LUYE PHARMA
绿叶制药

Luye Pharma Group Ltd.
绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 2186

INTERIM REPORT 2014

Contents

Company Overview

Luye Pharma Group Ltd. (the "Company", together with its subsidiaries, 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 — oncology, cardiovascular system and alimentary tract and metabolism. The Group's product portfolio consists of 29 products and centres around seven key products, six of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. The Group has established production facilities and research and development ("R&D") centres in Beijing, Jiangsu, Shandong and Sichuan as well as offices in Malaysia and Singapore with over 3,200 employees, including over 260 R&D personnel. The Group's products are marketed and sold in a vast majority of provinces, autonomous regions and municipalities in the People's Republic of China (the "PRC"), as well as a number of foreign countries and regions. In the first half of 2014, the Group's nationwide sales and distribution network enabled it to sell its products to over 8,000 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. To prepare for the listing on the SGX-ST, the Group carried out a corporate reorganisation and as part of such reorganisation, the Company was incorporated in Bermuda on 2 July 2003 to act as the holding company of the Group. In 2012, Luye Pharmaceutical Investment Co. Ltd. ("Luye Investment") made a privatisation offer, and as a result of which the Company became a wholly-owned subsidiary of Luye Investment. The Company's shares were delisted from the SGX-ST on 29 November 2012. On 9 July 2014, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

Corporate Information

Board of Directors

Executive Directors

Mr. LIU Dian Bo
(Executive Chairman and Chief Executive Officer)
Mr. YUAN Hui Xian
Mr. YANG Rong Bing
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

Authorised 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 China

No. 9 Baoyuan Road
Laishan District
Yantai 264003
Shandong
People's Republic of China

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Shanghai 200336
People's Republic of China

Principal Place of Business in Hong Kong

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Corporate Information (continued)

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Legal Advisers

as to Hong Kong and United States laws:
Ashurst Hong Kong
11/F, Jardine House
One Connaught Place
Central
Hong Kong

as to PRC law:
King & Wood Mallesons
40/F, Office Tower A
Beijing Fortune Plaza
7 Dongsanhuan Zhonglu
Chaoyang District
Beijing
People's Republic of China

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

Compliance Advisor

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

Auditors

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

For the six months ended 30 June 2014:

- Revenue increased by RMB350.4 million or 29.3% to RMB1,547.3 million, as compared to the six months ended 30 June 2013.
- Gross profit increased by RMB299.9 million or 30.1% to RMB1,297.1 million, as compared to the six months ended 30 June 2013, and gross profit margin reached 83.8%.
- EBITDA increased by RMB203.3 million or 90.5% to RMB427.9 million, as compared to the six months ended 30 June 2013.
- Profit attributable to shareholders increased by RMB151.1 million or 116.1% to RMB281.2 million, as compared to the six months ended 30 June 2013.

Management Discussion and Analysis

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC — oncology, cardiovascular system and alimentary tract and metabolism. The Group's product portfolio consists of 29 products and centres around seven key products, six of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases and diabetes. During the first half of 2014, the Group's sale of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market shares of its key products. For the six months ended 30 June 2014, the Group recorded a strong revenue growth of 29.3% as compared to the corresponding period in 2013, achieving a far higher growth rate than the average growth rate of the PRC pharmaceutical industry.

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 China Medical and Pharmaceutical Economic Information Network ("MENET"), oncology-related pharmaceutical products constituted the single largest market for pharmaceutical products in the PRC in 2013. The Group's portfolio of oncology products includes Lipusu, the second most popular domestically manufactured pharmaceutical product for cancer treatment in China in 2013, and Tiandixin, the third most popular chemical immunostimulant with oncology indications in China in 2013, according to IMS Health Incorporated ("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. Market data from MENET shows that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2013. The Group's key cardiovascular system products include Xuezhikang, the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, and Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS. Alimentary tract and metabolism-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2013 based on MENET data. According to IMS, based on revenue in 2013, the Group was the fourth largest domestic pharmaceutical manufacturer of oral diabetic medications and the sixth largest manufacturer of liver protection medications in China.

For the six months ended 30 June 2014, the Group's revenue from sales of oncology products, cardiovascular system products and alimentary tract and metabolism products increased to RMB701.5 million, RMB415.4 million and RMB334.8 million, respectively, representing a growth rate of 29.0%, 18.4% and 35.2% as compared to the corresponding period of 2013 for the respective therapeutic area. The Group's revenue from sales of other products increased by 75.3% to RMB95.6 million, as compared to the corresponding period of 2013.

Key Products

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

Lipusu® (力撲素®).

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

Tiandixin® (天地欣®).

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

CMNa® (希美納®).

CMNa is sodium glycididazole, a proprietary compound that 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 2013. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang (血脂康).

Xuezhikang is 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 2013. According to IMS, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB6.5 billion in 2013. According to IMS, Xuezhikang ranked as the fifth most popular domestically manufactured pharmaceutical product in China based on revenue for the treatment of hypercholesterolaemia in 2013, with a market share of over 1.9% in 2013. In addition, IMS data show that Xuezhikang was the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013, with a market share of over 99.1%.

Maitongna® (麥通納®).

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral oedema and oedema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IMS, the market for vasoprotective pharmaceuticals in China was estimated to be approximately RMB1.8 billion in 2013. Maitongna was the best-selling sodium aescinate product in China in 2013 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS, with a market share of approximately 18.7% in 2013.

Bei Xi® (貝希®).

