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: 02186)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Revenue increased by RMB1,358.5 million or 35.6% to RMB5,173.4 million, as compared to the year ended 31 December 2017.

Gross profit increased by RMB1,086.1 million or 36.6% to RMB4,049.4 million, as compared to the year ended 31 December 2017, and gross profit margin reached 78.3%.

EBITDA increased by RMB544.7 million or 38.5% to RMB1,961.3 million, as compared to the year ended 31 December 2017.

Profit attributable to shareholders increased by RMB322.0 million or 32.8% to RMB1,303.4 million, as compared to the year ended 31 December 2017.

Earnings per share was RMB40.62 cents compared to RMB30.13 cents for the year ended 31 December 2017.

The Board proposes a final dividend of RMB0.057 (equivalent to HK$0.065) per share for the year ended 31 December 2018, compared to RMB0.045 (equivalent to HK$0.054) per share for the year ended 31 December 2017.

RESULTS

The board (the "**Board**") of directors of Luye Pharma Group Ltd. (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*5*	**5,173,385**	3,814,842
Cost of sales		**(1,123,971)**	(851,484)
Gross profit		**4,049,414**	2,963,358
Other income and gains	*5*	**220,699**	236,732
Selling and distribution expenses		**(1,685,927)**	(1,286,545)
Administrative expenses		**(441,377)**	(431,635)
Other expenses		**(499,631)**	(316,032)
Finance costs	*7*	**(170,605)**	(50,467)
Share of profit of an associate		**897**	910
PROFIT BEFORE TAX	*6*	**1,473,470**	1,116,321
Income tax expense	*8*	**(167,475)**	(135,756)
PROFIT FOR THE YEAR		**1,305,995**	980,565
Attributable to:			
Owners of the parent		**1,303,373**	981,372
Non-controlling interests		**2,622**	(807)
		1,305,995	980,565
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)			
— For profit for the year	*9*	**40.62 cents**	30.13 cents
Diluted (RMB)			
— For profit for the year	*9*	**40.45 cents**	30.11 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000*
PROFIT FOR THE YEAR	**1,305,995**	980,565
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**—**	51,711
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**—**	(39,529)
Income tax effect	**—**	(3,963)
	—	8,219
Debt investments at fair value through other comprehensive income:		
Changes in fair value	**13,518**	—
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(13,334)**	—
	184	—
Exchange differences:		
Exchange differences on translation of foreign operations	**12,922**	20,479
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**13,106**	28,698
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**4,764**	—
Remeasurement on defined benefit plan	**1,570**	(5,036)
Income tax effect	**(301)**	632
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**6,033**	(4,404)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**19,139**	24,294
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,325,134**	1,004,859
Attributable to:		
Owners of the parent	**1,322,512**	1,005,666
Non-controlling interests	**2,622**	(807)
	1,325,134	1,004,859

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,837,140**	2,009,970
Advance payments for property, plant and equipment and other intangible assets		**141,451**	230,603
Prepaid land lease payments		**217,048**	223,330
Goodwill		**1,040,879**	1,036,902
Other intangible assets		**4,445,063**	828,702
Investment in an associate		**5,935**	6,243
Equity investments designated at fair value through other comprehensive income	*12*	**76,368**	—
Financial assets measured at fair value through profit or loss	*13*	**1,263**	—
Available-for-sale investments	*12, 13*	**—**	34,565
Deferred tax assets		**98,355**	94,153
Total non-current assets		**8,863,502**	4,464,468
CURRENT ASSETS			
Inventories		**585,609**	420,356
Trade and notes receivables	*11*	**1,531,282**	1,411,220
Prepayments, other receivables and other assets		**254,902**	199,649
Due from related parties	*16(b)*	**2,816**	2,841
Financial assets measured at fair value through profit or loss	*13*	**1,882,839**	—
Available-for-sale investments	*12, 13*	**—**	1,628,796
Restricted cash		**28,345**	11,252
Pledged time deposits		**1,409,782**	409,243
Time deposits with original maturity of over three months		**1,306,868**	946,703
Cash and cash equivalents		**1,672,865**	1,265,872
Total current assets		**8,675,308**	6,295,932

	Notes	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Trade and notes payables	*14*	**279,750**	104,599
Other payables and accruals		**2,461,783**	502,511
Interest-bearing loans and borrowings	*15*	**5,290,547**	2,861,125
Government grants		**42,090**	57,833
Tax payable		**128,760**	128,729
Total current liabilities		**8,202,930**	3,654,797
NET CURRENT ASSETS		**472,378**	2,641,135
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,335,880**	7,105,603
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*15*	**847,596**	232
Long-term payables		**311,068**	—
Employee defined benefit obligation		**4,568**	5,381
Government grants		**108,714**	73,588
Deferred revenue		**40,907**	34,041
Deferred tax liabilities		**88,998**	96,445
Total non-current liabilities		**1,401,851**	209,687
Net assets		**7,934,029**	6,895,916
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**421,337**	427,269
Treasury shares		**(305,626)**	(459,284)
Share premium		**2,764,669**	2,936,817
Reserves		**4,928,033**	3,863,601
		7,808,413	6,768,403
Non-controlling interests		**125,616**	127,513
Total equity		**7,934,029**	6,895,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate information

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

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, financial assets measured at fair value through profit or loss, available-for-sale investments, and notes receivable, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. Changes in accounting policies and disclosures

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 2, amendments to IFRS 4, amendments to IAS 40, HK(IFRIC)-Int 22 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together the accounting for financial instruments: classification and measurement and impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement			IFRS 9 measurement	
	Notes	**Category**	**Amounts** *RMB'000*	**Re-classification** *RMB'000*	**Amount** *RMB'000*	**Category**
Financial assets						
Equity investments designated at fair value through other comprehensive income		N/A	—	1,394	1,394	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*			1,394		
Financial assets at fair value through profit or loss		N/A	—	1,361,421	1,361,421	FVPL[2] (mandatory)
From: Available-for-sale investments	*(ii)*			1,361,421		
Available-for-sale investments		AFS[3]	1,663,361	(1,663,361)	—	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*			(1,394)		
To: Financial assets at fair value through profit or loss	*(ii)*			(1,360,438)		
To: Debt investments at fair value through other comprehensive income	*(iii)*			(301,529)		
Debt investments at fair value through other comprehensive income		N/A	—	301,529	301,529	FVOCI (debt)
From: Available-for-sale investments	*(iii)*			301,529		
Trade receivables		L&R[4]	912,016	—	912,016	AC[5]
Notes receivable	*(iv)*	L&R	499,204	—	499,204	FVOCI (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	78,869	—	78,869	AC
Due from related parties		L&R	2,841	—	2,841	AC
Restricted cash		L&R	11,252	—	11,252	AC
Pledged time deposits		L&R	409,243	—	409,243	AC
Time deposits with original maturity of over three months		L&R	946,703	—	946,703	AC
Cash and cash equivalents		L&R	1,265,872	—	1,265,872	AC
			5,789,361	983	5,790,344	
Financial liabilities						
Trade and notes payables		AC	104,599	—	104,599	AC
Financial liabilities included in other payables and accruals		AC	249,985	—	249,985	AC
Interest-bearing loans and borrowings		AC	2,861,357	—	2,861,357	AC
			3,215,941	—	3,215,941	

