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CHI-MED

HUTCHISON CHINA MEDITECH LIMITED

Filing of Registration Statement on Form F-1 for potential Nasdaq Stock Market Listing

London: Friday, 16 October 2015: Hutchison China MediTech Limited ("Chi-Med") (AIM: HCM) today announces that it is evaluating the feasibility of a potential issuance of new Ordinary Shares (the "Equity Raise") in connection with a potential listing of American depositary shares ("ADSs") representing such Ordinary Shares on the Nasdaq Stock Market (the "Offering"). Chi-Med has publicly filed today a registration statement on Form F-1 ("Form F-1 Registration Statement") with the United States Securities and Exchange Commission (the "SEC") in relation to the potential Offering. The Offering will be made only by means of an effective Form F-1 Registration Statement. As at the date of this announcement, Chi-Med has not yet set a definite timetable or decided on further details of the potential Offering and there can be no assurance that the potential Offering will be completed. The number of offering shares and offering price of the potential Offering have not yet been determined. The directors of Chi-Med ("Directors") will assess various factors, including market conditions, in considering whether to formally launch the transaction.

Any equity securities of Chi-Med listed on Nasdaq as part of the potential Offering will be in the form of ADSs. ADSs are negotiable instruments issued by a depositary bank that represent ownership of Ordinary Shares. They are designed to facilitate the purchase, holding and sale of Ordinary Shares by investors who wish to trade on Nasdaq. ADSs are similar to Depositary Interests in that each ADS will represent a fixed number of Ordinary Shares (the exact ratio of ADSs to Ordinary Shares will be determined during the Offering process), save that ADSs will be denominated in US dollars.

Bank of America Merrill Lynch and Deutsche Bank Securities (in alphabetical order) are acting as joint global coordinators and joint bookrunners for the potential Offering.

Mr Simon To, Executive Director and Chairman of Chi-Med, said, "We believe the United States not only represents one of the world's most important pharmaceutical markets for the development of our drug candidates but also the largest healthcare investment community. We consider that Chi-Med should take this important step to increase its profile amongst U.S. investors and seek to benefit from the additional liquidity that we believe a listing on Nasdaq should provide. The potential U.S. listing and financing will importantly, if successful, enable Chi-Med to accelerate and broaden investment in its product pipeline and expand its manufacturing facilities to support the potential future commercialisation of its products."

A copy of the Form F-1 Registration Statement can be accessed through the website of the United States Securities and Exchange Commission at www.sec.gov.

Background to the potential Equity Raise and Offering

The potential Equity Raise and Offering are intended to support the implementation of Chi-Med's current drug development plans. It is the belief of the Directors that the United States represents one of the most important markets for the development of Chi-Med's drug candidates, and the United States also has a large number of specialist healthcare investors. The Directors believe that Chi-Med should obtain exposure to the United States capital markets to increase its profile amongst United States investors and seek to benefit from the additional liquidity that the Directors believe a listing on Nasdaq should provide. In summary, given the nature of the business of Chi-Med and its subsidiaries (the "Group"), the Directors believe that the potential Equity Raise and Offering together comprise an appropriate and beneficial route for Chi-Med to take.

Although the final size of the potential Equity Raise is yet to be determined, if the potential Equity Raise and Offering do proceed, Chi-Med intends to use the net proceeds of the potential Equity Raise, together with the cash generated by its operations, primarily to advance the clinical development of its multiple drug candidates. In particular, Chi-Med expects to apply these net proceeds as follows:

a) to accelerate and broaden clinical development of the drug candidates for which it retains all worldwide rights, specifically to advance:

  i. HMPL-523 through Phase I and Proof-of-Concept studies, expected to be conducted in Australia, the United States and China, in rheumatoid arthritis, lupus and haematological cancer;

  ii. sulfatinib through NDA submission in China and through Phase I and Proof-of-Concept studies, expected to be conducted in the United States, in neuroendocrine tumours, and through Phase I and Proof-of-Concept studies, expected to be conducted in China, in thyroid cancer;

  iii. epitinib through NDA submission in China and Phase I and Proof-of-Concept studies, expected to be conducted in the United States, in non-small cell lung cancer with brain metastasis; and

  iv. theliatinib through Phase I and Proof-of-Concept studies, expected to be conducted in China and the United States, in head and neck cancer and oesophageal cancer;

b) to support its share of the development costs of its partnered clinical drug candidates, including to advance:

   i. savolitinib through NDA submission globally in papillary renal cell carcinoma and EGFR tyrosine kinase inhibitor-refractory non-small cell lung cancer and through Proof-of-Concept studies globally in gastric cancer and VEGFR tyrosine kinase inhibitor-refractory clear cell renal cell carcinoma;

   ii. fruquintinib through NDA submission in colorectal cancer and non-small cell lung cancer in China and through Proof-of-Concept in gastric cancer in China and to advance fruquintinib through Proof-of-Concept in non-small cell lung cancer in the United States either independently or in partnership with Eli Lilly subject to the exercise of its global option; and

   iii. HMPL-004 through an interim analysis in a global Phase III study in mild-to-moderate ulcerative colitis;

c) to progress pre-clinical drug candidates, specifically to advance:

   i. HMPL-689 through Phase I and Proof-of-Concept studies, expected to be conducted in Australia, the United States and China, in haematological cancer;

   ii. HMPL-453 through Phase I and Proof-of-Concept studies, expected to be conducted in Australia, the United States and China, in bladder cancer; and

   iii. other drug candidates through pre-clinical studies and into Phase I clinical trials;

d) to build production facilities to produce both clinical and commercial supply of its drug candidates; and

e) to repay certain of its existing term loan from Scotiabank (Hong Kong) Limited.

Although Chi-Med expects that the majority of the net proceeds from the potential Equity Raise, if the potential Equity Raise and Offering do proceed, would be used to advance the clinical development of its multiple drug candidates, the precise amounts allocated to each of the expenditure items listed above will only be determined once the final size of the potential Equity Raise is known.

Chi-Med expects to use the remainder of the net proceeds (if any) to provide funding for working capital and other general corporate purposes, such as acquiring the commercial rights to other drug products and expanding its research organisation and infrastructure.

If the potential Equity Raise and Offering do proceed, the expected usage of the potential Equity Raise net proceeds represents the Directors' intentions based upon their current plans and Chi-Med's business conditions. Due to the many variables inherent in the development of its drug candidates at this time, such as the timing of patient enrolment and evolving regulatory requirements, the Directors cannot currently predict the stage of development they expect to achieve for Chi-Med's pre-clinical and clinical trial and drug candidates with the net proceeds of the potential Equity Raise. The amounts and timings of the actual expenditure to be incurred by Chi-Med may vary significantly depending on numerous factors, including the results of the pre-clinical and clinical trial of its drug candidates, its operating costs and expenditures and the amount of cash generated by its operations. Accordingly, the Directors will have broad discretion over the usage of the net proceeds and investors will be relying on the judgment of the Directors regarding the application of the net proceeds. Pending such usage, the Directors intend to invest these net proceeds in high-quality, investment-grade, short-term fixed income instruments.

Pending the execution of the potential Offering, Chi-Med has sufficient resources and support to pursue the current research and development of its drug candidates.

Chi-Med will be seeking shareholders' approval to authorise the Directors to issue new Ordinary Shares in connection with the potential Offering at an extraordinary general meeting of Chi-Med which is expected to take place on Tuesday, 10 November 2015. An explanatory circular will shortly be posted to shareholders to provide further information in relation to the potential Offering. A further announcement will be published if Chi-Med decides to proceed with the potential Offering.

The Existing Shareholders

The Directors recognise the importance of Chi-Med's existing shareholder base and plan to retain admission of the Ordinary Shares to trading on the AIM market of the London Stock Exchange ("AIM") alongside the listing of the ADSs on Nasdaq. Notwithstanding the planned listing of the ADSs on Nasdaq, Chi-Med will continue to be subject to the AIM Rules. Shareholders will continue to be able to deal in Depositary Interests and/or Ordinary Shares on AIM and following the listing of the ADSs on Nasdaq will, subject to certain restrictions that apply where such shareholders are affiliates of Chi-Med, also be able to deal in ADSs on Nasdaq. Shareholders should consult their own legal advisers as to whether they are affiliates of Chi-Med but, generally, shareholders should note that Directors, certain officers and shareholders holding more than 10 per cent. of the issued Ordinary Shares are considered to be affiliates for these purposes.

The Potential Offering

A document setting out certain information addressing questions concerning the potential Offering and trading of ADSs on Nasdaq, and explaining how to convert Ordinary Shares and Depositary Interests into ADSs (and vice versa), will be prepared for the benefit of shareholders (the "FAQs"). Shareholders are encouraged to review the FAQs, which will be available for viewing on Chi-Med's website at www.chi-med.com following the listing of the ADSs on Nasdaq, and to consult their stockbroker, solicitor, accountant or other independent financial adviser in the event of any doubt.

In relation to the potential Offering, Chi-Med has filed the Form F-1 Registration Statement. The Form F-1 Registration Statement, which has not yet become effective, anticipates an offer of new Ordinary Shares in the form of ADSs. A precise determination of the number of ADSs to be offered by Chi-Med and the offering price has not yet been made.

Chi-Med will also make an application for the new Ordinary Shares to be issued in connection with the potential Equity Raise to be admitted to trading on AIM. As noted above, application has been made to Nasdaq for the ADSs representing such Ordinary Shares to be listed on the Nasdaq Stock Market upon effectiveness of the Form F-1 Registration Statement. The new Ordinary Shares issued as a result of the potential Equity Raise will rank pari passu with the existing Ordinary Shares of Chi-Med.

The potential Offering will be made only by means of an effective Form F-1 Registration Statement.

The ADSs and the new Ordinary Shares to be issued as a result of the potential Equity Raise may not be subscribed for or sold, nor may offers to subscribe for or buy the ADSs or the new Ordinary Shares to be issued as a result of the potential Equity Raise be accepted, prior to the time the Form F-1 Registration Statement becomes effective.