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the CFDA, the Group was the only manufacturer of acarbose in capsule form in China as of 31 December 2013. According to IMS, the market for acarbose products in China was estimated to be approximately RMB2.4 billion in 2013. Bei Xi ranked as the third most popular acarbose product in China, with a market share of approximately 3.0% in 2013, according to IMS.

Lutingnuo® (綠汀諾®).

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

Research and Development

The Group's R&D activities are organised around three platforms — long-acting and extended release technology, liposome and targeted drug delivery and new compounds. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities.

The Company believes that the Group's R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 30 June 2014, the Group had a pipeline of 22 PRC product candidates in various stages of development that the Group is targeting to launch by 2020, including 17 product candidates that the Group is targeting to launch by 2018. These candidates included eight oncology products and four alimentary tract and metabolism products, as well as ten products within the central nervous system therapeutic area, which according to MENET was the fastest growing therapeutic area in China from 2008 to 2013. In addition, the Group has four product candidates at the clinical trial stage in the United States. As at 30 June 2014, the Group's R&D team consisted of 262 employees, including 32 Ph.D. degree holders and 120 Master's degree holders in medical, pharmaceutical and other related areas. The Group had been granted 249 patents and had 74 pending patent applications in the PRC, and had been granted 80 patents and had 93 pending patent applications overseas.

Through the Group's three platforms and corresponding R&D capabilities, the Group focuses on R&D projects within the oncology, alimentary tract and metabolism, as well as central nervous system therapeutic areas. As at 30 June 2014, the Group's product candidates included eight oncology products, four alimentary tract and metabolism products and ten central nervous system products. The Group is targeting that 17 product candidates will be approved for marketing and sale in China by 2018.

In September 2014, mucoadhesive oral wound rinse developed by the Group obtained the registration certificate from the CFDA. Mucoadhesive oral wound rinse is categorised within the oncology therapeutic area, and is used for the prevention and treatment of oral mucositis or stomatitis that may be caused by radiotherapy and/or chemotherapy and other types of oral ulcers, including recurrent oral ulcers and traumatic ulcers caused by surgery, dentures or braces. The approval of registration certificate for mucoadhesive oral wound rinse will promote the Group's development in the oncology therapeutic area. It is expected to further enrich the Group's product portfolio, which will have a positive impact on the Group's future sales.

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. 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 the clinical trial stage in the United States. 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 United States. The Group has submitted its IND application under the category for botanical drug products. The other three candidates are central nervous system products being concurrently developed for the PRC market and are currently in clinical trials in the United States. For two of these product candidates, rotigotine extended release microspheres for injection and risperidone extended release microspheres for injection, the Group has submitted its IND application under section 505(b)(2) of the United States Federal Food, Drug, and Cosmetic Act in order to enable it to rely on pre-existing third party data in respect of the product safety and efficacy and the Company believes this implicates a higher success rate and allows the Group to reduce costs and risks associated with the process. For the other product candidate, ansofaxine hydrochloride extended release tablets, the Group has submitted its IND application under the new drug registration route and it is currently undergoing phase I clinical trials.

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 product development.

On 20 August 2014, the Group and Hanmi Pharm. Co., Ltd., a leading pharmaceutical company in Korea whose shares 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 drug 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 the first half of 2014. The Group's sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 sales and marketing personnel, a network of over 500 third party promoters and over 800 distributors that collectively enabled the Group to sell its products to over 8,000 hospitals in the six months ended 30 June 2014. The Group's sales and distribution network enabled it to sell its products to 1,123 or approximately 65.0% of all Class III hospitals, 2,487 or approximately 37.3% of all Class II hospitals and 4,437 or approximately 27.9% of all Class I and other hospitals and medical institutions in the PRC in the first half of 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 it enables the Group to leverage their relationships 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 activity that is specifically tailored to doctors and hospitals that drive demand for the Group's products within their respective therapeutic areas.

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 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 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.

The Company believes that the Group's sales and marketing model and extensive coverage of hospitals and other medical institutions represent a significant competitive advantage because they are the result of the culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with qualified distributors across the country. The Company believes that the Group's 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 recruiting, 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; however, it is highly competitive and the Group faces competition from other market participants. For the second half of 2014, the Group aims to continue 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 adjust its marketing and promotion spend away from regions and products where marketing and promotion expenditure has lower returns and increase 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. In September 2014, mucoadhesive oral wound rinse developed by the Group obtained the registration certificate from the CFDA. The approval of registration certificate for mucoadhesive oral wound rinse will promote the Group's development in the oncology therapeutic area. 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. 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. On 20 August 2014, the Group and Hanmi Pharm. Co., Ltd., a leading pharmaceutical company in Korea whose shares 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 drug pipeline in China and to strengthen the Group's competitive position in the oncology therapeutic area. The 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, the Group is well positioned to enter a new phase of rapid growth.

Financial Review

Revenue

For the six months ended 30 June 2014, the Group's revenue amounted to approximately RMB1,547.3 million, as compared to RMB1,196.9 million for the six months ended 30 June 2013, representing an increase of approximately RMB350.4 million, or 29.3%. The increase is mainly attributable to the sales growth of the Group's key products.

For the six months ended 30 June 2014, the Group's revenue from sales of oncology products increased to RMB701.5 million, as compared to RMB543.9 million for the six months ended 30 June 2013, representing an increase of approximately RMB157.6 million, or 29.0%, primarily attributable to the increase in sales of Lipusu, Tiandixin and CMNa, which are the Group's key oncology products.