1 FVOCI: Financial assets at fair value through other comprehensive income

2 FVPL: Financial assets at fair value through profit or loss

3 AFS: Available-for-sale investments

4 L&R: Loans and receivables

5 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in IFRS 9 and were held for sale.

(iii) As at 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as AFS debt investments. The objective of the Group in holding this liquidity portfolio is to earn interest income and, at the same time, manage everyday liquidity needs. The Group concluded that these debt investments are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified these investments as debt investments measured at fair value through other comprehensive income.

(iv) As at 1 January 2018, the Group has assessed its liquidity portfolio of notes receivable which had previously been classified as L&R. The objective of the Group in holding this liquidity portfolio is to collect payments of principal and, at the same time, manage everyday liquidity needs. The Group concluded that notes receivable are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified notes receivable as debt investments measured at fair value through other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	960	—	960
Financial assets included in prepayments, other receivables and other assets	3,000	—	3,000
	3,960	—	3,960

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained earnings *RMB'000*
Fair value reserve under IFRS 9 (available-for-sale investment unrealised gain reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	12,340
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(11,333)
Balance as at 1 January 2018 under IFRS 9	1,007
Retained earnings	
Balance as at 31 December 2017 under IAS 39	3,196,919
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	11,333
Remeasurement of financial assets at fair value through profit or loss previously measured at cost under IAS 39	983
Balance as at 1 January 2018 under IFRS 9	3,209,235

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The effect of adopting IFRS 15 is, as follows:

Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances from customers. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB42,399,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB47,783,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of drugs.

4. OPERATING SEGMENT INFORMATION

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

Year ended 31 December 2018

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue *(note 5)*						
Sales to external customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Segment results	1,179,679	348,887	446,491	330,340	58,090	2,363,487
Other income and gains						220,699
Administrative expenses						(441,377)
Other expenses						(499,631)
Finance costs						(170,605)
Share of profit of an associate						897
Profit before tax						1,473,470

Year ended 31 December 2017

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue						
Sales to external customers	1,871,802	644,025	749,275	412,546	137,194	3,814,842
Total revenue	1,871,802	644,025	749,275	412,546	137,194	3,814,842
Segment results	949,441	267,969	283,029	122,546	53,828	1,676,813
Other income and gains						236,732
Administrative expenses						(431,635)
Other expenses						(316,032)
Finance costs						(50,467)
Share of profit of an associate						910
Profit before tax						1,116,321

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Revenue from contracts with customers		
Sale of goods	**5,173,385**	3,814,842

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

For the year ended 31 December 2018

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Type of goods or services						
Sales of goods	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Geographical markets						
Mainland China	2,391,326	773,473	924,376	163,465	126,029	4,378,669
Other countries	—	13,601	6,115	758,422	16,578	794,716
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Timing of revenue recognition						
Goods transferred at a point in time	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**42,399**

(ii) ***Performance obligations***

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within one month to three months, extending up to six months for major customers.

	2018	2017
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**49,353**	27,644
Government grants	**85,862**	134,360
Investment income from entrusted loans	**1,092**	31,395
Dividend income from available-for-sale investments	**—**	39,529
Dividend income from financial assets at fair value through profit or loss	**39,154**	—
Changes in fair value of financial assets at fair value through profit or loss	**22,712**	—
Other interest income from debt investments at fair value through other comprehensive income	**13,334**	—
Others	**9,192**	3,804
	220,699	236,732

6. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**166,289**	146,892
Amortisation of other intangible assets	**144,614**	96,630
Amortisation of prepaid land lease payments	**6,282**	6,265
Write-down of inventories to net realisable value	**3,104**	573
Impairment of trade receivables, net	**3,546**	(692)
Operating lease expenses	**24,926**	24,029
Auditor's remuneration	**8,058**	7,020
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Wages and salaries	**515,864**	450,569
Pension scheme contributions	**87,970**	77,098
Pension plan costs (defined benefit plan)	**1,665**	1,097
Central Provident Fund in Singapore	**1,183**	1,000
Staff welfare expenses	**38,885**	37,779
Equity-settled share award expense	**31,339**	6,251
	676,906	573,794
Other expenses:		
Research and development costs	**491,160**	288,696
Foreign exchange loss, net	**998**	20,772
Donation	**4,433**	4,680
Loss on disposal of items of property, plant and equipment	**1,657**	1,348
Others	**1,383**	536
	499,631	316,032

7. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**149,948**	50,435
Interest on discounted notes receivable	**10,072**	—
Finance charges payable under a hire purchase contract	**32**	32
Amortised interest on discounted long-term payables	**10,553**	—
	170,605	50,467

8. INCOME TAX EXPENSE

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

Pursuant to the rules and regulations of Bermuda, the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any taxable profits in Hong Kong during the year (2017: Nil).

Pursuant to the rules and regulations of Singapore, Malaysia, Switzerland and Germany, the Group is subject to 17%, 25%, 10.5% and 29.125% of taxable income in Singapore, Malaysia, Switzerland and Germany, respectively.

Pursuant to the rules and regulations of the USA, no provision for income tax has been made as the Group did not generate any taxable income in the USA during the year (2017: Nil).