Shareholders and potential investors should note that the potential Offering may or may not proceed, and accordingly are advised to exercise caution when dealing in the securities of Chi-Med.

Presentation of Financial Information

The consolidated financial statements of the Group included in the Form F-1 Registration Statement (comprising the consolidated financial statements for the years ended 31 December 2014 and 31 December 2013 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2015 and 30 June 2014, together the "Historical Financial Information") have been prepared in accordance with U.S. GAAP, while the historical consolidated financial statements of the Group published prior to the potential Offering were prepared in accordance with IFRS. The Board wishes to change the accounting standards it adopts in the preparation of the consolidated financial statements of the Group from IFRS to U.S. GAAP following the completion of the potential Offering. In addition, Chi-Med has three non-consolidated joint ventures - Shanghai Hutchison Pharmaceuticals Limited, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited and Nutrition Science Partners Limited. The consolidated financial data of each such joint venture (which are prepared under IFRS, as of and for the years ended 31 December 2014 and 31 December 2013 and as of and for the six months ended 30 June 2015 and 30 June 2014) and the Historical Financial Information, each as extracted from the Form F-1 Registration Statement, are set out in the Appendix to this announcement.

Ends

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About Chi-Med

Chi-Med is a China-based, globally-focused healthcare group which researches, develops, manufactures and sells pharmaceuticals and health-related consumer products. Its Innovation Platform focuses on discovering and developing innovative therapeutics in oncology and autoimmune diseases for the global market. Its Commercial Platform manufactures, markets, and distributes prescription drugs and consumer health products in China.

Chi-Med is majority owned by the multinational conglomerate CK Hutchison Holdings Limited (SEHK: 0001). For more information, please visit: www.chi-med.com.

Important information

This announcement, which includes the appendices to it, does not constitute a Form F-1 Registration Statement and does not constitute or form, and will not form, part of any offer or invitation to sell or issue, or the solicitation of an offer to purchase or acquire, any of the Ordinary Shares or ADSs or any other securities in the United States or in any other jurisdiction. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended ("U.S. Securities Act"). Any public offering of securities to be made in the United States will be made by means of a Form F-1 Registration Statement. Such Form F-1 Registration Statement will contain detailed information about the issuer and its management and financial statements. This announcement is being issued pursuant to and in accordance with Rule 135e under the U.S. Securities Act.

No money, securities or other consideration is being solicited, and, if sent in response to the information contained in this announcement, will not be accepted.

Members of the public outside the United States will not be eligible to take part in the potential Offering described above.

This announcement is not directed to, or intended for distribution or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

The distribution of this announcement into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession this announcement come should inform themselves about and observe any such restrictions.

For readers in the European Economic Area

In any EEA Member State that has implemented the Prospectus Directive, this announcement, which includes the appendices to it, is only addressed to and directed at qualified investors in that Member State within the meaning of the Prospectus Directive. The term "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in each relevant Member State), together with any relevant implementing measure in the relevant Member State.

For readers in the United Kingdom

This announcement, which includes the appendices to it, insofar as it constitutes an invitation or inducement to enter into investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) in connection with the securities which are the subject of the potential Offering described in this announcement or otherwise, is being directed only at (i) persons who are outside the United Kingdom or (ii) persons who have professional experience in matters relating to investments who fall within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("Order") or (iii) certain high value persons and entities who fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc) of the Order; or (iv) any other person to whom it may lawfully be communicated (all such persons in (i) to (iv) together being referred to as "relevant persons"). The ADSs are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such ADSs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this announcement or any of its contents.

Forward-looking statements

This announcement, which includes the appendices to it, may contain forward-looking statements that reflect Chi-Med's current expectations regarding future events, including the commercialisation and regulatory clearance of Chi-Med's products, the Group's liquidity and results of operations, as well as the Group's future capital raising activities. Forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a *number of factors, including the success of Chi-Med's research and development and commercialisation strategies, the uncertainties related to the regulatory process and the acceptance of Chi-Med's products by hospitals and other medical professionals. A further list and description of risks, uncertainties and other risks associated with an investment in Chi-Med can be found in Chi-Med's filings with the United States Securities and Exchange Commission, including the Form F-1 Registration Statement. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Chi-Med undertakes no obligation to update or revise the information contained in this announcement, whether as a result of new information, future events or circumstances or otherwise.*

Defined Terms

For the purposes of this announcement:

"AIM Rules" means the rules and guidance for companies whose shares are admitted to trading on AIM entitled "AIM Rules for Companies" published by the London Stock Exchange, as amended from time to time;

"CREST" means an electronic settlement system for United Kingdom and Irish securities operated by Euroclear UK & Ireland Limited for the paperless settlement of securities in uncertificated form;

"Depositary Interests" means the dematerialised depositary interests each representing an entitlement to Ordinary Shares which may be traded through CREST in dematerialised form;

"EGFR" means epidermal growth factor receptor;

"Group" means Chi-Med and its subsidiaries;

"IFRS" means the International Financial Reporting Standards as issued by the International Accounting Standards Board;

"Nasdaq" means the Nasdaq Stock Market;

"NDA submission" means a request for approval to market a drug containing evidence of safety and efficacy which is demonstrated by extensive pre-clinical and clinical testing;

"Ordinary Shares" means the fully paid ordinary shares in the capital of Chi-Med which have a nominal value of US$1 each, and "Ordinary Share" means any one of them;

"Phase I" means a preliminary clinical trial for clinical pharmacology and body safety, conducted to observe the human body tolerance for new medicine and pharmacokinetics, so as to provide a basis for determining the prescription plan;

"Phase III" means a clinical trial stage to verify the clinical effectiveness, the purpose of which is to test and determine the clinical effectiveness and safety of the medicine used on patients with targeted indication, to evaluate the benefits and risks thereof and, eventually, to provide sufficient basis for review of the medicine registration application;

"Proof-of-Concept" means a clinical trial conducted to establish the clinical effectiveness and safety of the new medicine used on patients with the targeted indication. Generally Proof-of-Concept trials are categorised as either Phase Ib or Phase II trials, which are clinical trials conducted in a larger patient population than for a Phase I trial, but in a smaller patient populations than Phase III registration application trials;

"U.S. GAAP" means the United States generally accepted accounting principles; and

"VEGFR" means vascular endothelial growth factor receptor.

Appendix

Historical Financial Information prepared in accordance with U.S. GAAP

and

Historical Financial Information of Non-Consolidated Joint Ventures prepared in accordance with IFRS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Hutchison China MediTech Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Hutchison China MediTech Limited (the "Company") and its subsidiaries (the "Group") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers
Hong Kong
August 21, 2015

Hutchison China MediTech Limited
Consolidated Balance Sheets
(in US$'000)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	38,946	46,863
Short-term investments	12,179	—
Accounts receivable—third parties	22,724	11,803
Accounts receivable—related parties	2,184	3,938
Other receivables, prepayments and deposits	3,016	1,756
Amounts due from related parties	6,283	1,254
Inventories	4,405	1,420
Deferred tax assets	105	130
Total current assets	**89,842**	**67,164**
Property, plant and equipment, net	7,482	5,028
Leasehold land	1,436	1,508
Goodwill	3,430	407
Other intangible asset	666	—
Investments in equity investees	107,978	111,296
Total assets	**210,834**	**185,403**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable—third parties	18,237	1,811
Accounts payable—related parties	2,190	2,352
Other payables, accruals and advance receipts	17,159	15,389
Deferred revenue	2,394	701
Amounts due to related parties	8,716	7,374
Short-term bank borrowings	26,282	51,508
Deferred tax liabilities	321	328
Total current liabilities	**75,299**	**79,463**
Deferred tax liabilities	2,626	2,069
Long-term bank borrowings	26,923	—
Deferred revenue	4,182	6,572
Other non-current liabilities	3,853	6,725
Total liabilities	**112,883**	**94,829**
Commitments and contingencies (Note 19)		
Redeemable non-controlling interest	41,036	12,467
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized; 53,076,676 and 52,051,448 shares issued at December 31, 2014 and 2013	53,076	52,051
Additional paid-in capital	76,256	99,361
Accumulated losses	(100,051)	(92,575)
Accumulated other comprehensive income	9,870	12,310
Total Company's shareholders' equity	**39,151**	**71,147**
Non-controlling interests	17,764	6,960
Total shareholders' equity	**56,915**	**78,107**
Total liabilities and shareholders' equity	**210,834**	**185,403**

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison China MediTech Limited
Consolidated Statements of Operations
(in US$'000, except share and per share data)

	Years Ended December 31,	
	2014	**2013**
Revenues		
Sales of goods—third parties	59,162	8,667
Sales of goods—related parties	7,823	7,803
Revenue from license and collaboration agreements—third parties	12,336	14,546
Revenue from research and development services—third parties	3,696	1,919
Revenue from research and development services—related parties	4,312	3,612
Total revenues	**87,329**	**36,547**
Operating expenses		
Costs of sales of goods—third parties	(53,477)	(5,380)
Costs of sales of goods—related parties	(5,372)	(5,814)
Research and development expenses	(29,914)	(22,731)
Selling expenses	(4,112)	(3,452)
Administrative expenses	(12,713)	(12,366)
Total operating expenses	**(105,588)**	**(49,743)**
Loss from operations	**(18,259)**	**(13,196)**
Other (expense)/income		
Interest income	559	451
Gain on disposal of a business	—	30,000
Other income	20	1,221
Interest expense	(1,516)	(1,485)
Other expense	(761)	(69)
Total other (expense)/income	**(1,698)**	**30,118**
(Loss)/income before income taxes and equity in earnings of equity investees	**(19,957)**	**16,922**
Income tax expense	(1,343)	(1,050)
Equity in earnings of equity investees, net of tax	15,180	11,031
Net (loss)/income from continuing operations	**(6,120)**	**26,903**
Income/(loss) from discontinued operations, net of tax (including loss on disposal of US$97,000 for 2013)	2,034	(1,978)
Net (loss)/income	**(4,086)**	**24,925**
Less: Net income attributable to non-controlling interests	(3,220)	(983)
Net (loss)/income attributable to the Company	**(7,306)**	**23,942**
Accretion on redeemable non-controlling interests	(25,510)	—
Net (loss)/income attributable to ordinary shareholders of the Company	**(32,816)**	**23,942**
(Losses)/earnings per share attributable to ordinary shareholders of the Company—basic (US$ per share)		
Continuing operations	(0.64)	0.49
Discontinued operations	0.02	(0.03)
(Losses)/earnings per share attributable to ordinary shareholders of the Company—diluted (US$ per share)		
Continuing operations	(0.64)	0.44
Discontinued operations	0.02	(0.03)
Number of shares used in per share calculation—basic	52,563,387	52,050,988
Number of shares used in per share calculation—diluted	52,563,387	52,878,426