For the six months ended 30 June 2014, revenue from sales of cardiovascular system products increased to RMB415.4 million, as compared to RMB350.9 million for the six months ended 30 June 2013, representing an increase of approximately RMB64.5 million, or 18.4%, primarily attributable to the increase in sales of Maitongna and Xuezhikang, which are the Group's key cardiovascular system products.

For the six months ended 30 June 2014, revenue from sales of alimentary tract and metabolism products increased to RMB334.8 million, as compared to RMB247.6 million for the six months ended 30 June 2013, representing an increase of approximately RMB87.2 million, or 35.2%, primarily attributable to the increase in sales of Bei Xi and Lutingnuo, which are the Group's key alimentary tract and metabolism products.

For the six months ended 30 June 2014, revenue from sales of other products increased to RMB95.6 million, as compared to RMB54.5 million for the six months ended 30 June 2013, representing an increase of approximately RMB41.1 million, or 75.3%.

Management Discussion and Analysis (continued)

Cost of Sales

The Group's cost of sales increased from approximately RMB199.7 million for the six months ended 30 June 2013 to approximately RMB250.2 million for the six months ended 30 June 2014, which accounted for approximately 16.2% of the Group's total revenue for the same period. The primarily driver of the Group's increased cost of sales was the increased sales volumes for the six months ended 30 June 2014, as compared to the same period for 2013.

Gross Profit

For the six months ended 30 June 2014, the Group's gross profit increased to RMB1,297.1 million, as compared to RMB997.2 million for the six months ended 30 June 2013, representing an increase of approximately RMB299.9 million, or 30.1%. The increase in the Group's gross profit was broadly in line with its revenue growth. The Group's gross profit margin increased to 83.8% for the six months ended 30 June 2014 from 83.3% for the corresponding period of 2013.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and investment income. For the six months ended 30 June 2014, the Group's other income and gains increased to RMB41.1 million, as compared to RMB4.6 million for the six months ended 30 June 2013, representing an increase of approximately RMB36.5 million. The increase is mainly attributable to a higher level of government grants recognised as income during the six months ended 30 June 2014, as compared to the corresponding period of 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 timing of receipt of the grant or the Group's incurrence of the relevant expenses or depreciation charges.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consisted of promotion expense, travelling expense, staff cost, advertising expense, conference expense, office expense, transportation expense, operating lease expense and certain other expenses that were directly related to the Group's marketing and promotion activities. For the six months ended 30 June 2014, the Group's selling and distribution expenses amounted to approximately RMB797.6 million, as compared to RMB682.0 million for the six months ended 30 June 2013, representing an increase of approximately RMB115.6 million, or 16.9%. The increase was mainly attributable to increased promotional activity for the Group's products. However, as a percentage of revenue, the Group's selling and distribution expenses decreased from 57.0% for the six months ended 30 June 2013 to 51.5% for the six months ended 30 June 2014, primarily as a result of the Group's continued efforts to adjust its marketing and promotion spend away from regions and products where marketing and promotion expenditure had lower returns.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the six months ended 30 June 2014, the Group's administrative expenses amounted to approximately RMB91.7 million, as compared to RMB70.9 million for the six months ended 30 June 2013, representing an increase of approximately RMB20.8 million, or 29.4%. The increase was mainly due to a one-off listing expense incurred during the six months ended 30 June 2014.

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 six months ended 30 June 2014, the Group's other expenses amounted to approximately RMB76.5 million, as compared to RMB75.4 million for the six months ended 30 June 2013, representing an increase of approximately RMB1.1 million, or 1.4%. The increase was mainly due to increased R&D costs, which increased from RMB67.2 million for the six months ended 30 June 2013 to RMB69.5 million for the six months ended 30 June 2014.

Finance Costs

For the six months ended 30 June 2014, the Group's finance costs amounted to RMB25.8 million, as compared to RMB13.7 million for the six months ended 30 June 2013, representing an increase of approximately RMB12.1 million, or 88.6%. The increase was mainly due to the increase in average monthly outstanding bank borrowings during the six months ended 2014 as compared to the corresponding period of 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.

Income Tax Expense

For the six months ended 30 June 2014, the Group's income tax expense amounted to RMB60.8 million, as compared to RMB22.4 million for the six months ended 30 June 2013, representing an increase of RMB38.4 million, or 171.4%. The effective tax rate for the six months ended 30 June 2014 and the corresponding period of 2013 was 17.5% and 14.0%, respectively. The increase in effective tax rate was mainly due to the recognition of PRC withholding taxes on the retained earnings of the Group's PRC subsidiaries for the six months ended 30 June 2014 and the absence in the six months ended 30 June 2014 of the utilisation of prior period tax losses.

Net Profit

The Group's net profit for the six months ended 30 June 2014 was approximately RMB286.2 million, as compared to RMB137.7 million for the six months ended 30 June 2013, representing an increase of approximately RMB 148.5 million, or 107.8%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 30 June 2014, the Group had net current assets of approximately RMB70.2 million, as compared to RMB349.4 million as at 31 December 2013. The current ratio of the Group decreased to approximately 1.0 as at 30 June 2014 from 1.3 as at 31 December 2013. The decrease in net current assets was mainly due to the Company's declaration of dividends of US$52,865,878 (equivalent to RMB324,339,000) to Luye Investment and the Company's repurchase of 51,932,992 shares from Luye Investment for a total consideration of RMB200 million on 30 May 2014. Luye Investment used the dividends and the consideration from the share repurchase to settle the amount due to the Company.

