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

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- 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.

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Luye Pharma Group Ltd. (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2014, together with the comparative figures for the corresponding period of 2013, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		Unaudited	Unaudited
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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 June	31 December
		2014	2013
	Note	***RMB'000***	*RMB'000*
		Unaudited	Audited
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

	Note	As at 30 June 2014 RMB'000 Unaudited	As at 31 December 2013 RMB'000 Audited
NET CURRENT ASSETS		**70,197**	349,387
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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. CORPORATE INFORMATION

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 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	Cardio-vascular drugs	Alimentary tract and metabolism drugs	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
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 of an associate					380
Profit before tax					347,005

Six months ended 30 June 2013

	Oncology drugs *RMB'000* (Unaudited)	Cardio-vascular drugs *RMB'000* (Unaudited)	Alimentary tract and metabolism drugs *RMB'000* (Unaudited)	Others *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
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 of an 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	2013
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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	2013
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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	2013
	RMB'000	*RMB'000*
	Unaudited	Unaudited
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 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
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 a 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 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
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 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
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	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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:

		For the six months ended 30 June	
		2014	2013
		RMB'000	*RMB'000*
	Notes	**Unaudited**	Unaudited
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 of 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.

(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 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
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 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
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.

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**") — 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.

Product Pipeline

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 research and development ("**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. As at 30 June 2014, 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.

Sales, Marketing and Distribution

The Group primarily sells its products within the PRC. The Group generates demand for its pharmaceutical products from hospitals and other medical institutions through its sales and marketing activities, including academic promotion, and generates revenue by selling its pharmaceutical products to distributors who, in turn, sell the Group's products to hospitals and other medical institutions, either directly or through their sub-distributors. 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 the Group to optimise the allocation of its marketing resources. In total, the Group's sales, marketing and distribution functions are conducted through over 50 sales support offices, over 1,300 employees, over 500 third party promoters and over 800 distributors that collectively enabled the Group to sell its products to 30 provinces, autonomous regions and municipalities throughout the PRC and to over 8,000 hospitals in the six months ended 30 June 2014.

Research and Development

The Directors believe the Group's ability to develop innovative pharmaceutical products through 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. The Group's market-driven R&D efforts focus on product candidates that address rapidly growing clinical needs within China's largest and fastest growing therapeutic areas-oncology, cardiovascular system and alimentary tract and metabolism and central nervous system-with a focus on those candidates that have the potential for future commercialisation in global markets. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities.

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 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. 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%.

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

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.

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.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its 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.

PUBLICATION OF THE INTERIM RESULTS AND 2014 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.luye.cn), and the 2014 interim report containing all the information required by the Listing Rules will be despatched to the shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 21 August 2014

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.