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison China MediTech Limited
Consolidated Statements of Comprehensive Income
(in US$'000)

	Years Ended December 31,	
	2014	2013
Net (loss)/income	**(4,086)**	**24,925**
Other comprehensive (loss)/income:		
Foreign currency translation (loss)/income	(2,712)	3,243
Total Comprehensive (loss)/income	**(6,798)**	**28,168**
Less: Comprehensive income attributable to non-controlling interests	(2,944)	(1,296)
Total Comprehensive (loss)/income attributable to ordinary shareholders of the Company	**(9,742)**	**26,872**

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison China MediTech Limited
Consolidated Statements of Changes in Shareholders' Equity
(in US$'000, except share and per share data)

	Ordinary Number	Shares Amount	Additional Paid-in Capital	Accumulated Losses	Accumulated Other Comprehensive Income	Total Company's Shareholders' Equity	Non-controlling Interests	Total Equity
As of December 31, 2012	**52,048**	**52,048**	**99,230**	**(116,517)**	**9,380**	**44,141**	**6,241**	**50,382**
Net income	—	—	—	23,942	—	23,942	983	24,925
Issuance of ordinary shares in relation to exercise of share options	3	3	4	—	—	7	—	7
Share-based compensation	—	—	127	—	—	127	—	127
Foreign currency translation adjustments	—	—	—	—	2,930	2,930	313	3,243
Dividend paid to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	(577)	(577)
As of December 31, 2013	**52,051**	**52,051**	**99,361**	**(92,575)**	**12,310**	**71,147**	**6,960**	**78,107**
Net (loss)/income	—	—	—	(7,306)	—	(7,306)	3,220	(4,086)
Non-controlling interests arising from acquisition of a subsidiary	—	—	—	—	—	—	9,003	9,003
Purchase of additional interest in a subsidiary of an equity investee	—	—	—	(234)	—	(234)	—	(234)
Issuance of ordinary shares in relation to exercise of share options	1,025	1,025	1,655	—	—	2,680	—	2,680
Share-based compensation	—	—	725	—	—	725	—	725
Foreign currency translation adjustments	—	—	—	—	(2,436)	(2,436)	(276)	(2,712)
Dividend paid to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	(1,179)	(1,179)
Transfer between reserves	—	—	25	(25)	—	—	—	—
Dilution of interests in a subsidiary in relation to exercise of share options of a subsidiary	—	—	—	89	(4)	85	36	121
Accretion to redemption value of redeemable non-controlling interests	—	—	(25,510)	—	—	(25,510)	—	(25,510)
As of December 31, 2014	**53,076**	**53,076**	**76,256**	**(100,051)**	**9,870**	**39,151**	**17,764**	**56,915**

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison China MediTech Limited
Consolidated Statements of Cash Flows
(in US$'000)

	Years Ended December 31,	
	2014	**2013**
Operating activities		
Net (loss)/income	(4,086)	24,925
Adjustments to reconcile net (loss)/income to net cash generated from operating activities		
Gain on disposal of a business	—	(30,000)
Depreciation and amortization	1,265	963
Loss on retirement of property, plant and equipment	36	18
Inventories written off	147	1,028
Provision for excess and obsolete inventories	15	125
Decrease in provision for excess and obsolete inventories due to sale of inventories	(106)	(954)
Allowance for doubtful accounts	185	42
Share-based compensation expense	1,065	1,473
Equity in earnings of equity investees	(15,180)	(11,031)
Dividend received from equity investees	15,949	11,812
Foreign currency gain/(loss)	173	(11)
Income taxes	497	(131)
Changes in operating assets and liabilities		
Accounts receivable—third parties	8,285	(5,088)
Accounts receivable—related parties	1,754	(1,187)
Other receivables, prepayments and deposits	454	(173)
Amounts due from related parties	(5,029)	(60)
Inventories	167	(29)
Accounts payable—third parties	2,332	303
Accounts payable—related parties	(162)	677
Other payables, accruals and advance receipts	(47)	4,711
Deferred revenue	(697)	6,544
Amounts due to related parties	1,342	1,071
Net cash generated from operating activities	8,359	5,028
Investing activities		
Acquisition of a subsidiary, net of cash acquired	689	—
Purchases of property, plant and equipment	(3,729)	(2,500)
Deposit in short-term investments	(12,179)	—
Net cash used in investing activities	(15,219)	(2,500)
Financing activities		
Proceeds from issuance of ordinary shares	2,680	7
Proceeds from exercise of share options of a subsidiary	121	—
Dividends paid to a non-controlling shareholder of a subsidiary	(1,179)	(577)
Capital contribution from redeemable non-controlling interests	3,059	—
Repayment of loan to a non-controlling shareholder of a subsidiary	(2,250)	—
Proceeds from bank borrowings	8,205	14,261
Repayment of bank borrowings	(11,277)	(568)
Net cash (used in)/generated from financing activities	(641)	13,123
Net (decrease)/increase in cash and cash equivalents	(7,501)	15,651
Effect of exchange rate changes on cash and cash equivalents	(416)	445
	(7,917)	16,096
Cash and cash equivalents		
Cash and cash equivalents at beginning of year	46,863	30,767
Cash and cash equivalents at end of year	38,946	46,863
Supplemental disclosure for cash flow information		
Cash paid for interest	1,466	1,485
Cash paid for tax, net of refunds	908	1,181

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Nature of Business

Hutchison China MediTech Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. The Group and its equity investees have manufacturing plants in Shanghai and Guangzhou in the People's Republic of China (the "PRC") and sell mainly in the PRC and Hong Kong.

The Company considers Hutchison Healthcare Holdings Limited as its immediate holding company and CK Hutchison Holdings Limited ("CK Hutchison") as its ultimate holding company. Hutchison Whampoa Limited was the Company's ultimate holding company till June 3, 2015 when it became a subsidiary of CK Hutchison upon certain reorganisation within the group.

The Group determines the operating segments from both business and geographic perspectives as follows:

(i) Innovation Platform (Drug research and development ("Drug R&D")): focuses on discovering and developing innovative therapeutics in oncology and autoimmune diseases, and the provision of research and development services; and

(ii) Commercial Platform: comprising of the manufacture, marketing and distribution of prescription and over-the-counter pharmaceuticals in the PRC as well as certain health-related consumer products through Hong Kong. The Commercial Platform is further segregated into two core business areas:

- (a) Prescription Drugs: comprises the development, manufacture, distribution, marketing and sale of prescription pharmaceuticals; and
- (b) Consumer Health: comprises the development, manufacture, distribution, marketing and sale of over-the-counter pharmaceuticals and health-related consumer products.

Innovation Platform and Prescription Drugs business under the Commercial Platform are primarily located in the PRC. The locations for Consumer Health business under the Commercial Platform are further segregated into the PRC and Hong Kong.

In June 2013, the Group discontinued parts of its Consumer Health business under the Commercial Platform in the PRC and France as detailed in Note 5.

The Company was incorporated in the Cayman Islands on December 18, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision), Chapter 22 of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's ordinary shares are listed on the AIM regulated by the London Stock Exchange.

Liquidity

The Group incurred losses from operations of US$18.3 million and US$13.2 million for the years ended December 31, 2014 and 2013. As of December 31, 2014 the Group had accumulated losses of US$100.1 million. As of December 31, 2014, the Group had cash and cash equivalents of US$38.9 million, short-term investments of US$12.2 million and unutilized bank borrowing facilities of US$8.5 million. The Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

Based on the Group's operating plan, existing cash and cash equivalents and short-term investments are considered to be sufficient to meet the cash requirements to fund planned operations and other commitments for at least the next twelve months. The Group's operating plan includes the continued receipt of dividends from certain of its equity investees and there can be no assurances that these entities will continue to declare and pay dividends to its shareholders.

2. Particulars of Principal Subsidiaries and Equity Investees

Name	Place of establishment and operations	Equity interest attributable to the Group At December 31, 2014	2013	Principal activities
Subsidiaries				
Hutchison MediPharma Limited	PRC	99.81%	100%	Research and development of pharmaceutical products
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm")	PRC	51%	—	Provision of sales, distribution and marketing services to pharmaceutical manufacturers
Hutchison Hain Organic (Hong Kong) Limited ("HHOL") (note (i))	Hong Kong	50%	50%	Wholesale and trading of healthcare and consumer products
Hutchison Hain Organic (Guangzhou) Limited ("HHOGZL") (note (i))	PRC	50%	50%	Wholesale and trading of healthcare and consumer products
Hutchison Healthcare Limited ("HHL")	PRC	100%	100%	Manufacture and distribution of healthcare products
Hutchison Consumer Products Limited	Hong Kong	100%	100%	Wholesale and trading of healthcare and consumer products
Equity investees				
Nutrition Science Partners Limited ("NSPL") (note (ii))	Hong Kong	49.9%	50%	Research and development of pharmaceutical products
Shanghai Hutchison Pharmaceuticals Limited ("SHPL")	PRC	50%	50%	Manufacture and distribution of prescription drugs products
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") (note (iii))	PRC	40%	40%	Manufacture and distribution of over-the-counter drug products

Notes:

(i) HHOL and HHOGZL are regarded as subsidiaries of the Company as while both shareholders have equal representation at the Board, in the event of a deadlock, the Group has a casting vote and is therefore, able to unilaterally control the financial and operating policies of HHOL and HHOGZL.