Borrowing and the Pledge of Assets

As at 30 June 2014, the Group had an aggregate interest-bearing bank and other borrowings of approximately RMB1,014.0 million, as compared to RMB745.3 million as at 31 December 2013. Amongst the bank and other borrowings, approximately RMB1,013.3 million are repayable within one year, and approximately RMB0.8 million are repayable after two years. 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.

Within the short-term deposits, RMB257.8 million were pledged to secure bank loans as at 30 June 2014, as compared to RMB163.6 million as at 31 December 2013.

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 61.2% from approximately 39.3% as at 31 December 2013. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken and a decrease in total equity resulting from the Company's declaration of dividends to Luye Investment and the Company's share repurchase from Luye Investment.

Contingent Liabilities

As at 30 June 2014, the Group had no significant contingent liabilities.

Contractual Obligations

As at 30 June 2014, the Group's operating lease commitment amounted to RMB10.8 million, as compared to RMB11.4 million as at 31 December 2013. The Group's capital commitment amounted to RMB178.2 million, as compared to RMB180.9 million as at 31 December 2013.

Foreign Exchange and Exchange Rate Risk

The Group mainly operates in the PRC. Other than the foreign currency denominated bank deposits and bank borrowings, the Group does not have any other material direct exposure to foreign exchange fluctuations. Appreciation in RMB would have a positive effect on the value of interest payment and repayment of foreign currency bank borrowings. Despite that RMB depreciated against the U.S. dollar and the Hong Kong dollar during the six months ended 30 June 2014, the Directors expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Employees and Emoluments Policy

As at 30 June 2014, the Group employed a total of 3,274 employees, as compared to a total of 3,180 employees as at 31 December 2013. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB152.2 million for the six months ended 30 June 2014 as compared to RMB127.9 million for the corresponding period in 2013. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performances to attract and retain capable employees of the Group.

Significant Investments Held

During the six months ended 30 June 2014, the Group did not have any significant investments.

Future Plans for Material Investments or Capital Assets

Save as disclosed in "Subsequent Events after the Interim Period" below and the Company's announcement dated 27 August 2014, the Group does not have other plans for material investments or capital assets.

Subsequent Events after the Interim Period

In connection with the Company's global offering, 667,540,000 shares with a nominal value of US$0.02 each were issued at a price of HK$5.92 per share for a total cash consideration, before underwriting fees, commissions and related expenses, of approximately HK$3,951,836,800. Dealings in the shares of the Company on the Stock Exchange commenced on 9 July 2014.

On 25 August 2014, the Group entered into the agreements with Mylin Holdings Group Co., Ltd. (美林控股集團有限公司), Beijing CITIC Investment Centre (Limited Partnership (北京中信投資中心(有限合夥)) (together with Mylin Holdings Group Co., Ltd., the "Sellers") and Beijing Jialin Pharmaceutical Co., Ltd. (北京嘉林藥業股份有限公司) ("Beijing Jialin"), pursuant to which the Sellers have conditionally agreed to sell and the Group has conditionally agreed to purchase an aggregate of 57.98% equity interest in Beijing Jialin, for an aggregate consideration of RMB3,683,870,000 in cash. Upon completion of the transaction and assuming that the other shareholders of Beijing Jialin do not sell their equity interest in Beijing Jialin to the Group, the Group will hold 57.98% equity interest in Beijing Jialin. Beijing Jialin will become a non-wholly owned subsidiary of the Group and its results will be consolidated into the accounts of the Group. Further details of the acquisition are set out in the Company's announcement dated 27 August 2014.

Interim Dividend

On 30 May 2014, the Company declared a dividend of US$52,865,878 (equivalent to Rmb324,339,000) to Luye Investment. Luye Investment used the dividends to settle a portion of the amount due to the Company.

The Board does not recommend any interim dividend for the six months ended 30 June 2014.

No other dividend was declared or paid by the Company during the six months period ended 30 June 2014, and no dividend was declared or paid for the six months ended 30 June 2013.

Other Information

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance since 9 July 2014 (the "Listing Date").

The shares of the Company were listed on the Stock Exchange with effect from the Listing Date. As the Company was not a listed company during the six months ended 30 June 2014, the CG Code was not applicable to it during that period. The CG Code has been applicable to the Company with effect from the Listing Date.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") of Appendix 10 to the Listing Rules. As the Company was not listed on the Stock Exchange during the six month ended 30 June 2014, the provisions under the Listing Rules in relation to compliance with the Model Code by the Directors were not applicable to the Company for the six months ended 30 June 2014.

Purchase, Sale or Redemption of Listed Securities

As the Company was not listed on the Stock Exchange during the six month ended 30 June 2014, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

Audit Committee

The Board has established an audit committee (the "Audit Committee") which comprises three independent non-executive Directors, namely Mr. LEUNG Man Kit (chairman), Mr. ZHANG Hua Qiao and Professor LO Yuk Lam.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements and interim results announcement of the Group for the six months ended 30 June 2014 and recommended its adoption by the Board.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2014 in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Accounting Standards Board.

Interests and Short Positions of Directors in Shares of the Company

As the shares of the Company were listed on the Stock Exchange on 9 July 2014, the Company was not required to keep any register under Part XV of the Securities and Futures Ordinance (the "SFO") as of 30 June 2014.

As of the date of this report, the interests and short positions of the Directors, including the chief executive of the Company, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as set out below.