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

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

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

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**182,914**	169,826
Overprovision in prior years	**(4,997)**	(6,277)
Deferred tax	**(10,442)**	(27,793)
Total tax charge for the year	**167,475**	135,756

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**1,473,470**	1,116,321
At the PRC's statutory income tax rate of 25%	**368,368**	279,080
Effect of tax rate differences in other jurisdictions	**21,851**	(8,576)
Preferential income tax rates applicable to subsidiaries	**(137,005)**	(123,871)
Additional deductible allowance for research and development expenses	**(49,909)**	(19,509)
Effect of tax levied on a deemed income basis	**35**	123
Adjustments in respect of current tax of previous years	**(4,997)**	(6,277)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**—**	(8,236)
Effect of non-deductible expenses	**9,364**	3,371
Income not subject to tax	**(50,238)**	(621)
Tax losses utilised from previous years	**(8,156)**	(2,079)
Tax losses not recognised	**17,972**	22,351
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**190**	—
Tax charge at the Group's effective rate	**167,475**	135,756

The effective tax rate of the Group for the year ended 31 December 2018 was 11.4% (2017: 12.2%).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,208,346,677 (2017: 3,257,505,816) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,303,373**	981,372

	Number of shares	
	2018	2017
Shares		
Weighted average number of shares in issue during the year	**3,208,346,677**	3,257,505,816
Effect of dilution — weighted average number of ordinary shares under the share award scheme	**13,516,328**	1,721,459
	3,221,863,005	3,259,227,275

10. DIVIDENDS

On 26 August 2018, the Company declared an interim dividend of RMB0.043 (equivalent to HK$0.051) per share (equivalent to approximately RMB140,720,000) for the six months ended 30 June 2018 (the six months ended 30 June 2017: RMB0.029 (equivalent to HK$0.033) per share).

On 28 March 2019, the board of directors proposed a final dividend of RMB0.057 (equivalent to HK$0.065) per share (equivalent to approximately RMB185,124,000) for the year ended 31 December 2018 (2017: RMB0.045 (equivalent to HK$0.054) per share). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. TRADE AND NOTES RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,143,778**	912,976
Notes receivable	**391,999**	499,204
	1,535,777	1,412,180
Less: Impairment of trade receivables	**(4,495)**	(960)
	1,531,282	1,411,220

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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.

As at 31 December 2018, notes receivable of RMB391,999,000 whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2018.

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**824,520**	752,445
3 to 6 months	**277,068**	133,676
Over 6 months to 12 months	**32,564**	25,206
Over 1 year to 2 years	**8,077**	338
Over 2 years	**1,549**	1,311
	1,143,778	912,976

12. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Equity investments designated at fair value through other comprehensive income		
Non-current		
Listed equity investments, at fair value	**2,200**	—
Unlisted equity investments, at fair value	**74,168**	—
	76,368	—
Available-for-sale investments		
Non-current		
Listed equity investment, at fair value	**—**	1,394

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

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

The fair value of the unlisted equity investment which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss		
Current		
Listed equity investments, at fair value	**40,493**	—
Investments in financial products, at fair value	**1,842,346**	—
	1,882,839	—
Non-current		
Unlisted equity investment, at fair value	**1,263**	—
Available-for-sale investments		
Current		
Investment in financial products, at fair value	**—**	1,628,796
Non-current		
Unlisted investment, at cost	**—**	500
Unlisted equity investment, at fair value	**—**	32,671
	—	33,171

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

The investments in financial products at 31 December 2018 represented wealth management products issued by licensed financial institutions in the PRC with expected interest rates ranging from 2.32% to 5.60% per annum with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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

The fair value of the unlisted equity investment which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

As at 31 December 2018, investments in financial products of RMB1,335,000,000 (2017: RMB915,000,000) was pledged to secure intra-group notes payable.

As at 31 December 2018, investments in financial products of RMB25,000,000 (2017: Nil) was pledged to secure notes payable.

As at 31 December 2018, nil of investments in financial products (2017: RMB197,200,000) was pledged to secure short-term loan (2017: EUR21,000,000).

14. TRADE AND NOTES PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**201,151**	87,242
Notes payable	**78,599**	17,357
	279,750	104,599

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**263,980**	92,299
3 to 6 months	**10,786**	8,233
6 to 12 months	**2,779**	2,123
1 to 2 years	**1,156**	1,039
Over 2 years	**1,049**	905
	279,750	104,599

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

As at 31 December 2018, the Group's notes payable were secured by the Group's notes receivable with a carrying amount of RMB45,341,000 (2017: RMB14,566,000), time deposits with a carrying amount of RMB5,667,000 (2017: RMB2,792,000) and investments in financial products with a carrying amount of RMB25,000,000 (2017: Nil). The maturity date of the notes payable is within six months.

15. INTEREST-BEARING LOANS AND BORROWINGS

2018

	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB100,000,000 bank loan	4.35	5 February 2019	100,000
RMB50,000,000 bank loan	5.00	15 February 2019	50,000
RMB80,000,000 bank loan	5.00	22 February 2019	80,000
RMB69,000,000 bank loan	5.00	18 January 2019	69,000
RMB81,000,000 bank loan	5.00	16 January 2019	81,000
RMB100,000,000 bank loan	5.09	25 September 2019	100,000
RMB60,000,000 bank loan	4.40	22 February 2019	60,000
RMB5,000,000 bank loan	5.01	12 June 2019	5,000
RMB70,000,000 bank loan	5.00	12 February 2019	70,000
HK$117,800,000 bank loan	1-Month HIBOR+1.50	11 March 2019	103,216
US$299,003,804 bank loan	1-Month LIBOR+1.40	26 June 2019	2,052,111
US$30,000,000 bank loan	6-Month LIBOR+1.10	5 December 2019	205,895
US$25,000,000 bank loan	1-Year LIBOR+1.35	9 July 2019	171,580
EUR21,000,000 bank loan	1-Year EURIBOR+1.35	1 August 2019	164,792
EUR30,000,000 bank loan	3-Month EURIBOR+0.70	30 October 2019	235,419
EUR26,000,000 bank loan	3-Month EURIBOR+0.70	15 May 2019	204,030
EUR23,200,000 bank loan	1-Year EURIBOR+1.50	23 April 2019	182,057
EUR22,000,000 bank loan	3-Month EURIBOR+0.70	5 March 2019	172,641
EUR15,000,000 bank loan	6-Month EURIBOR+1.45	14 May 2019	117,710
EUR8,800,000 bank loan	1-Year EURIBOR+1.50	18 April 2019	69,056
Discounted notes receivable	3.90	27 January 2019	7,722
	3.75	26 January 2019	15,000
	4.35	28 June 2019	10,000
	3.85	18 October 2019	100,000
	3.65	18 October 2019	100,000
	3.20	18 October 2019	110,000
	3.30	18 October 2019	30,000
	3.35	18 October 2019	30,000
	3.45	18 October 2019	100,000
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 February 2019	47,084
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 August 2019	47,084
Current portion of long term finance lease payables	2.20	31 December 2019	150
			5,290,547
Non-current			
Bank loans — secured			
EUR108,000,000 bank loan	3-Month EURIBOR+1.70	14 February 2020–14 August 2023	847,508
Finance lease payables	2.20	1 January 2020–30 August 2020	88
			847,596
			6,138,143