(ii) The 50% equity interest in NSPL is held by a 99.8% owned subsidiary of the Group in 2014 which was 100% owned in 2013. The effective equity interest of the Group in NSPL is therefore 49.9% and 50% for 2014 and 2013 respectively.

(iii) The 50% equity interest in HBYS is held by a 80% owned subsidiary of the Group. The effective equity interest of the Group in HBYS is therefore 40% for both 2014 and 2013.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements reflect the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. Investments in equity investees over which the Group has significant influence are accounted for using the equity method. All inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for amounts recorded in connection with acquisitions, including initial fair value determinations of assets and liabilities and other intangible assets as well as subsequent fair value measurements. Additionally, estimates are used in determining items such as useful lives of property, plant and equipment, write-down of inventories, allowance for doubtful accounts, share-based compensation, impairments of long-lived assets, impairment of other intangible asset and goodwill, taxes on income, tax valuation allowances and revenues from research and development projects. Actual results could differ from those estimates.

Foreign Currency Translation

The Group's functional currency is Renminbi ("RMB") but the presentation currency is the U.S. dollar ("US$"). The financial statements of the Company's subsidiaries with a functional currency other than the U.S. dollar have been translated into the Company's reporting currency, the U.S. dollar. All assets and liabilities of the subsidiaries are translated using year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Translation adjustments are reflected in the accumulated other comprehensive income/(loss) component of shareholders' equity.

Net foreign currency exchange losses of US$480,000 and net foreign currency exchange gains of US$1,217,000 were recorded in other (expense)/income for the years ended December 31, 2014 and 2013 respectively.

Cash and Cash Equivalents

The Group considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash on hand and demand deposits and are stated at cost, which approximates fair value.

Short-term Investments

Short-term investments include deposits placed with banks with original maturities of more than three months but less than one year. Interest generated from short-term investments are recorded over the period earned. It is recorded as 'interest income' on the statement of operations and measured based on the actual amount of interest the Group earns.

3. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and other receivables and amounts due from related parties.

The Group places substantially all of its deposits of cash and cash equivalents and short-term investments in major financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any particular financial institution.

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of goods are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Foreign Currency Risk

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB, which is not freely convertible into foreign currencies. The Group's cash and cash equivalents that are subject to such government controls as of December 31, 2014 and 2013 are as disclosed in Note 7. The value of the RMB is subject to changes by the central government policies and international economic and political developments that affect the supply and demand of RMB in the foreign exchange market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

Fair Value of Financial Instruments

Financial instruments that are measured at fair value is determined according to a fair value hierarchy that prioritizes the inputs and assumptions used, and the valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs are quoted prices for similar assets or liabilities in active markets; or quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3	Inputs are unobservable inputs based on the Group's assumptions and valuation techniques used to measure assets or liabilities at fair value. The inputs require significant management judgment or estimation.

3. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The fair value of assets and liabilities is established using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and a fair value hierarchy is established based on the inputs used to measure fair value.

Goodwill

Goodwill represents the excess of the purchase price plus fair value of non-controlling interests over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized, but is tested for impairment at the reporting unit level on at least an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When performing an evaluation of goodwill impairment, the Group has the option to first assess qualitative factors, such as significant events and changes to expectations and activities that may have occurred since the last impairment evaluation, to determine if it is more likely than not that goodwill might be impaired. If as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative fair value test is performed. No impairments of goodwill were identified during any of the years presented.

Property, Plant and Equipment

Property, plant and equipment consist of buildings, leasehold improvements, plant and equipment, furniture, fixtures, other equipment and motor vehicles. Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets.

Buildings	20 years
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	4-5 years
Leasehold improvements	Shorter of (a) 5 years or (b) remaining term of lease

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations in the year of disposition. Additions and improvements that increase the value or extend the life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Group evaluates the recoverability of long-lived assets in accordance with authoritative guidance on accounting for the impairment or disposal of long-lived assets. The Group evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Such impairment is recognized in the event the net book value of such assets exceeds their fair value. If the carrying value of the net assets assigned exceeds the fair value of the

3. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets (Continued)

assets, then the second step of the impairment test is performed in order to determine the implied fair value. No impairment of long-lived assets occurred in the years presented.

Leasehold Land

Leasehold land represents fees paid to acquire the right to use the land on which various plants and buildings are situated for a specified period of time from the date the respective right was granted and are stated at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over the lease period of 50 years.

Other Intangible Asset

Intangible asset with finite useful life represents the Goods Supply Practice ("GSP") license. It is carried at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over its estimated useful life of 10 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A provision for excess and obsolete inventory will be made based primarily on forecast of product demand and production requirements. The excess balance determined by this analysis becomes the basis for excess inventory charge and the written-down value of the inventory becomes its cost. Written-down inventory is not written up if market conditions improve.

Accounts Receivable

Accounts receivable are stated at the amount management expect to collect from customers based on their outstanding invoices. Management reviews accounts receivable regularly to determine if any receivable will potentially be uncollectible. Estimates are used to determine the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value. The amount of the allowance for doubtful accounts is recognized in the statement of operations.

Research and Development Expense

Research and development expenses consist primarily of salaries and benefits, share-based compensation, occupancy, materials and supplies, contracted research, consulting arrangements and other expenses incurred to sustain the Group's research and development programs. Research and development costs are expensed as incurred.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of operations on a straight-line basis over the period of the leases.

3. Summary of Significant Accounting Policies (Continued)

Operating Leases (Continued)

Total operating lease rentals for land and building for the years ended December 31, 2014 and 2013 amounted to US$810,000 and US$672,000 respectively. Nil and US$40,000 were recorded in research and development expenses for the years ended December 31, 2014 and 2013 respectively and US$810,000 and US$632,000 were recorded in administrative expenses for the years ended December 31, 2014 and 2013 respectively. Government incentives received in respect of research and development are recorded as a reduction to operating lease rentals in 2014.

Income Taxes

The Group accounts for income taxes under the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the tax income rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some of the net deferred income tax asset will not be realized.

The Group accounts for a tax position from an uncertain tax position in the consolidated financial statements only if it is more likely than not that the position is sustainable based on its technical merits and consideration of the relevant tax authority's widely understood administrative practices and precedents. If the recognition threshold is met, the Group records only the portion of the tax position that is greater than 50 percent likely to be realized.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest method.

Defined Contribution Plans

The Company's subsidiaries in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. The relevant labour regulations require the Company's subsidiaries in the PRC to pay the local labour and social welfare authorities monthly contributions at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labour and social welfare authorities are responsible for meeting all retirement benefits obligations and the Company's subsidiaries in the PRC have no further commitments beyond their monthly contributions. The contributions to the plan are expensed as incurred.

The Group also makes payments to other defined contribution plans for the benefit of employees employed by subsidiaries outside the PRC. The defined contribution plans are generally funded by the relevant companies and by payments from employees of the contribution plans.

The Group's contributions to defined contribution plans for the years ended December 31, 2014 and 2013 amounted to US$1,370,000 and US$1,096,000 respectively.

3. Summary of Significant Accounting Policies (Continued)

Share-Based Compensation

The Group recognizes share-based compensation expense on share options granted to employees and directors based on their estimated grant date fair value using the Binomial model. This Binomial pricing model uses various inputs to measure fair value, including estimated market value of the underlying ordinary share at the grant date, contractual terms, estimated volatility, risk-free interest rate and expected dividend yields. The Group recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on a graded vesting over the requisite service period. The Group applies an estimated forfeiture rate derived from historical and expected future employee termination behaviour. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods.

For share options granted to non-employees, the fair value of the share options is estimated using the Binomial model. This model utilizes the estimated market value of the Company's underlying ordinary share at the measurement date, the contractual terms of the option, estimated volatility, risk-free interest rates and expected dividend yields of the Company's ordinary share. The Company recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on graded vesting over the requisite service period. Measurement of share-based compensation is subject to periodic adjustment for changes in the fair value of the award.

Share-based compensation expense, when recognized, is charged to the consolidated statements of operations with the corresponding entry to additional paid-in capital or non-controlling interests.

Convertible Preferred Shares

When the Company or its subsidiaries issues preferred shares, the Group assesses whether such instruments should be liability, mezzanine equity, or permanent equity classified based on multiple indicators such as redemption features, conversion features, voting rights and other embedded features. Freestanding equity instruments with mandatory redemption requirements, embodies an obligation to repurchase the issuer's equity shares by transferring assets, or certain obligations to issue a variable number of shares, are treated as liability-classified instruments. Equity instruments that are redeemable at the option of the holder or not solely within our control are classified as mezzanine equity of the issuer entity (and redeemable non-controlling interests of the consolidated financial statements of the Group if preferred shares are issued by its subsidiaries). Subsequent measurements of financing instruments are driven by the instruments' balance sheet classification.

The Group also reviews the terms of each convertible instrument and determines whether the host instrument is more akin to debt or equity based on the economic characteristics and risks in order to evaluate if there were any embedded features would require bifurcation and separate accounting from the host contract. For embedded conversion features that are not required to be separated under ASC 815, Derivatives and Hedging, the Group analyzes the accounting conversion price and our share price at the commitment date to identify any beneficial conversion features.