Long positions in the ordinary shares of the Company

Name of Director	Nature of interest	Total number of ordinary shares held	Approximate % of interest in the Company
Mr. Liu Dian Bo[(1)(2)]	Founder of a discretionary trust	1,459,999,930	43.96%

Notes:

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

(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 member is Mr. Liu Dian Bo.

Long position in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Total number of shares held	% of interest in the corporation
Mr. Liu Dian Bo	Ginkgo Trust Limited[(1)]	Founder of a discretionary trust	1	100%
	Nelumbo Investments Limited[(1)]	Founder of a discretionary trust	1	100%
	AsiaPharm Holdings Ltd.[(2)]	Founder of a discretionary trust	8,400	70%
	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852	100%
	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988	100%
	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1	100%
Mr. Yuan Hui Xian	AsiaPharm Holdings Ltd.[(2)]	Beneficial interest	1,800	15%
Mr. Yang Rong Bing	AsiaPharm Holdings Ltd.[(2)]	Beneficial interest	1,800	15%

Notes:

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

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

Save as disclosed above, as of the date of this report, none of the Directors, including the chief executive of the Company, had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information (continued)

At no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed above, during the six months ended 30 June 2014, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Interests and Short Positions of Other Persons In Shares of the Company

As the shares of the Company were listed on the Stock Exchange on 9 July 2014, the Company was not required to keep any register under Part XV of the SFO as of 30 June 2014.

As of the date of this report, persons (other than the Directors and chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below.

Long Position in the Ordinary Shares of the Company

Name of substantial shareholder	Capacity/Nature of interest	Number of ordinary shares held	Approximate % of interest in the Company
Luye Pharmaceutical Investment Co., Ltd.(1)	Beneficial owner	1,459,999,930	43.96%
Luye Pharmaceutical International Co., Ltd.(1)	Interest in controlled corporation	1,459,999,930	43.96%
Luye Pharma Holdings Ltd.(1)	Interest in controlled corporation	1,459,999,930	43.96%
AsiaPharm Holdings Ltd.(2)	Interest in controlled corporation	1,459,999,930	43.96%
Nelumbo Investments Limited(2)	Interest in controlled corporation	1,459,999,930	43.96%
Ginkgo Trust Limited(2)	Trustee	1,459,999,930	43.96%
Shorea LBG(2)	Interest in controlled corporation	1,459,999,930	43.96%
CPE Greenery Ltd.(3)	Beneficial owner	196,561,695	5.92%
CPEChina Fund, L.P.(3)	Interest in controlled corporation	196,561,695	5.92%
CITIC PE Associates, L.P.(3)	Interest in controlled corporation	196,561,695	5.92%
CITIC PE Funds Limited(3)	Interest in controlled corporation	196,561,695	5.92%
Tropical Excellence Infrastructure Pte Ltd.(4)	Beneficial owner	195,796,853	5.90%
GIC (Ventures) Pte. Ltd.(4)	Interest in controlled corporation	195,796,853	5.90%
GIC Special Investments Pte. Ltd.(4)	Interest in controlled corporation	195,796,853	5.90%
GIC Private Limited(4)	Interest in controlled corporation	195,796,853	5.90%
CDH Flower Limited(5)	Beneficial owner	185,945,580	5.60%
CDH Pharmaceutical Investments Limited(5)	Interest in controlled corporation	185,945,580	5.60%
CDH Fund IV, L.P.(5)	Interest in controlled corporation	185,945,580	5.60%
CDH IV Holdings Company Limited(5)	Interest in controlled corporation	185,945,580	5.60%
China Diamond Holdings Company Limited(5)	Interest in controlled corporation	185,945,580	5.60%
China Diamond Holdings IV, L.P.(5)	Interest in controlled corporation	185,945,580	5.60%

Other Information (continued)

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 AsiaPharm Holdings Limited. 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 member 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 is CITIC PE Associates, L.P. CITIC PE Funds Limited.*

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

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

Save as disclosed above, as of the date of this report, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Report on Review of Interim Financial Information

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

To the board of directors of Luye Pharma Group Ltd.
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 20 to 38, which comprise the interim condensed consolidated statement of financial position of Luye Pharma Group Ltd. and its subsidiaries (collectively referred to as the "Group") as of 30 June 2014 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards 34 "Interim Financial Reporting" ("IAS 34").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
21 August 2014

Interim Condensed Consolidated Statement of Profit or Loss

	Notes	For the six months ended 30 June 2014 Unaudited RMB'000	2013 Unaudited RMB'000
REVENUE	5	**1,547,333**	1,196,894
Cost of sales		**(250,227)**	(199,657)
Gross profit		**1,297,106**	997,237
Other income and gains	5	**41,121**	4,557
Selling and distribution expenses		**(797,608)**	(682,017)
Administrative expenses		**(91,745)**	(70,891)
Other expenses		**(76,489)**	(75,434)
Finance costs	7	**(25,760)**	(13,661)
Share of profit of an associate		**380**	287
PROFIT BEFORE TAX	6	**347,005**	160,078
Income tax expense	8	**(60,767)**	(22,359)
PROFIT FOR THE PERIOD		**286,238**	137,719
Attributable to:			
Owners of the parent		**281,160**	130,108
Non-controlling interests		**5,078**	7,611
		286,238	137,719
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the period	10	**58.08 cents**	26.40 cents

Interim Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2014	2013
	Unaudited	Unaudited
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	**286,238**	137,719
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change on available-for-sale investments	**99**	(19)
Exchange differences on translation of foreign operations	**3,563**	(883)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**3,662**	(902)
Other comprehensive income for the period, net of tax	**3,662**	(902)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**289,900**	136,817
Attributable to:		
Owners of the parent	**284,822**	129,206
Non-controlling interests	**5,078**	7,611
	289,900	136,817