2017

	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Bank loans — secured			
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB250,000,000 bank loan	3.70	24 January 2018	250,000
RMB130,000,000 bank loan	4.30	19 January 2018	130,000
RMB100,000,000 bank loan	4.35	20 May 2018	100,000
RMB70,000,000 bank loan	4.30	15 January 2018	70,000
HK$100,000,000bank loan	3-Month HIBOR+0.70	2 April 2018	83,590
US$23,000,000bank loan	3.10	11 July 2018	150,287
EUR7,400,000 bank loan	0.70	16 November 2018	57,737
EUR26,000,000 bank loan	0.60	9 February 2018	202,860
EUR24,000,000 bank loan	EURIBOR+1.50	5 January 2018	187,255
EUR14,000,000 bank loan	EURIBOR+1.50	5 January 2018	109,232
EUR11,000,000 bank loan	3-Month EURIBOR+0.80	19 September 2018	85,825
EUR20,000,000 bank loan	3-Month EURIBOR+0.90	22 October 2018	156,046
EUR49,000,000 bank loan	EURIBOR+0.95	20 April 2018	382,313
EUR30,000,000 bank loan	0.25	6 August 2018	234,069
EUR20,000,000 bank loan	0.25	5 September 2018	156,046
EUR22,000,000 bank loan	1.50	18 September 2018	171,650
EUR10,000,000 bank loan	1.30	16 April 2018	78,023
EUR10,000,000 bank loan	1.30	16 October 2018	78,023
EUR10,000,000 bank loan	1.05	17 May 2018	78,023
Current portion of long term finance lease payables	2.2	31 December 2018	146
			2,861,125
Non-current			
Finance lease payables	2.2	1 January 2019–30 August 2020	232
			2,861,357

	2018	2017
	RMB'000	*RMB'000*
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	**5,290,547**	2,861,125
In the second year	**141,339**	146
In the third to fifth years, inclusive	**706,257**	86
	6,138,143	2,861,357

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

(i) the pledge of certain of the Group's time deposits of RMB841,073,000 (2017: RMB283,813,000);

(ii) the pledge of certain of the Group's notes receivable of RMB2,126,000 (2017: RMB50,735,000);

(iii) the pledge of certain of the Group's intra-group notes receivable of RMB275,000,000 (2017: RMB726,500,000);

(iv) the pledge of certain of the Group's financial assets at fair value through profit or loss of nil (2017: available-for-sale investments of RMB197,200,000); and

(v) the pledge of certain of the Group's subsidiaries' shares (2017: Nil).

16. RELATED PARTY TRANSACTIONS

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

Company	**Relationship**
Steward Cross	Associate
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	An entity controlled by certain directors of the Company
Yantai Lujian Real Estate Co., Ltd. ("Lujian Real Estate")	An entity controlled by a director of the Company

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

		2018	2017
	Notes	***RMB'000***	*RMB'000*
Sales of products to Steward Cross	*(i)*	**6,839**	7,277
Sales of inventories to Shandong Boan	*(ii)*	**846**	2,670
Purchase of a building from Lujian Real Estate	*(iii)*	**—**	5,710
Purchase of two biological antibody products from Shandong Boan	*(iv)*	**—**	90,000

Notes:

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

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

(iii) The purchase from Lujian Real Estate was made on terms equivalent to those that prevail in arm's length transaction.

(iv) The consideration was determined with reference to prices mutually agreed between the parties.

(b) Outstanding balances with related parties:

The Group had the following balances with its related parties:

Due from related parties

	2018	2017
	RMB'000	*RMB'000*
Steward Cross	**2,135**	1,902
Shandong Boan	**681**	939
	2,816	2,841

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

	2018	2017
	RMB'000	*RMB'000*
Short-term employee benefits	**18,651**	16,443
Pension scheme contributions	**855**	834
Equity-settled share award expense	**5,718**	1,647
Total compensation paid to key management personnel	**25,224**	18,924

17. SHARE AWARD SCHEME

The Company adopted a share award scheme on 10 January 2017 (the "Scheme"). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on 10 January 2017 (the "Adoption Date").

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the "Trustee") in accordance with the rules of the Scheme and the trust deed in respect of the Scheme entered into between the Company and the Trustee (the "Trust Deed"). The decision of the board of directors with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Company's shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

The board of directors may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the board of directors. The committee appointed and authorised by the board of directors to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the board of directors, may from time to time instruct the Trustee in writing to purchase shares on the Stock Exchange specifying the timing of purchase, the maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

The board of directors may from time to time select any employee (excluding any employee who is resident in a place where the award of, in respect of a selected employee, such number of shares awarded by the Board (the "Awarded Shares") and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme is not permitted under the laws or regulations of such place or where in the view of the board of directors or the Trustee, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such employee) for participation in the Scheme as a selected employee and grant to such selected employee Awarded Shares in such number at a stated price at which an Awarded Share is granted to a selected employee (the "Grant Price") and on and subject to such terms and conditions as it may in its discretion determine.

The board of directors is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the selected employee. Upon the vesting of the Awarded Shares, the selected employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the selected employee shall pay the Company the Grant Price for the Awarded Shares.

A selected employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a selected employee, the date on which his entitlement to the Awarded Shares is vested in such selected employee pursuant to the terms of the Scheme (the "Vesting Date"). Prior to the Vesting Date, any award of Awarded Shares is personal to the selected employee to whom it is made and is not assignable and no selected employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award. In the event that a selected employee has ceased to be an employee, the relevant award made to such selected employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the board of directors provided that such termination shall not materially and adversely affect any subsisting rights of any selected employee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the "2017 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the "2018 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

The following awarded shares were outstanding under the Scheme during the period:

	Number of shares held for the Scheme	**Number of awarded shares**
At 1 January 2018	48,194,500	17,724,000
Disposal	(420,000)	—
Granted on 15 May 2018	(20,098,000)	20,098,000
At 31 December 2018	27,676,500	37,822,000
Exercisable as at 31 December 2018	—	—

	Number of shares held for the Scheme	**Number of awarded shares**
At 1 January 2017	—	—
Purchased and withheld	65,918,500	—
Granted on 15 May 2017	(17,724,000)	17,724,000
At 31 December 2017	48,194,500	17,724,000
Exercisable as at 31 December 2017	—	—

The fair value of the shares granted during the year was HK$129,230,000 (HK$6.43 each), and the Group recognised a share award expense of RMB31,339,000 during the year ended 31 December 2018 (2017: RMB6,251,000). Out of the share award expense, an amount of RMB1,366,000 was included in the directors' remuneration (2017: RMB600,000).

