

Market Positioning

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

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

Key Products

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

Lipusu® (力撲素®)

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

CMNa® (希美納®)

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

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2014. According to IMS, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB9.0 billion in 2014. According to IMS, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2014.

Maitongna® (麥通納®)

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

Bei Xi® (貝希®)

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

Research and Development ("R&D")

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

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

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

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

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

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

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

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

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

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

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2014. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over

1,300 sales and marketing personnel, a network of approximately 800 third-party promoters and approximately 800 distributors that collectively enabled the Group to sell its products to over 8,500 hospitals, which comprised approximately 1,200 or approximately 66% of all Class III hospitals, approximately 2,800 or approximately 41% of all Class II hospitals and approximately 4,500 or approximately 28% of all Class I and other hospitals and medical institutions, in the PRC in 2014.

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

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

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

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

Outlook

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

Cost of Sales

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

Gross Profit

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

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and investment income. For the year ended 31 December 2014, the Group's other income and gains increased to RMB98.4 million, as compared to RMB35.9 million for the year ended 31 December 2013, representing an increase of RMB62.5 million. The increase was mainly attributable to a higher amount of government grants recognised as income during the year, as compared to the year ended 31 December 2013. The higher level of recognition of government grants primarily related to the timing of the Group's receipt from the government authority of the final assessment report for the relevant project, rather than the actual timing of receipt of the grant or incurrence of the related expenses or depreciation charges. Higher levels of both interest income and investment income also contributed to further increase in other income and gains. The Group has utilised the proceeds from initial public offering of the Company's shares on SEHK ("**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 2014, the Group's selling and distribution expenses amounted to RMB1,616.5 million, as compared to RMB1,378.1 million for year ended 31 December 2013, representing an increase of RMB238.4 million, or 17.3%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in staff cost for the sales and marketing team in line with market growth. On the other hand, however, as a percentage of revenue, the Group's selling and distribution expenses decreased from 54.8% for the year ended 31 December 2013 to 51.2% for the year ended 31 December 2014, primarily as a result of the Group's continued efforts to focus its marketing and promotion spendings on regions and products which yield higher returns and to improve the average per person contribution of the sales and marketing team.

Administrative Expenses

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

Other Expenses

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

Finance Costs

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

Income Tax Expense

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

Net Profit

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

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

Borrowings

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

Gearing Ratio

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

USE OF NET PROCEEDS FROM LISTING

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

As at 30 March 2015, the Group had utilised HK$1,591.6 million, representing 41.4% 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*	*%*	**Unutilised balance as at 30 March 2015**	*%*
To expand the Group's portfolio of pharmaceutical products	769.0	20.0	291.0	7.6	478.0	12.4
For R&D	769.0	20.0	291.0	7.6	478.0	12.4
For selective acquisition of domestic or international pharmaceutical companies	769.0	20.0	291.0	7.6	478.0	12.4
To fund capital expenditure projects to increase production capabilities	769.0	20.0	359.2	9.3	409.8	10.7
To expand sales and marketing network	192.2	5.0	71.8	1.9	120.4	3.1
To partially repay borrowings under U.S dollar secured loan	192.2	5.0	179.6	4.7	12.6	0.3
For working capital and general corporate purposes	384.6	10.0	108.0	2.8	276.6	7.2

FINAL DIVIDEND

The Board did not propose any dividend for the year ended 31 December 2014.

CLOSURE OF REGISTER OF SHAREHOLDERS

The annual general meeting of the Company is scheduled to be held on 8 June 2015. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 3 June 2015 to 5 June 2015, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 2 June 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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

Since 9 July 2014 (the "**Listing Date**") and up to the date of this announcement, the Company has complied with all the applicable code provisions set out in the CG Code, save and except for the following deviation:

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. With extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

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 for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries between the period since the Listing Date and the date of this announcement.

AUDIT COMMITTEE

The audit committee has reviewed together with the Board on the accounting principles and policies adopted by the Group, the annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2014. The audit committee also approved the annual results and the consolidated financial statements for the year ended 31 December 2014 and submitted them to the Board for approval.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2014 ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2014 annual report containing all the information about the Company set out in this announcement including the financial results for the year ended 31 December 2014 will be posted on the Company's website (*www.luye.cn*) and the website of SEHK (*www.hkexnews.hk*) in due course.

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

Hong Kong, 30 March 2015

As at the date of this announcement, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing and Ms. ZHU Yuan Yuan; the non-executive directors are Mr. PAN Jian, Mr. LIU Dong and Ms. WANG Xin; and the independent non-executive directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.