Interim Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2014 Unaudited RMB'000	As at 31 December 2013 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**925,645**	925,824
Advance payments for property, plant and equipment		**95,959**	48,948
Prepaid land lease payments		**196,820**	187,290
Goodwill		**347,356**	347,356
Other intangible assets		**124,483**	136,301
Investment in an associate		**5,932**	5,323
Available-for-sale investments		**4,483**	4,331
Long-term deferred expenditure		**42**	292
Deferred tax assets		**78,560**	79,428
Total non-current assets		**1,779,280**	1,735,093
CURRENT ASSETS			
Inventories		**226,316**	234,733
Trade and notes receivables	*12*	**776,800**	535,562
Prepayments, deposits and other receivables		**59,046**	46,413
Due from related parties	*15(b)(i)*	**8,710**	314,209
Pledged short-term deposits		**271,788**	177,485
Available-for-sale investments		**40,000**	10,000
Cash and cash equivalents		**302,542**	333,150
		1,685,202	1,651,552
Non-current assets held for sale		**—**	818
Total current assets		**1,685,202**	1,652,370
CURRENT LIABILITIES			
Trade and notes payables	*13*	**58,819**	69,369
Other payables and accruals		**431,825**	351,913
Interest-bearing loans and borrowings	*14*	**1,013,271**	735,921
Government grants		**51,551**	74,436
Tax payable		**59,305**	34,488
Due to related parties	*15(b)(ii)*	**234**	36,856
Total current liabilities		**1,615,005**	1,302,983
NET CURRENT ASSETS		**70,197**	349,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,849,477**	2,084,480

Interim Condensed Consolidated Statement of Financial Position (continued)

	Notes	As at 30 June 2014 Unaudited RMB'000	As at 31 December 2013 Audited RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,849,477**	2,084,480
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*14*	**759**	9,387
Government grants		**94,313**	78,684
Deferred tax liabilities		**98,762**	98,714
Total non-current liabilities		**193,834**	186,785
Net assets		**1,655,643**	1,897,695
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**72,624**	81,180
Share premium		**236,536**	427,980
Reserves		**1,220,365**	1,259,882
		1,529,525	1,769,042
Non-controlling interests		**126,118**	128,653
Total equity		**1,655,643**	1,897,695

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent									
	Issued capital	Share premium account	Other reserves*	Statutory surplus reserves*	Retained earnings*	Unrealised gains reserves*	Foreign currency translation reserves*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	81,180	427,980	41,387	231,324	992,058	2,112	(6,999)	1,769,042	128,653	1,897,695
Profit for the period	—	—	—	—	281,160	—	—	281,160	5,078	286,238
Other comprehensive income	—	—	—	—	—	99	—	99	—	99
Currency realignment	—	—	—	—	—	—	3,563	3,563	—	3,563
Total comprehensive income for the period	—	—	—	—	281,160	99	3,563	284,822	5,078	289,900
Transfer to statutory reserves	—	—	—	36,192	(36,192)	—	—	—	—	—
Share repurchase**	(8,556)	(191,444)	—	—	—	—	—	(200,000)	—	(200,000)
Dividends declared	—	—	—	—	(324,339)	—	—	(324,339)	—	(324,339)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	(7,613)	(7,613)
At 30 June 2014 (Unaudited)	72,624	236,536	41,387	267,516	912,687	2,211	(3,436)	1,529,525	126,118	1,655,643
At 1 January 2013	81,180	427,980	41,387	173,231	739,653	35	(3,046)	1,460,420	123,387	1,583,807
Profit for the period	—	—	—	—	130,108	—	—	130,108	7,611	137,719
Other comprehensive income	—	—	—	—	—	(19)	—	(19)	—	(19)
Currency realignment	—	—	—	—	—	—	(883)	(883)	—	(883)
Total comprehensive income for the period	—	—	—	—	130,108	(19)	(883)	129,206	7,611	136,817
Transfer to statutory reserves	—	—	—	15,662	(15,662)	—	—	—	—	—
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	(12,180)	(12,180)
At 30 June 2013 (Unaudited)	81,180	427,980	41,387	188,893	854,099	16	(3,929)	1,589,626	118,818	1,708,444

* *These reserve accounts comprise the consolidated reserves of RMB1,220,365,000 in the consolidated statements of financial position as at 30 June 2014 (31 December 2013: RMB1,259,882,000).*

** *On 30 May 2014, the Company repurchased 51,932,992 shares from Luye Investment for a total consideration of RMB200,000,000.*

Interim Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2014 Unaudited RMB'000	2013 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**347,005**	160,078
Adjustments for:			
Share of profit of an associate		**(380)**	(287)
Depreciation and amortisation of non-current assets		**55,101**	50,877
Loss on disposal of non-current assets		**1,993**	1,144
Interest income	*5*	**(6,491)**	(1,709)
Interest expense	*7*	**25,577**	13,592
		422,805	223,695
Increase in trade and notes receivables		**(241,238)**	(16,520)
Increase in prepayments, deposits and other receivables		**(7,899)**	(15,622)
(Increase)/decrease in amounts due from related parties		**(2,940)**	1,447
Decrease/(increase) in inventories		**8,417**	(20,067)
(Decrease)/increase in government grants		**(8,126)**	22,844
Decrease in trade and notes payables		**(10,550)**	(4,199)
Increase in other payables and accruals		**90,059**	58,375
(Decrease)/increase in amounts due to related parties		**(36,622)**	1,031
Cash generated from operations		**213,906**	250,984
Interest paid		**(24,027)**	(13,487)
Income tax paid		**(37,686)**	(30,663)
Net cash flows generated from operating activities		**152,193**	206,834