The fair value of the shares granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the shares were awarded. The following table lists the inputs to the model used:

	2018	2017
Dividend yield (%)	**1.14**	0.00
Expected volatility (%)	**38.74**	38.64
Risk-free interest rate (%)	**2.13**	1.41
Forfeiture rate (%)	**2.4**	17

No other feature of the shares granted was incorporated into the measurement of fair value.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. During the year ended 31 December 2018, the Group's sales of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 35.6% in 2018 as compared to 2017. The Group continually invests in R&D to maintain its competitiveness, and has a robust product pipeline including 40 domestic product candidates and 10 overseas product candidates. The R&D cost increased by 70.1% in the reporting period when compared with that of year 2017.

Market Positioning

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the third largest market in China for pharmaceutical products in 2018. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in 2018 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China National Medical Products Administration (the "NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in 2018. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Chinese medicine for the treatment of hypercholesterolaemia and the best-selling vasoprotective pharmaceutical product in China in 2018, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2018. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2018 by revenue. IQVIA data showed that central nervous system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2018. The Group's key product Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in 2018. Seroquel XR is the only quetiapine extended release formulation in the PRC.

For the overseas markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine patches, Fentanyl patches and Buprenorphine patches.

For the year ended 31 December 2018, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and CNS products increased to RMB2,391.3 million, RMB930.5 million, RMB787.1 million and RMB921.9 million respectively, representing a growth rate of 27.8%, 24.2%, 22.2% and 123.5% as compared to the year ended 31 December 2017 for the respective therapeutic areas, while other products increased by 3.9% to RMB142.6 million.

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 stably globally.

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 IQVIA, the market for oncology pharmaceutical products in the PRC was RMB83.3 billion in 2018 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment in China in 2018, as well as the most popular paclitaxel product in China in 2018. As of 31 December 2018, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to the NMPA, CMNa was the only glycididazole product available for sale in 2018. 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 NMPA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2018. According to IQVIA, 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 RMB16.2 billion in 2018. According to IQVIA, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2018.

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB2.5 billion in 2018. Maitongna was the best-selling sodium aescinate product in China in 2018 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2018.

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 NMPA, the Group was the only manufacturer of acarbose in capsule form in 2018. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB4.7 billion in 2018 and Bei Xi ranked as the third most popular acarbose product in China in 2018.

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the Food and Drug Administration of the United States ("U.S. FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease.

Seroquel® (思瑞康®) and Seroquel XR®(思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical anti-psychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in the PRC in 2018.

Research and Development ("R&D")

The Group's R&D activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. Besides, the Group has built wide collaboration with domestic and overseas companies in the development of Monoclonal antibodies and cell therapies areas. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 31 December 2018, the Group's R&D team consisted of 550 employees, including 64 Ph.D. degree holders and 247 Master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2018, the Group had been granted over 254 patents and had over 56 pending patent applications in the PRC, as well as over 444 patents and over 116 pending patent applications overseas.

Through the Group's four platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology, cardiovascular and alimentary tract and metabolism, but also expands into the CNS therapeutic area. As at 31 December 2018, the Group had a pipeline of 40 PRC product candidates in various stages of development. These candidates included 15 oncology products, 8 cardiovascular and metabolism products, as well as 15 CNS products.

Also, the Group had a pipeline of 10 candidate products in the U.S., Europe and Japan in various stages of development. In the U.S., one product candidate (LY03004) has completed its clinical stage and five candidates (LY03003, LY03005, LY01005, LY03010, LY02405) are in different clinical stages. In Europe, one product candidate (30410) has commenced clinical trials in Germany. In Japan, one product (LY03003) has commenced clinical trials and several products are targeting to commence application. Furthermore, the Group is registering its products in Brazil, New Zealand and other countries through various cooperation patterns such as co-development with its partners or licensing out, etc.

In January 2018, the Group's product candidate, Ansofaxine hydrochloride extended release tablets ("LY03005"), a New Chemical Entity and China Class 1.1 New Chemical Drug, has completed a phase II clinical trial in China. The phase II trial for LY03005 showed positive results for the treatment of major depressive disorder. LY03005 has commenced phase III clinical trial in China in June 2018.

In February 2018, FDA has agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S. for the Group's innovative drug, Risperidone Extended Release Microspheres for injection ("LY03004").

In March 2018, the Group, entered into a collaboration and license agreement with Excel BioPharm LLC ("Excel BioPharm"), a California Biotechnology company, to collaborate on the discovery and development of therapeutic antibodies for next generation immuno-oncology treatments.

In April 2018, Rotigotine Extended Release Microspheres for injection ("LY03003") obtained the approval from the NMPA to proceed to phase III clinical trials in China. LY03003 began to commence phase III clinical trials in China in June 2018. LY03003 was exempted from phase II dosage exploration clinical trials in China and the U.S. in February and March 2018 respectively.

In May 2018, the Group entered into a collaboration and license agreement with Elpis Biopharmaceuticals Corp. ("Elpis Biopharm"), a Boston-region Biotechnology company, to discover and develop dual target based Chimeric Antigen Receptor T-Cell Immunotherapy therapies and biologic drug candidates for next generation immuno-oncology treatments.

In June 2018, the clinical applications of the Group's new compound candidate, the extended release tablets ("LY03012"), a China Class 1.1 New Chemical Drug, received formal acceptance by the NMPA. The clinical application was approved by NMPA in September 2018. LY03012 is a small molecule compound delivered orally. Non-clinical studies have shown that the product, as a novel brain monoamine neurotransmitter transporter inhibitor, can increase the concentration of norepinephrine, 5-hydroxytryptamine, and dopamine in the synaptic cleft, through enhancing the descending inhibitory pain pathway, exerts an analgesic effect.

In June 2018, NMPA approved the inclusion of "depression arising from bipolar disorder" under the indication for Seroquel XR.