For modification to preferred shares not classified as liabilities, the Group assesses whether an amendment to the term of the preferred shares is an extinguishment or a modification using the fair value model. The Group considers that a significant change in fair value after the change of the terms to be substantive and thus triggers extinguishment. A change in fair value which is not significant immediately after the change of the terms is considered non-substantive and thus is subject to modification accounting. When preferred shares are extinguished, the difference between the fair value of the consideration

3. Summary of Significant Accounting Policies (Continued)

Convertible Preferred Shares (Continued)

transferred to the preferred shareholders and the carrying amount of such preferred shares (net of issuance costs) is treated as a deemed dividend to the preferred shareholders. When preferred shares are modified and such modification results in value transfer between preferred shareholders and ordinary shareholders, the change in fair value resulted from the amendment is treated as a deemed dividend to or from the preferred shareholders.

Government Incentives

Incentives from governments are recognized at their fair values. Government incentives that are received in advanced are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate. Government incentives in relation to the achievement of stages of research and development projects are recognized in the statement of operations when there is reasonable assurance that the incentives will be received and all attached conditions have been compiled with.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who is the chief operating decision maker.

The chief operating decision maker has reviewed the Group's internal reporting in order to assess performance and allocate resources and determined that the Group's reportable segments are as disclosed in Note 1.

Revenue Recognition

Sales of goods—wholesale

Revenue from our Commercial Platform segments are recognized when product is delivered and title passes to the customer and there are no further obligations to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Sales discounts are issued to customers as direct discounts at the point-of-sales or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provisions for sales discounts and returns.

Revenues from research and development projects

The Group recognizes revenue for the performance of services when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

The Group follows ASC 605-25, Revenue Recognition—Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under the Group's license and collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) licenses to the Group's intellectual property, (ii) materials and technology, (iii) clinical supply, and/or (iv) participation in joint research or joint steering committees. The payments the Group may receive under these arrangements typically include one or more of the following: non-refundable, up-front license fees; funding

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects (Continued)

of research and/or development efforts; amounts due upon the achievement of specified milestones; and/or royalties on future product sales.

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit utilizing the relative selling price method. The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence ("VSOE") of selling price, if available, or third party evidence of selling price if VSOE is not available, or the Company's best estimate of selling price, if neither VSOE nor third party evidence is available. Determining the best estimate of selling price for a deliverable requires significant judgment. The Company typically uses its best estimate of a selling price to estimate the selling price for licenses to do development work, since it often does not have VSOE or third party evidence of selling price for these deliverables. In those circumstances where the Company applies its best estimate of selling price to determine the estimated selling price of a license to development work, it considers market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed estimates that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the license. In validating its best estimate of selling price, the Company evaluates whether changes in the key assumptions used to determine its best estimate of selling price will have a significant effect on the allocation of arrangement consideration between deliverables. The Company recognizes consideration allocated to an individual element when all other revenue recognition criteria are met for that element.

The allocated consideration for each unit of accounting is recognized over the related obligation period in accordance with the applicable revenue recognition criteria.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as unearned revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

The Group typically receives non-refundable, up-front payments when licensing the Group's intellectual property, which often occurs in conjunction with a research and development agreement. If management believes that the license to the Group's intellectual property has stand-alone value, the Group generally recognizes revenue attributed to the license upon delivery provided that there are no future performance requirements for use of the license. When management believes that the license to the

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects (Continued)

Group's intellectual property does not have stand-alone value, the Group would recognize revenue attributed to the license rateably over the contractual or estimated performance period.

For payments payable on achievement of milestones that do not meet all of the conditions to be considered substantive, the Group recognizes a portion of the payment as revenue when the specific milestone is achieved, and the contingency is removed. Other contingent event-based payments for which payment is either contingent solely upon the passage of time or the result of collaborator's performance are recognized when earned. The Company's collaboration and license agreements generally include contingent milestone payments related to specified pre-clinical research and development milestones, clinical development milestones, regulatory milestones and sales-based milestones. Pre-clinical research and development milestones are typically payable upon the selection of a compound candidate for the next stage of research and development. Clinical development milestones are typically payable when a product candidate initiates or advances in clinical trial phases or achieves defined clinical events such as proof-of-concept. Regulatory milestones are typically payable upon submission for marketing approval with regulatory authorities or upon receipt of actual marketing approvals for a compound, approvals for additional indications, or upon the first commercial sale. Sales-based milestones are typically payable when annual sales reach specified levels.

At the inception of each arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (i) the entity's performance to achieve the milestone or (ii) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone; (b) the consideration relates solely to past performance; and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment.

For further details on the license and collaboration agreements, see Note 23.

Comprehensive Income/(loss)

Comprehensive income/(loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources, and currently consists of net income and gains and losses on foreign currency translation related to the Company's subsidiaries.

Earnings/(losses) per share

Basic earnings/(losses) per share is computed by dividing net income/(loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(losses) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary share equivalents outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury

3. Summary of Significant Accounting Policies (Continued)

Earnings/(losses) per share (Continued)

stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by its subsidiary, Hutchison MediPharma Holdings Limited ("HMHL"), (referred to as redeemable non-controlling interests on the consolidated balance sheets) using the if-converted method.

The computation of diluted earnings/(losses) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at the HMHL and includes in the numerator of consolidated earnings/(losses) per share the amount based on the diluted earnings/(losses) per share of HMHL multiplied by the number of shares owned by the Company.

In addition, periodic accretion to preferred shares of HMHL (Note 20) is recorded as deductions to consolidated net income to arrive at net income/(loss) available to the Company's ordinary shareholders for purpose of calculating the consolidated basic earnings/(losses) per share.

Discontinued Operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of operations, which comprises the post-tax profit or loss of the discontinued operation.

Profit appropriation and statutory reserves

The Group's subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from its after-tax profit (as determined under generally accepted accounting principles in the PRC ("PRC GAAP") to reserve funds including general reserve fund, the enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriation to the enterprise expansion fund and staff bonus and welfare fund is made at the company's discretion.

The use of the general reserve fund, enterprise expansion fund, statutory surplus reserve and discretionary surplus fund are restricted to the offsetting of losses or increases the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. All these reserves are not allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

3. Summary of Significant Accounting Policies (Continued)

Profit appropriation and statutory reserves (Continued)

For the years ended December 31, 2014 and 2013, profit appropriation to statutory funds for the Group's entities incorporated in the PRC was approximately US$25,000 and nil respectively. No appropriation to other reserves was made for any of the years presented.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of: a major geographic area of operations, a major line of business, a major equity investment, or other major parts of an entity. ASU 2014-08 is effective for fiscal years and interim periods within those years beginning after December 15, 2014. The adoption of ASU 2014-08 did not have a material impact on the Group's consolidated financial position, results of operations, or cash flows. However, in the event that a future disposition meets the revised criteria, this standard will have an impact on the presentation of the financial statements and associated disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards ("IFRS"). An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and early adoption is permitted but not earlier than the original effective date of December 15, 2016. The Group is currently evaluating the method of adoption and the impact ASU 2014-09 will have on the Group's consolidated financial position, results of operations, cash flows, and associated disclosures.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* ASU 2014-15 provides guidance regarding management's responsibility to (i) evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and (ii) provide related footnote disclosures. ASU 2014-15 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a significant impact on the Group's consolidated financial statement disclosures.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory" which requires an entity to measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this guidance more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in IFRS. ASU 2015-11 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Group does not expect this updated standard to have a material impact on the consolidated financial statements and related disclosures.

3. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

Other amendments that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Group's consolidated financial statements upon adoption.

4. Acquisition

In April 2014, the Group invested approximately US$9,597,000 in cash for the subscription of 51% equity interests in the enlarged share capital of Hutchison Sinopharm which was formerly known as Sinopharm Holding HuYong Pharmaceutical (Shanghai) Co., Ltd.. Hutchison Sinopharm is engaged in providing sales, distribution, and marketing services to major domestic and multi-national third party pharmaceutical manufacturers. The Group expects the acquisition will provide a broadened sales and marketing platform for synergy across the Group.

The Group accounted for the transaction using the acquisition method. The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as at the acquisition date. The following table summarizes the amount invested in Hutchison Sinopharm and the fair value of the assets acquired and liabilities assumed recognized at the acquisition date.

	In US$'000
Cash and cash equivalents	10,286
Property, plant and equipment	69
Goodwill (note (i))	3,023
Other intangible asset (note (ii))	708
Deferred tax assets	100
Inventories	3,208
Accounts receivable and other receivables	21,105
Accounts payable and other payables	(14,932)
Deferred tax liabilities	(198)
Short-term bank borrowings	(4,769)
Fair value of net assets acquired	18,600
Less: Non-controlling interest (note (iii))	(9,003)
Total purchase consideration	9,597
Cash and cash equivalents acquired	10,286
Less: cash injected	(9,597)
Net cash inflow arising from acquisition	689

Notes:

(i) Goodwill arising from this acquisition is from the premium attributable to a pre-existing, well positioned business in a competitive market. This goodwill is recorded at the consolidation level and is not expected to be deductible for tax purposes. This goodwill is attributable to the Prescription Drugs business under the Commercial Platform.

4. Acquisition (Continued)

(ii) Other intangible asset of US$708,000 represents the GSP license which enables Hutchison Sinopharm to carry out the drug distribution business and is amortized over its useful life of 10 years.

(iii) The non-controlling interest is measured as the proportion of fair value of the net assets acquired shared by the non-controlling interest.

(iv) The fair value of accounts receivable and other receivables was equal to the gross contractual amount of which all were expected to be collectible.

(v) Acquisition related costs of approximately US$23,000 have been included in the administrative expenses in the Consolidated Statements of Operations.

(vi) Hutchison Sinopharm contributed revenue of US$50,202,000 and net income of US$55,000 to the Group for the period from April 25, 2014 to December 31, 2014. If the acquisition has occurred on January 1, 2014, the revenue and net income attributed by Hutchison Sinopharm for the year ended December 31, 2014 would have been US$71,344,000 and US$125,000 respectively. If the acquisition has occurred on January 1, 2013, the revenue and net income attributed by Hutchison Sinopharm for the year ended December 31, 2013 would have been US$73,713,000 and US$745,000 respectively.