Interim Condensed Consolidated Statement of Cash Flows (continued)

	For the six months ended 30 June	
	2014 Unaudited RMB'000	2013 Unaudited RMB'000
Net cash flows generated from operating activities	**152,193**	206,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	**(143,319)**	(185,021)
Purchases of available-for-sale investments	**(30,000)**	(10,000)
Proceeds from disposal of items of property, plant and equipment	**22,542**	391
Receipt of government grants	**870**	6,500
Loan to the immediate holding company	**(213,520)**	(125,654)
Interest received	**2,866**	1,709
Net cash flows used in investing activities	**(360,561)**	(312,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans	**(914,703)**	(462,576)
Proceeds from loans	**1,183,425**	483,000
Payments in pledged short-term deposits	**(94,303)**	(9,816)
Dividends paid to non-controlling shareholders	**—**	(12,180)
Net cash flows generated from/(used in) financing activities	**174,419**	(1,572)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(33,949)**	(106,813)
Effect of foreign exchange rate changes, net	**3,341**	(477)
Cash and cash equivalents at beginning of period	**333,150**	364,031
CASH AND CASH EQUIVALENTS		
At 30 June	**302,542**	256,741

Major Non-cash transaction:

The immediate holding company used its dividend receivable of RMB324,339,000 and share repurchase consideration receivable of RMB200,000,000 from the Company to offset its amounts due to the Company on 30 May 2014. (Note 9 and 10)

Notes to the Interim Condensed Consolidated Financial Statements

1. Corporate Information

Luye Pharma Group Ltd. (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the "SGX") on 5 May 2004. Since 29 November 2012, the Company has been delisted from the SGX.

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The correspondence office address of the Company is 137 Telok Ayer Street, #05-05, Singapore 068602.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is AsiaPharm Holdings Ltd., which is incorporated in Bermuda.

2. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013 as disclosed in the prospectus of the Company dated 26 June 2014.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. Impact of New and Revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new and revised standards effective as of 1 January 2014, noted below:

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: *Presentation — Offsetting Financial Assets and Financial Liabilities*
IAS 36 Amendments	Amendments to IAS 36 Impairment of Assets — *Recoverable Amount Disclosures for Non-Financial Assets*
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: *Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

Six months ended 30 June 2014

	Oncology drugs (Unaudited) RMB'000	Cardio – vascular drugs (Unaudited) RMB'000	Alimentary tract and metabolism drugs (Unaudited) RMB'000	Others (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue					
External customers	**701,549**	**415,373**	**334,819**	**95,592**	**1,547,333**
Total revenue	**701,549**	**415,373**	**334,819**	**95,592**	**1,547,333**
Segment results	**262,582**	**153,922**	**62,620**	**20,374**	**499,498**
Other income and gains					**41,121**
Administrative expenses					**(91,745)**
Other expenses					**(76,489)**
Finance costs					**(25,760)**
Share of profit an of associate					**380**
Profit before tax					**347,005**

Six months ended 30 June 2013

	Oncology drugs (Unaudited) RMB'000	Cardio – vascular drugs (Unaudited) RMB'000	Alimentary tract and metabolism drugs (Unaudited) RMB'000	Others (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue					
External customers	543,854	350,895	247,601	54,544	1,196,894
Total revenue	543,854	350,895	247,601	54,544	1,196,894
Segment results	178,944	96,118	33,352	6,806	315,220
Other income and gains					4,557
Administrative expenses					(70,891)
Other expenses					(75,434)
Finance costs					(13,661)
Share of profit an of associate					287
Profit before tax					160,078

5. Revenue, Other Income And Gains

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

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

	For the six months ended 30 June	
	2014 Unaudited RMB'000	2013 Unaudited RMB'000
Revenue		
Sale of drugs	**1,575,024**	1,217,344
Less: Business tax and government surcharges	**27,691**	20,450
	1,547,333	1,196,894
Other income and gains		
Interest income	**6,491**	1,709
Government grants	**31,053**	1,949
Investment income	**1,678**	10
Others	**1,899**	889
	41,121	4,557

6. Profit Before Tax

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

	For the six months ended 30 June	
	2014 Unaudited RMB'000	2013 Unaudited RMB'000
Depreciation of items of property, plant and equipment	**39,997**	27,969
Amortisation of other intangible assets	**12,309**	20,262
Amortisation of prepaid land lease payments	**2,545**	2,396
Amortisation of long-term deferred expenditure	**250**	250
Cost of inventories sold	**250,227**	199,657
Loss on disposal of items of non-current assets	**1,993**	1,144

7. Finance Costs

	For the six months ended 30 June	
	2014	2013
	Unaudited	Unaudited
	RMB'000	RMB'000
Interest on bank loans	**25,544**	14,754
Less: Interest capitalized	**—**	(1,194)
	25,544	13,560
Finance charges payable under a finance lease	**33**	32
Total interest expense	**25,577**	13,592
Bank charges and others	**183**	69
	25,760	13,661

8. Income Tax

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

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed statement of profit or loss are:

	For the six months ended 30 June	
	2014	2013
	Unaudited	Unaudited
	RMB'000	RMB'000
Current tax:		
Income tax charge	**57,275**	38,349
Adjustments in respect of income tax of previous years	**2,576**	1,256
Deferred tax	**916**	(17,246)
Total tax charge for the period	**60,767**	22,359

9. 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 six months period ended 30 June 2014 (six months period ended 30 June 2013: Nil).