In July 2018, LY01013 obtained the approval from NMPA to initiate clinical trials. LY01013 is an oral strong small-molecule indoleamine 2,3-dioxygenase ("IDO")/tryptophan 2,3-dioxygenase ("TDO") inhibitor, which can overcome IDO/TDO enzyme-mediated immune tolerance, activate effector T-cells and modulate tumor immune microenvironment. The product can be used in conjunction with, and even enhance the tumor-killing inhibitory effect of, other drugs, such as immune checkpoints and chemotherapy drugs. The intended indications include the treatment of lung cancer, kidney cancer, bladder cancer, head and neck cancer and melanoma.

In September 2018, Goserelin Acetate Extended-release Microspheres for Injection (LY01005) commenced phase III clinical trial for the treatment of carcinoma of the prostate in PRC. LY01005 is under phase I clinical trial via a 505(b)(2) pathway of the United States Federal Food, Drug and Cosmetic Act in the U.S..

In September 2018, the import registration of the Group's innovative drug delivery system drug, the Rivastigmine Patch, has been accepted by NMPA in China. The Rivastigmine Patch is developed from the transdermal patch research and development platform of Luye Pharma AG, a subsidiary of the Company and has already been launched in the U.S., ten European countries including Germany, Portugal, France, Italy, the Netherlands, Denmark, Finland, Norway, Sweden and Switzerland, as well as Israel, Thailand and other countries.

In September 2018, the clinical trial application for the Group's new product candidate, Paliperidone Palmitate injectable suspension, for intramuscular use ("LY03010"), obtained the approval from the U.S. FDA to initiate clinical trials for the treatment of schizophrenia and schizoaffective disorder in the U.S.

In December 2018, the Rotigotine Extended Release Microspheres for injection (LY03003) was submitted for clinical trial approval by the Pharmaceutical, Medical Device Agency (PMDA) in Japan. The phase I clinical trial commenced in March 2019 in Japan.

In January 2019, the clinical trial application of the biological antibody LY09004 has been accepted by NMPA in China. LY09004 is a recombinant human vascular endothelial growth factor receptor-antibody fusion protein ophthalmic Injection biosimilar indicated for neovascular (Wet) age-Related macular degeneration (AMD), macular edema following retinal vein occlusion (RVO), diabetic macular edema (DME), diabetic retinopathy (DR) in patients with diabetic macular edema and visual impairment due to myopic choroidal neovascularisation (myopic CNV). The product was acquired from Shandong Boan Biological Technology ("Boan") in December 2018.

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 2018. The Group's sales, marketing and distribution functions are conducted through over 92 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 1,540 distributors that collectively enabled the Group to sell its products to over 12,970 hospitals, which comprised approximately 1,470 or approximately 78.0% of all Class III hospitals, approximately 3,700 or approximately 53.0% of all Class II hospitals and approximately 7,800 or approximately 46.0% of all Class I and other hospitals and medical institutions, in the PRC in year of 2018. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

Overseas, the Group has commercial offices in the U.S., the United Kingdom ("U.K."), Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group has strong sales partnerships with more than 50 partners throughout the world, covering 80 countries including the U.S, Europe and other countries or districts. In 2018, the Group's series products had successful new launches in 17 countries (14 European countries, Japan, Israel and Thailand).

Merger & Acquisition ("M&A") and Collaborations

In June 2018, the Group acquired Seroquel and Seroquel XR, the atypical anti-psychotic (AAP) medicines with antidepressant properties, from AstraZeneca. AstraZeneca agreed to grant to Luye Pharma Hong Kong Limited a licence for the right, title and interest in the "Seroquel" registered trade marks, know-how, product records and regulatory information ("Licensed Assets") in certain territories, which covers 51 countries and regions, including China, the U.K., Brazil, Australia, Saudi Arabia, Mexico, South Korea, Thailand, Argentina, Malaysia and other countries and regions in Asia, Latin America, Africa, Oceania and Eastern Europe (collectively the "Territories"). According to information provided by AstraZeneca, sales of the products in the Territories for the year ended 31 December 2017 were approximately US$147.9 million. The acquisition completion took place on 28 June 2018. Please refer to the Company's announcements dated 7 May 2018, 5 June 2018, 22 June 2018 and 28 June 2018, and the Company's circular dated 5 June 2018 for details.

Positioned as one of the four key therapeutic areas of the Group, the CNS portfolio has been given long-term and strategic planning. The acquisition of Seroquel and Seroquel XR will further enrich the Group's existing CNS product portfolio, and will help the Group further expand in the PRC and into markets outside of China. The Company believes that the acquisition will be able to capture certain synergetic effects brought along by the acquisition in terms of business development and sales channels in the relevant countries.

In July 2018, the Group entered into an agreement with Bayer AG to acquire the global rights to Apleek, a new generation combined hormonal 7 days contraceptive transdermal patch containing ethinyl estradiol and gestodene.

In December 2018, Shandong Luye (a wholly-owned subsidiary of the Company) entered into the Asset Transfer Agreements with Boan to acquire its two biological antibody drugs under research and development, being LY01011 (Recombinant anti-RANKL full-body monoclonal antibody injection) and LY09004 (Recombinant Human Vascular Endothelial Growth Factor Receptor-Antibody Fusion Protein Ophthalmic Injection), and their respective technologies, data and all rights attaching to the products including but not limited to the clinical trials approval. LY01011 is proceeding phase I clinical trail in China and the clinical trial application of LY09004 has been accepted by NMPA in China.

In January 2019, the Group entered into an agreement with AstraZeneca, pursuant to which, AstraZeneca is granted the right to promote the Group's Xuezhikang Capsules in the China. Under the agreement, AstraZeneca is responsible for the promotion of Xuezhikang capsules in the mainland China on an exclusive basis, while the Group continues to hold rights, such as asset rights, the right to sell, registration permit, all intellectual property rights and rights other than the promotion, of the product. Under the agreement, both parties agreed that the sales of Xuezhikang Capsule in the China shall be maintained at a double digits CAGR in the next ten years, significantly higher than the average growth rate of the market for the treatment of hypercholesterolaemia in China. Besides, both parties agreed to discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world (including but not limited to the U.S., Europe and other emerging markets) and to explore opportunities for closer ties of cooperation to enhance each other's future business development.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry remains at low growth rate in 2018. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 3.4% in 2018, the same as 2017. The Group outperformed the market in both two years with growth rate of 10.4% and 11.8%, respectively.