5. Discontinued operations

In June 2013, the Group discontinued an operation in France and an operation in the PRC, both being part of the Group's Consumer Health business under the Commercial Platform segment, as their performances were below expectation in light of increased competitive activities in the consumer products market.

The results and cash flows of the discontinued operations are set out below.

	2014	2013
	(in US$'000)	
Sales of goods	—	(40)
Expenses (note (i))	—	(1,947)
Other income (note (ii))	2,096	9
Net income/(loss) before taxation from discontinued operations	2,096	(1,978)
Income tax expense	(62)	—
Net income/(loss) for the year from discontinued operations	2,034	(1,978)
Cash flow from discontinued operations		
Net cash generated from/(used in) operating activities	2,515	(1,239)
Net increase/(decrease) in cash and cash equivalents	2,515	(1,239)

Notes:

(i) Expenses for the year ended 2013 include employee benefit expenses of US$239,000 and selling expenses of US$840,000.

(ii) The income from the discontinued operations for the year ended December 31, 2014 represented the compensation income from an arbitration proceeding against a supplier, being the excess of US$2.5 million compensation proceeds received over the carrying amount of US$0.4 million receivables recorded in prior years.

6. Fair Value Disclosures

The following table presents the Group's financial instruments by level within the fair value hierarchy:

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
		(in US$'000)		
As of December 31, 2014				
Cash and cash equivalents	38,946	—	—	38,946
Short-term investments	12,179	—	—	12,179
As of December 31, 2013				
Cash and cash equivalents	46,863	—	—	46,863

Accounts receivable, other receivables, amounts due from related parties, accounts payable and amounts due to related parties are carried at cost, which approximates fair value due to the short-term nature of these financial instruments and are therefore, excluded from the above table.

The carrying amount of bank borrowings also approximates its fair values.

7. Cash and cash equivalents

	December 31,	
	2014	2013
	(in US$'000)	
Cash at bank and in hand	32,019	20,946
Short-term bank deposits (note (i))	6,927	25,917
	38,946	46,863
Denominated in:		
US$ (note (ii))	8,104	12,203
RMB (note (ii))	28,034	32,139
UK Pound Sterling	247	212
Hong Kong dollar ("HK$")	2,543	1,651
Euro	18	658
	38,946	46,863

Notes:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 7 to 78 days and 7 to 90 days as of December 31, 2014 and 2013 respectively, was 1.74% and 2.19% per annum as of December 31, 2014 and 2013 respectively.

(ii) Certain cash and bank balances denominated in RMB and US$ were deposited with banks in the PRC. The conversion of these RMB and US$ denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

8. Short-term investments

	December 31, 2014	December 31, 2013
	(in US$'000)	
Bank deposits maturing over three months (note (i))		
Denominated in:		
RMB	12,179	—

Note:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 91 to 167 days, was 2.92% per annum as of December 31, 2014.

9. Accounts receivable

Substantially all the accounts receivable are denominated in RMB and HK$ and all are due within one year from the end of the reporting period. Included in the US$22.7 million accounts receivable from third parties as at December 31, 2014, US$16.4 million is attributable from Hutchison Sinopharm which was newly acquired during 2014.

The carrying value of accounts receivable approximates their fair values.

Movements on the allowance for doubtful accounts, which is only in respect of accounts receivable—third parties, are as follows:

	2014	2013
	(in US$'000)	
At January 1	1,670	1,554
Allowance	185	42
Exchange difference	(62)	74
At December 31	1,793	1,670

As at December 31, 2014 and 2013, accounts receivable of approximately US$2,130,000 and US$3,703,000 respectively were past due but not impaired. These are in respect of a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Up to 3 months	—	1,136
4 to 6 months	24	959
6 to 12 months	2,106	1,608
	2,130	3,703

The credit quality of accounts receivable neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

As at December 31, 2014, there are no accounts receivables from related parties that are past due or impaired.

10. Other receivable, prepayments and deposits

Other prepayments and deposits consisted of the following:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Prepayments to suppliers	1,327	420
Interest receivable	200	7
Prepaid general and administrative expenses	305	230
Government incentives	407	—
Compensation receivable	—	430
Others	777	669
	3,016	1,756

11. Inventories

Inventories consisted of the following:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Raw materials	291	483
Finished goods	4,114	937
	4,405	1,420

Included in the US$4.4 million inventories as at December 31, 2014 is US$3.4 million which is attributable from Hutchison Sinopharm which was newly acquired during 2014.

Movements on the provision for excess and obsolete inventories are as follows:

	2014	2013
	(in US$'000)	
At January 1	126	937
Provision	15	125
Decrease due to sale of inventories	(106)	(954)
Exchange difference	(1)	18
At December 31	34	126

12. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	December 31,	
	2014	2013
	(in US$'000)	
Cost		
Buildings	2,491	2,551
Leasehold improvements	4,291	2,583
Plant and equipment	91	85
Furniture and fixtures, other equipment and motor vehicles	12,278	10,421
Construction in progress	832	1,248
Total Cost	19,983	16,888
Less: Accumulated depreciation		
As at January 1	11,860	10,732
Exchange differences	(278)	351
Acquisition of a subsidiary	112	—
Expense for the year	1,180	925
Disposals	(373)	(148)
As at December 31	12,501	11,860
	7,482	5,028

Depreciation expense for the year ended December 31, 2014 and 2013 is approximately US$1,180,000 and US$925,000 respectively.

13. Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	December 31,	
	2014	2013
	(in US$'000)	
Cost		
As at January 1	1,761	1,706
Exchange differences	(41)	55
As at December 31	1,720	1,761
Accumulated amortisation		
As at January 1	253	208
Exchange differences	(6)	7
Amortisation charge	37	38
As at December 31	284	253
Net book value		
As at December 31	1,436	1,508

14. Goodwill and other intangible asset

Goodwill consisted of the following:

	Commercial Platform
	(in US$'000)
Balance as at January 1, 2013, December 31, 2013, January 1, 2014	407
Acquisition	3,023
Balance as at December 31, 2014	3,430

The addition to goodwill in 2014 in the Prescription Drugs business under Commercial Platform arose from the acquisition of Hutchison Sinopharm (see Note 4).

Goodwill as at January 1, 2014 of US$407,000 represents goodwill arising from the acquisition of HHL in 2009, which is included in the Consumer Health business under the Commercial Platform.

The Group performed its most recent annual impairment test as of December 31, 2014 and concluded that goodwill was not impaired.

Other intangible asset consisted of the following:

	December 31,	
	2014	2013
	(in US$'000)	
GSP License		
Cost		
As at January 1	—	—
Addition	708	—
Exchange differences	6	—
As at December 31	714	—
Accumulated amortisation		
As at January 1	—	—
Amortisation charge	48	—
As at December 31	48	—
Net book value		
As at December 31	666	—

The GSP license arose from the acquisition of Hutchison Sinopharm (see Note 4), is recorded at fair value, and is amortized on a straight-line basis over its estimated useful life of 10 years. The amortization expense for the year ended December 31, 2014 is approximately US$48,000.

14. Goodwill and other intangible asset (Continued)

The estimated aggregate amortization expense for each of the next five years as of December 31, 2014 is as follows:

	GSP License
	(in US$'000)
2015	71
2016	71
2017	71
2018	71
2019	71

15. Investments in equity investees

Investments in equity investees comprised the following:

	December 31,	
	2014	2013
	(in US$'000)	
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	55,753	53,293
Shanghai Hutchison Pharmaceuticals Limited	39,158	36,520
Nutrition Science Partners Limited	12,823	21,229
Other	244	254
	107,978	111,296

Particulars regarding the principal equity investees are as disclosed in Note 2.

15. Investments in equity investees (Continued)

All of the equity investees are private companies and there is no quoted market price available for their shares.

Summarized financial information for the significant equity investees HBYS, SHPL and NSPL are as follows:

(i) Summarized balance sheet

	Commercial Platform				Innovation Platform	
	Consumer Health HBYS		Prescription Drugs SHPL		Drug R&D NSPL	
	December 31		December 31		December 31	
	2014	2013	2014	2013	2014	2013
	(in US$'000)					
Current assets	**144,129**	145,993	**77,566**	77,215	**8,548**	17,855
Non-current assets	**73,042**	58,956	**65,608**	33,590	**30,000**	30,000
Current liabilities	**(84,850)**	(88,855)	**(52,052)**	(38,484)	**(12,903)**	(5,398)
Non-current liabilities	**(17,013)**	(6,108)	**(19,216)**	(5,845)	**—**	—
Net assets	**115,308**	109,986	**71,906**	66,476	**25,645**	42,457

(ii) Summarized statement of operations

	Commercial Platform				Innovation Platform	
	Consumer Health HBYS		Prescription Drugs SHPL		Drug R&D NSPL[a]	
	December 31		December 31		December 31	
	2014	2013	2014	2013	2014	2013
	(in US$'000)					
Revenue	**243,746**	247,626	**154,703**	138,160	**—**	—
Gross profit	**96,421**	90,795	**109,965**	100,167	**—**	—
Depreciation and amortisation	**(3,206)**	(3,037)	**(2,651)**	(2,612)	**—**	—
Interest income	**1,322**	1,126	**257**	197	**—**	—
Finance cost	**(139)**	(183)	**—**	—	**—**	—
Income/(loss) before taxation	**24,805**	20,460	**31,505**	26,620	**(16,812)**	(17,543)
Income tax expense and non-controlling interest	**(4,030)**	(3,295)	**(5,103)**	(4,196)	**—**	—
Net income/(loss)	**20,775**	17,165	**26,402**	22,424	**(16,812)**	(17,543)

Notes:

(a) NSPL only incurs research and development expenses in 2014 and 2013.