10. Earnings per Share Attributable to Equity Holders of the Parent

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

On 30 May 2014, the Company repurchased 51,932,992 shares from Luye Investment for a total consideration of RMB200,000,000. Luye Investment used the consideration from the share repurchase to settle a portion of the amount due to the Company.

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

	For the six months ended 30 June	
	2014 Unaudited RMB'000	2013 Unaudited RMB'000
Earnings		
Profit attributable to owners of the parent, used in the basic earnings per share calculation	**281,160**	130,108

	Number of shares	
	2014	2013
Shares		
Weighted average number of shares in issue during the period, used in the basic earnings per share calculation	**484,109,401**	492,764,900

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the periods.

11. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired assets with a cost of RMB10,473,000 (the six months ended 30 June 2013: RMB13,303,000), excluding property, plant and equipment under construction.

The Group also commenced construction of new production lines and upgrade existing production lines and facilities since 2011. The contemplated expansion and upgrade plan is expected to be completed in 2016 and the carrying amount at 30 June 2014 was RMB56,452,000 (31 December 2013: RMB13,356,000).

Assets (other than those classified as held for sale) with a net book value of RMB24,404,000 were disposed of by the Group during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB635,000), resulting in a net loss on disposal of RMB1,555,000 (six months ended 30 June 2013: RMB244,000).

12. Trade and Notes Receivables

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trade receivables	**560,626**	393,459
Notes receivable	**218,335**	144,295
	778,961	537,754
Less: Impairment of trade receivables	**(2,161)**	(2,192)
	776,800	535,562

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

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Less than 3 months	**505,177**	370,021
Between 3 and 6 months	**43,397**	18,139
Between 6 and 12 months	**8,213**	2,346
Between 1 and 2 years	**1,134**	813
Over 2 years	**2,705**	2,140
	560,626	393,459

13. Trade and Notes Payables

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trade payables	**50,639**	56,266
Notes payable	**8,180**	13,103
	58,819	69,369

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Less than 3 months	**49,145**	66,073
Between 3 and 6 months	**7,467**	2,023
Between 6 and 12 months	**1,377**	765
Between 1 and 2 years	**534**	142
Over 2 years	**296**	366
	58,819	69,369

14. Interest-Bearing Loans and Borrowings

As at 30 June 2014

	Effective interest rate (%)	Maturity	Group RMB'000
Current			
Bank loans — secured	3-Month Libor+2.2 – 6.0	2014 – 2015	1,011,107
Bank loans — unsecured	5.88	2014	500
Discounted notes receivables	6.48 – 6.66	2014	1,515
Finance lease payables	2.2	2015	149
			1,013,271
Non-current			
Finance lease payables	2.2	2015 – 2020	759
			759
			1,014,030

As at 31 December 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

Within the short-term deposits, RMB257,761,000 have been pledged to secure bank loans as at 30 June 2014(31 December 2013: RMB163,605,000).

15. Related Party Transactions

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

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

(a) The Group had the following significant transactions with related parties during the six months ended 30 June 2014 and 2013:

	Note	For the six months ended 30 June 2014 Unaudited RMB'000	2013 Unaudited RMB'000
Loans to Luye Investment	*(i)*	**213,520**	125,654
Companies which controlled by a director of the Company:			
Prepayment for purchase of buildings	*(ii)*	**58,000**	—
Sales of inventories	*(iii)*	**32,746**	—
Sales of machinery and equipment	*(iv)*	**22,313**	—

Notes:

(i) The loans are unsecured, interest-free and repayable on demand.

(ii) On 20 December 2013, the Group entered into a property sales and purchase agreement with Shandong Biological Tech to purchase two buildings at a total consideration of RMB117,863,000. As at 30 June 2014 and 31 December 2013, the Group prepaid accumulatively RMB70,000,000 and RMB12,000,000 respectively to Shandong Biological Tech.

(iii) The carrying amount of these inventories sold were RMB23,753,000.

(iv) In February 2014, the Group disposed a group of machineries and equipment to Shandong Boan at a price of RMB22,313,000, while the net carrying amount of these assets was RMB22,420,000. RMB107,000 was recognised as a loss in other expenses.

15. Related Party Transactions (continued)

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties as at 30 June 2014 and 31 December 2013:

(i) Due from related parties

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Steward Cross	**3,312**	2,253
AsiaPharm Singapore	**2,151**	2,019
AsiaPharm Holdings	**—**	206
Luye Investment	**—**	308,746
Luye Holdings	**32**	32
Shandong Biological Tech	**—**	953
Shandong Boan	**3,215**	—
	8,710	314,209
Shandong Biological Tech (included in advanced payments for property, plant and equipment)	**70,000**	12,000

(ii) Due to related parties

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
AsiaPharm Singapore	**234**	856
Shandong Biological Tech	**—**	36,000
	234	36,856

16. Events after the Reporting Period

In connection with the Company's global offering, 667,540,000 shares with a nominal value of US$0.02 each were issued at a price of HK$5.92 per share for a total cash consideration, before underwriting fees, commissions and related expenses, of HK$3,951,836,800. Dealings in shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on 9 July 2014.

17. Approval of the Unaudited Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements were approved and authorised by the board of directors on 21 August 2014.