However, since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty during the development of pharmaceutical companies. In recent years, policies such as tendering and reimbursement are posing great impacts on the industry, especially the centralised procurement on selected 33 drugs in 11 pilot cities led by Bureau of National Medical Insurance ("BNMI"). All of the selected products are non-exclusive while none of the Group's product is included. The major products of the Group are exclusive. For instance, Lipusu is the only paclitaxel liposome product approved for sale globally; CMNa is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China; Xuezhikang is an exclusive traditional Chinese medicine for hypercholesterolaemia; Seroquel XR is the only quetiapine fumarate extended-release tablets in China; Beixi is an only one acarbose in capsule form in China. Therefore the Group is less impacted by the centralised procurement policy.

For the year of 2019, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates.

As described above, for the year 2018, the Group has made remarkable progresses in R&D fields. In China, LY01005, LY01008, LY03003 and LY03005 commenced phase III clinical trials. LY01011 and LY06006 are proceeding with their phase I clinical trail in China. LY01013 and LY03012 have obtained the approval from NMPA to initiate clinical trials. The clinical applications of biological antibody LY09004 have received formal acceptance by NMPA. Seroquel XR has been approved to include "depression arising from bipolar disorder" under the indication by NMPA. Rivastigmine Patch has been accepted by NMPA for its import registration.

Overseas, LY03004 is agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S.. LY03010 has obtained the approval from the U.S. FDA to initiate clinical trials for the treatment of schizophrenia and schizoaffective disorder. LY03003 has been submitted for clinical trial approval by PMDA in Japan. The Group has entered into a collaboration and license agreement with Excel BioPharm and Elpis Biopharm, to collaborate on the discovery and development of therapeutic antibodies for next generation immuno-oncology treatments and dual target based Chimeric Antigen Receptor T-Cell Immunotherapy therapies and biologic drug candidates for next generation immuno-oncology treatments respectively.

For M&A, given the Group acquired Seroquel and Seroquel XR from AstraZeneca, including the rights in 51 countries and regions. The acquisition of Seroquel and Seroquel XR will further enrich the Group's existing CNS product portfolio, and will help the Group further expand in the PRC and into markets outside of China. The Group believes that it will be able to capture certain synergetic effects brought along by the acquisition in terms of business development and sales channels in the relevant countries.

Moreover, the Group entered into contraception area by acquiring the global rights of Apleek from Bayer AG. Apleek is a new-generation combined-hormonal 7-day contraceptive transdermal patch containing ethinyl estradiol and gestodene, which was developed jointly by Luye Pharma AG and Bayer AG. A number of patents relating to Apleek have been registered in the U.S., the European Union, China, Japan and a number of other countries and regions.

The collaboration with AstraZeneca on Xuezhikang's promotion rights in mainland China will accelerate Xuezhikang's growth and improve its profitability. Besides, AstraZeneca and the Group will discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world.

For China sales and distribution, the penetration into lower-tier hospitals is deepening and the internal sales -force is growing fast. Backed by sales of Seroquel and Seroquel XR and the upcoming rivastigamine patch and LY03004, the Group will gradually build up its domestic commercialisation capability in CNS.

Overseas, the acquisition of Seroquel will further expand the Group's sales network and build up the commercialisation capability in developing countries.

For manufacturing, the Group is working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group's global manufacturing facility system. The new oncology drug injection facility in Nanjing site has finished construction and is expected to obtain the GMP certificate by NMPA within the year. The new transdermal patch facility in Yantai has finished construction and was put into pilot production. The manufacturing site for transdermal patches in Miesbach, Germany, attained compliance with the Falsified Medicines Directive (Directive 2011/62/EC) of the European Union (also known as serialisation requirement) in February 2019. A total of 9 inspections and audits by government authorities and customers in the reporting period underlined the compliance with GMP standards.

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

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue amounted to approximately RMB5,173.4 million, as compared to RMB3,814.8 million for the year ended 31 December 2017, representing an increase of approximately RMB1,358.5 million, or 35.6%. The increase is mainly attributable to the sales from newly acquired product Seroquel and sales growth of the Group's key products.

For the year ended 31 December 2018, the Group's revenue from sales of oncology products increased to RMB2,391.3 million, as compared to RMB1,871.8 million for the year ended 31 December 2017, representing an increase of approximately RMB519.5 million, or 27.8%, primarily attributable to the increase in sales volume of key oncology products of the Group.

For the year ended 31 December 2018, revenue from sales of cardiovascular system products increased to RMB787.1 million, as compared to RMB644.0 million for the year ended 31 December 2017, representing an increase of approximately RMB143.0 million, or 22.2%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2018, revenue from sales of alimentary tract and metabolism products increased to RMB930.5 million, as compared to RMB749.3 million for the year ended 31 December 2017, representing an increase of approximately RMB181.2 million, or 24.2%, primarily attributable to the increase in sales volume of various alimentary tract and metabolism products of the Group.

For the year ended 31 December 2018, revenue from sales of CNS products increased to RMB921.9 million, as compared to RMB412.5 million for the year ended 31 December 2017, representing an increase of approximately RMB509.3 million, primarily attributable to half year revenue contribution from our newly acquired product "Seroquel" on 28 June 2018.

For the year ended 31 December 2018, revenue from sales of other products increased to RMB142.6 million, as compared to RMB137.2 million for the year ended 31 December 2017, representing an increase of approximately RMB5.4 million, or 3.9%, primarily attributable to the increase in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB851.5 million for the year ended 31 December 2017 to approximately RMB1,124.0 million for the year ended 31 December 2018, which accounted for approximately 21.7% of the Group's total revenue for the same year. The Group's increase in cost of sales was in line with the increase in sales volumes for the year ended 31 December 2018, as compared to year 2017.

Gross Profit

For the year ended 31 December 2018, the Group's gross profit increased to RMB4,049.4 million, as compared to RMB2,963.4 million for the year ended 31 December 2017, representing an increase of approximately RMB1,086.1 million, or 36.6%. The increase in the Group's gross profit was broadly in line with its revenue growth and contribution from our newly acquired product. The Group's gross profit margin increased to 78.3% for the year ended 31 December 2018 from 77.7% for the year ended 31 December 2017. The slightly higher margin mainly attributes to higher revenue contribution from our slightly higher margin products.

Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the year ended 31 December 2018, the Group's other income and gains decreased to RMB220.7 million, as compared to RMB236.7 million for the year ended 31 December 2017, representing an decrease of approximately RMB16.0 million. The decrease is mainly attributable to lower government grant recognised and offset by higher bank interest income earned during the year.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2018, the Group's selling and distribution expenses amounted to RMB1,685.9 million, as compared to RMB1,286.5 million for the year ended 31 December 2017, representing an increase of RMB399.4 million, or 31.0%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in staff cost. On the other hand, as a percentage of revenue the Group's selling and distribution expenses decreased from 33.7% for the year ended 31 December 2017 to 32.6% for the year ended 31 December 2018, primarily as a result of the lower selling and distribution expense margin to revenue for our newly acquired product at 28 June 2018.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2018, the Group's administrative expenses amounted to approximately RMB441.4 million, as compared to RMB431.6 million for the year ended 31 December 2017, representing an increase of approximately RMB9.7 million, or 2.3%. The increase was mainly due to higher staff cost, general operating cost.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2018, the Group's other expenses amounted to approximately RMB499.6 million, as compared to RMB316.0 million for the year ended 31 December 2017, representing an increase of approximately RMB183.6 million, or 58.1%. The increase was mainly due to increase in R&D costs.

Finance Costs

For year ended 31 December 2018, the Group's finance costs amounted to RMB170.6 million, as compared to RMB50.5 million for the year ended 31 December 2017, representing an increase of approximately RMB120.1 million, or 237.8%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings for the year ended 31 December 2018 as compared to the corresponding year.

Income Tax Expense

For the year ended 31 December 2018, the Group's income tax expense amounted to RMB167.5 million, as compared to RMB135.8 million for the year ended 31 December 2017, representing an increase of RMB31.7 million, or 23.4%. The effective tax rate for the year ended 31 December 2018 is 11.4% and 12.2% on 31 December 2017, the lower effective tax rate mainly due to certain income of a Hong Kong subsidiary of the Group was not subject to tax in 2018, pursuant to the relevant tax law of the Hong Kong Special Administrative Region.

Net Profit

The Group's net profit for the year ended 31 December 2018 was approximately RMB1,306.0 million, as compared to RMB980.6 million for year ended 31 December 2017, representing an increase of approximately RMB325.4 million, or 33.2%.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

As at 31 December 2018, the Group had net current assets of approximately RMB472.4 million, as compared to approximately RMB2,641.1 million as at 31 December 2017. The current ratio of the Group decreased to approximately 1.1 as at 31 December 2018 from approximately 1.7 as at 31 December 2017. The decrease in net current assets was mainly attributable to higher level of loans and borrowings for the acquisition of Seroquel.

Borrowings and Pledge of Assets

As at 31 December 2018, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB6,138.1 million, as compared to approximately RMB2,861.4 million as at 31 December 2017. The increase was mainly resulting from additional loans taken during the year for the

Seroquel acquisition and for working capital of the Group. Amongst the loans and borrowings, approximately RMB5,290.5 million are repayable within one year, and approximately RMB847.6 million are repayable after one year. RMB1,517.9 million of the loans borrowings of the Group carried interest at fixed interest rate. The bank loans were mainly secured by the Group's time deposits, and notes receivable. As at 31 December 2018, the Group's borrowings were primarily denominated in RMB, EURO and U.S. dollars, and the cash and cash equivalents were primarily denominated in RMB, EURO and U.S. dollars.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 77.4% from 41.5% as at 31 December 2017. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the year for Seroquel acquisition and remaining outstanding payment for Seroquel acquisition.

Contingent Liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2018. The directors of the Company (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 Remuneration Policy

As at 31 December 2018, the Group employed a total of 4,417 employees, as compared to a total of 3,921 employees as at 31 December 2017. For the year ended 31 December 2018, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB596.1 million as compared to RMB503.3 million for the year ended 31 December 2017. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

Share Award Scheme (the "Scheme")

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 31 December 2018, the Board has granted to the selected employees an aggregate of 20,098,000 (2017: 17,861,000) shares of the Company under the Scheme and 20,098,000 (2017: 17,724,000) awarded shares were accepted by selected employees.

Details of the Scheme and the awards made up to 31 December 2018 are set out in note 17 to the financial statements.

Hedging Activities

As at 31 December 2018, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2018, 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 REPORTING PERIOD

On 20 December 2018, 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.), a wholly-owned subsidiary of the Company ("Shandong Luye") and 山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.) ("Boan") entered into asset transfer agreements pursuant to which Shandong Luye agreed to acquire, and Boan agreed to transfer to Shandong Luye, two biological antibody drugs under research and development, being LY01011 and LY09004, and their respective technologies, data and all rights attaching to the products including but not limited to the clinical trials approval, for a total consideration of RMB500 million, which is payable by stages. Boan is an indirect subsidiary of, and owned as to 66.7% indirectly by, 綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.) ("Luye Investment PRC"). Luye Investment PRC is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, Boan is a connected person of the Company.

The completion of the above transfers took place in January 2019.

FINAL DIVIDEND

On 26 August 2018, the Company declared an interim dividend of RMB0.043 (equivalent to HK$0.051) per share (equivalent to approximately RMB140,720,000) for the six months ended 30 June 2018 (the six months ended 30 June 2017: RMB0.029 (equivalent to HK$0.033) per share).

On 28 March 2019, the Board proposed a final dividend of RMB0.057 (equivalent to HK$0.065) per share (equivalent to approximately RMB185,124,000) for the year ended 31 December 2018 (2017: RMB0.045 (equivalent to HK$0.054) per share). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 12 June 2019 and will be payable on or around 18 July 2019, if approved by the shareholders.

CLOSURE OF REGISTER OF SHAREHOLDERS

The Company's annual general meeting will be held on 12 June 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 6 June 2019 to 12 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 5 June 2019.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 18 June 2019 to 20 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 17 June 2019.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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

As at 31 December 2018 and up to the date of this announcement, the Company has complied with all the applicable code provisions set out in the CG Code, except for the following deviation:

Code provision A.2.1 of the CG Code

The roles of chairman and chief executive officer should be separate and performed by different individuals.

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

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") set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code For the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had repurchased a total of 5,000,000 Shares during the year ended 31 December 2018. Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee has reviewed together with the Board the accounting principles and policies adopted by the Group, the audited annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2018. The audit committee also approved the annual results and the consolidated financial statements for the year ended 31 December 2018 and submitted them to the Board for approval.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2018 ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2018 annual report containing all the information about the Company set out in this announcement including the financial results for the year ended 31 December 2018 will be posted on the Company's website (www.luye.cn) and the website of SEHK (www.hkexnews.hk) and despatched to the shareholders of the Company in due course.

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

Hong Kong, 28 March 2019

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 director is Mr. SONG Rui Lin; 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.