(b) The net loss and net income for other individual immaterial equity investees for the year ended December 31, 2014 and 2013 is approximately US$5,000 and US$16,000 respectively.

15. Investments in equity investees (Continued)

(iii) Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of investments in equity investees is as follows:

	Commercial Platform				Innovation Platform	
	Consumer Health HBYS		Prescription Drugs SHPL		Drug R&D NSPL	
	December 31		December 31		December 31	
	2014	2013	2014	2013	2014	2013
	(in US$'000)					
Opening net assets at January 1	**109,986**	95,592	**66,476**	59,358	**42,457**	60,000
Purchase of additional interests in a subsidiary of an equity investee	**(468)**	—	**—**	—	**—**	—
Net income/(loss)	**20,775**	17,165	**26,402**	22,424	**(16,812)**	(17,543)
Dividend declared	**(12,820)**	(6,462)	**(19,077)**	(17,162)	**—**	—
Other comprehensive income and non-controlling interests	**(2,165)**	3,691	**(1,895)**	1,856	**—**	—
Closing net assets at December 31	**115,308**	109,986	**71,906**	66,476	**25,645**	42,457
Group's share of net assets	**57,654**	54,993	**35,953**	33,238	**12,823**	21,229
Goodwill	**—**	—	**3,205**	3,282	**—**	—
Non-controlling interests	**(1,901)**	(1,700)	**—**	—	**—**	—
Carrying value	**55,753**	53,293	**39,158**	36,520	**12,823**	21,229

The equity investees had the following operating lease commitments and capital commitments:

(a) The equity investees lease various factories and offices under non-cancellable operating lease agreements. Future aggregate minimum payments under non-cancellable operating leases as of the date indicated are as follows:

	December 31,	
	2014	2013
	(in US$'000)	
Not later than one year	1,109	1,447
Later than one year and not later than five years	548	134
Total minimum lease payments	1,657	1,581

(b) Capital commitments

The equity investees had the following capital commitments:

	December 31,	
	2014	2013
	(in US$'000)	
Property, plant and equipment Contracted but not provided for	61,311	8,380

16. Accounts payable

Substantially all the accounts payable due to third parties are denominated in RMB and US$ and due within one year from the end of the reporting period. Included in the US$18.2 million accounts payables due to third parties as at December 31, 2014, US$16.9 million is attributable from Hutchison Sinopharm which was newly acquired in 2014.

The carrying value of accounts payables approximates their fair values due to their short-term maturities.

17. Other payables, accruals and advance receipts

Other payables, accruals and advance receipts consisted of the following:

	December 31,	
	2014	2013
	(in US$'000)	
Research and development expenses	5,963	3,157
Accrued salaries and benefits	4,140	3,047
Accrued expenses	3,938	5,327
Other payables	1,802	738
Payments in advance from customers	564	248
Deferred government incentives	580	2,872
Current tax liabilities	122	—
Accrued interest	50	—
	17,159	15,389

18. Bank borrowings

Summarized below are the bank borrowings as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
	(in US$'000)	
Non-current (note (i))	26,923	—
Current (note (i),(ii) and (iii))	26,282	51,508
	53,205	51,508

The weighted average interest rate for bank borrowings outstanding as of December 31, 2014 and 2013 was 1.60% and 1.80% respectively.

Notes:

(i) In December 2011, the Group, through its subsidiary entered into a three-year term loan with a bank in the aggregate principal amount of HK$210,000,000 (US$26,923,000). The term loan bears interest at 1.50% over the Hong Kong Interbank Offered Rate ("HKIBOR") per annum and was classified as a short-term bank borrowing as at December 31, 2013.

18. Bank borrowings (Continued)

In June 2014, the term loan was refinanced into a four-year term loan which bears interest at 1.35% over the HKIBOR per annum. Accordingly, the term loan is recorded as a long-term bank borrowing as at December 31, 2014.

The term loan is unsecured and guaranteed by Hutchison Whampoa Limited, the Company's ultimate holding company as at December 31, 2014. A fee is paid to Hutchison Whampoa Limited for the guarantee (note 26).

(ii) During the years ended December 31, 2014 and 2013, the Group, through its subsidiary has revolving loans of HK$205,000,000 (US$26,282,000) and HK$170,000,000 (US$21,795,000) which bears interest at 1.05% over HKIBOR per annum and which is unsecured. The borrowing was classified as current borrowings as of December 31, 2014 and 2013.

(iii) During the year ended December 31, 2013, the Group, through its subsidiary, has revolving loans of RMB17,000,000 (US$2,790,000) which bore interest at 5% mark-up of the lending rate of People's Bank of China and which was unsecured. In 2014, such borrowing was fully repaid.

(iv) The carrying amount of all bank borrowings approximates their fair values. The fair value of bank borrowings was estimated using a discounted cash flows approach (an income approach) using market based observable inputs. Such fair value measurements are considered Level 2 under the fair value hierarchy.

(v) The Group's bank borrowings are repayable as follows:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Within 1 year	26,282	51,508
Between 2 and 5 years	26,923	—
	53,205	51,508

(vi) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	December 31, 2014	December 31, 2013
	(in US$'000)	
HK$	53,205	48,718
RMB	—	2,790
	53,205	51,508

(vii) As at December 31, 2014 and 2013, the Group has unused credit facilities in relation to revolving loan facilities of US$8,526,000 and US$10,338,000 respectively.

19. Commitments and Contingencies

(a) Lease commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. Future aggregate minimum payments under non-cancellable operating leases as of the date indicated are as follows:

	December 31,	
	2014	2013
	(in US$'000)	
Not later than one year	980	748
Later than one year and not later than five years	1,425	1,654
Later than five years	329	486
Total minimum lease payments	2,734	2,888

(b) Capital commitments

The Group had the following capital commitments:

	December 31,	
	2014	2013
	(in US$'000)	
Property, plant and equipment		
Contracted but not provided for	719	459

In addition, the Group has also undertaken to provide the necessary additional funds for NSPL to finance its ongoing operations.

20. Redeemable non-controlling interests

In November and December 2010, the Company and HMHL entered into subscription and shareholders' agreements ("SSAs") with Mitsui & Co., Ltd. ("Mitsui") and SBCVC Fund III Company Limited ("SBCVC") (collectively as "preferred shareholders"), whereby HMHL issued 7,390,029 redeemable convertible preferred shares ("Preferred Shares") for an aggregate consideration of US$20.1 million. The Preferred Shares on an as-if-converted basis represented approximately 19.76% of the aggregate issued and outstanding share capital of HMHL on the closing date.

In October 2012, the Company repurchased all 2,815,249 preferred shares from SBCVC. The remaining 4,574,780 Preferred Shares of US$12.5 million held by Mitsui, which represents approximately 12.24% of HMHL on a fully diluted basis, remained outstanding throughout 2013 and 2014.

In May and June 2014, the Company and HMHL further entered into two subscription agreements with Mitsui, whereby HMHL issued a total of 672,713 HMHL's redeemable convertible preferred shares to Mitsui and 4,825,418 HMHL's ordinary shares to the Company for an aggregate consideration of US$25.0 million.

The preferred shares held by Mitsui represent approximately 12.24% of HMHL on a fully diluted basis throughout 2013 and 2014.

20. Redeemable non-controlling interests (Continued)

Conversion

Pursuant to the SSAs signed in 2010, the preferred shareholders have the right to convert all of their preferred shareholdings into ordinary shares of HMHL at the initial conversion ratio of 1:1 at any time after the date of issuance of the preferred shares by issuing a notice to the Company. However, these preferred shares could be convertible into a higher conversion ratio of ordinary shares of HMHL when there is occurrence of a pre-defined adjustment event ("Adjustment Event").

In July 2012, Mitsui and SBCVC agreed for an extension of triggering of Adjustment Event. The Company assessed whether this amendment to the preferred shares was an extinguishment or a modification in accordance with its accounting policy. It was concluded that it was modification, rather than extinguishment, of preferred shares as the change in fair value of the preferred shares due to the amendment was less than 10%.

In March 2013, as a result of the satisfaction of the required condition, the conversion ratio of the preferred shares is no longer subject to change due to Adjustment Event.

Redemption

Preferred shareholders have the right to require the Company to redeem the preferred shares if HMHL fails to be listed after the company valuation of HMHL has reached above the specified threshold. The redemption price shall be based on such preferred shareholder's share of the actual valuation that would have been obtained in the event of occurrence of such pre-defined condition.

Liquidation

In the event of a winding-up of HMHL, any other return of capital (other than a redemption or purchases by HMHL of its own shares), or a trade sale, where the distribution proceeds are equal to or less than the post money valuation at preferred shares issuance, then such proceeds shall be distributed first to repay preferred shareholders up to the subscription price and any accrued and unpaid dividend before any surplus will be distributed to the holders of the ordinary shares. However, if the distribution proceeds are greater than the post money valuation at preferred shares issuance, distribution proceeds will be distributed equally and rateably among the preferred and ordinary shareholders.

Accounting for preferred shares

The preferred shares issued by HMHL are redeemable upon occurrence of an event that is not solely within the control of the issuer. Accordingly, the redeemable preferred shares issued by HMHL are recorded and accounted for as redeemable non-controlling interests outside of permanent equity in the Group's consolidated balance sheets. The Group recorded accretion when it is probable that the preferred shares will become redeemable. The accretion, which increases the carrying value of the redeemable non-controlling interests, is recorded against retained earnings, or in the absence of retained earnings, by recording against the additional paid-in capital. During the year ended December 31, 2014, HMHL recorded an accretion of US$25,510,000 to the preferred shares based on such preferred shareholder's share of the estimated valuation of HMHL.

21. Ordinary Share

The Company is authorized to issue 75,000,000 ordinary shares.

A summary of ordinary shares transactions (in thousands) is as follows:

	2014	2013
Balance as at January 1	52,051	52,048
Issuances in relation to exercise of options	1,025	3
Balance as at December 31	53,076	52,051

Ordinary Share

Each ordinary share is entitled to one vote. The holders of ordinary share are also entitled to receive dividends whenever funds are legally available and when declared by the board of directors.

22. Share-based Compensation

(i) Share-based Compensation of the Company

The Company conditionally adopted a share option scheme (the "HCML Share Option Scheme") on June 4, 2005 which was amended on March 21, 2007. Pursuant to the HCML Share Option Scheme, the Board of Directors of the Company may, at its discretion, offer any employees and directors (including Executive and Non-executive Directors but excluding Independent Non-executive Directors) of the Company, holding companies of the Company and any of their subsidiaries or affiliates and subsidiaries or affiliates, of the Company share options to subscribe for shares of the Company.

The aggregate number of shares issuable under the HCML Share Option Scheme is 2,560,606 ordinary shares. As of December 31, 2014, the number of shares authorized but unissued was 21,923,324 ordinary shares.

Share options granted are generally subject to a three-year or four-year vesting schedule, depending on the nature and the purpose of the grant. Share options subject to three-year vesting schedule, in general, vest 33.3% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 33.3% every subsequent year. Share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of ten years from the date of grant.

On December 17, 2014, 593,686 share options were cancelled with the consent of the relevant eligible employees in exchange for 1,187,372 new share options of a subsidiary (see note (ii)). This was accounted for as a modification of the original share options granted which did not result in any incremental fair value to the Group.

As of December 31, 2014, 75,000 outstanding share options were held by non-employees. These share options are subject to re-measurement through each vesting date to determine the appropriate share-based compensation expense.

22. Share-based Compensation (Continued)

(i) Share-based Compensation of the Company (Continued)

A summary of the Company's share option activity and related information is as follows:

	Number of share options	Weighted-average Exercise Price in £ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (in £'000)
Outstanding at January 1, 2013	1,459,931	2.22		
Granted	896,386	6.10		
Exercised	(3,000)	1.54		
Lapsed	(50,000)	4.97		
Cancelled	—	—		
Outstanding at December 31, 2013	2,303,317	3.67	5.93	5,843
Granted	—	—		
Exercised	(1,025,228)	1.59		
Cancelled	(593,686)	6.10		
Outstanding at December 31, 2014	684,403	4.67	6.79	6,423
Vested and expected to vest at December 31, 2013	1,958,048	3.25	5.25	5,781
Vested and exercisable at December 31, 2013	1,261,874	1.86	2.92	5,482
Vested and expected to vest at December 31, 2014	569,931	4.39	6.38	5,506
Vested and exercisable at December 31, 2014	419,878	3.91	5.64	4,256

The Company uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The Company calculated its expected volatility with reference to the historical volatility prior to the issuances of share options.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United Kingdom because the Company's shares are currently listed on AIM and denominated in pounds sterling (£).

Dividends

The Company has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

22. Share-based Compensation (Continued)

(i) Share-based Compensation of the Company (Continued)

In determining the fair value of share options granted, the following assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options					
	September 11, 2006	May 18, 2007	August 25, 2008	December 1, 2010	June 24, 2011	December 20, 2013
Value of each share option	£ 0.553	£ 0.533	£ 0.569	£ 1.995	£ 1.841	£ 3.154
Significant inputs into the valuation model:						
Exercise price	£ 1.715	£ 1.535	£ 1.260	£ 4.967	£ 4.405	£ 6.100
Share price at effective date of grant	£ 1.7325	£ 1.5400	£ 1.2600	£ 4.6000	£ 4.3250	£ 6.1000
Expected volatility	38.8%	40.0%	35.0%	48.4%	46.6%	36.0%
Risk-free interest rate	4.766%	5.098%	4.700%	3.360%	3.130%	3.160%
Contractual life of share options	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividend yield	0%	0%	0%	0%	0%	0%

The following table summarizes the Company's share option values:

	Years Ended December 31,	
	2014	2013
	(in £'000, except per share data)	
Weighted-average grant-date fair value of option share granted during the period	—	3.15
Total intrinsic value of share options exercised	7,738	9
Total intrinsic value of share options exercised in US$'000	12,034	15

Share-based Compensation Expense

The Company recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's consolidated statements of operations:

	Years Ended December 31,	
	2014	2013
	(in US$'000)	
Research and development expenses	539	—
Administrative expenses	233	176
	772	176

As of December 31, 2014, the total unrecognized compensation cost was US$148,000, net of estimated forfeiture rates, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 2.14 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2014 and 2013 was approximately US$2,680,000 and US$7,000 respectively.

22. Share-based Compensation (Continued)

(ii) Share-based Compensation of a subsidiary

HMHL adopted a share option scheme on August 6, 2008 (as amended on April 15, 2011) and another share option scheme on December 17, 2014 (collectively the "HMHL Share Option Schemes"). Pursuant to the HMHL Share Option Schemes, any employee or director of HMHL and any of its holding company, subsidiaries and affiliates is eligible to participate in the HMHL Share Option Schemes subject to the discretion of the board of directors of HMHL.

The aggregate number of shares issuable under the HMHL Share Option Schemes is 9,622,414 ordinary shares. As of December 31, 2014, the number of shares authorized but unissued was 157,111,839 ordinary shares.

Share options granted are generally subject to a four-year vesting schedule, depending on the nature and the purpose of the grant, share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of six or nine years from the date of grant.

On December 20, 2013, 2,485,189 share options were cancelled with the consent of the relevant eligible employees in exchange for new share options of the Company vesting over a period of four years and/or cash consideration payable over a period of four years. This was accounted for as a modification of the original share options which did not result in any incremental fair value to the Group for the options in exchange for new share options under HCML Share Option Scheme. For the share options in exchange for cash consideration, this was accounted for as a modification in classification that changed the award's classification from equity-settled to a liability.

A liability has been recognized on the modification date taking into account the requisite service period that has been provided by the employee at the modification date. As at December 31, 2014, US$0.7 million and US$1.0 million have been recognized in other non-current liabilities and other payables respectively. As at December 31, 2013, US$1.3 million was recognized in other non-current liabilities.

22. Share-based Compensation (Continued)

(ii) Share-based Compensation of a subsidiary (Continued)

A summary of the subsidiary's share option activity and related information follows:

	Number of share options	Weighted-average Exercise Price in US$ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (in US$'000)
Outstanding at January 1, 2013	3,144,505	1.87		
Granted	—	—		
Exercised	—	—		
Lapsed	(120,896)	2.03	2.30	1,356
Cancelled	(2,485,189)	1.79		
Outstanding at December 31, 2013	538,420	2.03		
Granted	1,187,372	7.82		
Exercised	(80,924)	1.50		
Lapsed	(393,212)	2.15		
Cancelled	(39,884)	1.70		
Outstanding at December 31, 2014	1,211,772	7.71	8.84	134
Vested and expected to vest at December 31, 2013	140,183	1.72	1.78	396
Vested and exercisable at December 31, 2013	403,960	1.96	2.16	1,043
Vested and expected to vest at December 31, 2014	769,714	7.75	8.88	54
Vested and exercisable at December 31, 2014	316,393	7.48	8.55	107

The subsidiary uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The subsidiary calculated its expected volatility with reference to the historical volatility of the comparable companies for the past five to six years as of the valuation date.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United States.

Dividends

The subsidiary has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

22. Share-based Compensation (Continued)

Dividends (Continued)

In determining the fair value of share options granted, the following weighted-average assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options		
	August 2, 2010	April 18, 2011	December 17, 2014
Value of each share option	US$0.258	US$0.923	US$3.490
Significant inputs into the valuation model:			
Exercise price	US$2.240	US$2.360	US$7.820
Share price at effective date of grant	US$1.030	US$2.048	US$7.820
Expected volatility	49.0%	55.0%	48.4%
Risk-free interest rate	2.007%	2.439%	1.660%
Contractual life of share options	6 years	6 years	9 years
Expected dividend yield	0%	0%	0%

The following table summarizes the subsidiary's share option values:

	Years Ended December 31,	
	2014	2013
	(in US$'000, except per share data)	
Weighted-average fair value of option share granted during the period	3.49	—
Total intrinsic value of share options exercised	247	—

Share-based Compensation Expense

The subsidiary recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's consolidated statements of operations:

	Years Ended December 31,	
	2014	2013
	(in US$'000)	
Research and development	293	1,297

As of December 31, 2014, the total unrecognized compensation cost was $769,000, net of estimated forfeiture rate, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 2.93 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2014 and 2013 was US$121,000 and nil respectively.

23. Revenue from license and collaboration agreements—third parties

The Group recognized revenue from license and collaboration agreements—third parties of US$12.3 million and US$14.5 million for the year ended December 31, 2014 and 2013 respectively, which consisted of the following:

	Years Ended December 31,	
	2014	2013
	(in US$'000)	
Milestone revenue	5,000	11,000
Amortisation of upfront payment	701	122
Research and development services	6,635	3,424
	12,336	14,546

These are mainly from 3 license and collaboration agreements as follows:

License and collaboration agreement with Eli Lilly

On October 8, 2013, the Group entered into a licensing, co-development and commercialization agreement in China with Eli Lilly ("Lilly") relating to fruquintinib, a targeted oncology therapy for the treatment of various types of solid tumors. In accordance with terms of the agreement, the Group is entitled to receive a series of payments of up to US$86.5 million, including upfront payments and development and regulatory approval milestones. Should fruquintinib be successfully commercialized in China, the Group would receive tiered royalties based on certain percentage of net sales. Development costs after the first development milestone are shared between the Group and Lilly.

Following execution of the agreement, the Group received a non-refundable, up-front payment of US$6.5 million.

Supplemental to the main agreement, the Group also signed an option agreement which grants Lilly an exclusive option to expand the fruquintinib rights beyond Hong Kong and China. The option agreement further sets out certain milestone payments and royalty rates that apply in the event the option is exercised on a global basis. However, these are subject to further negotiation should the option be exercised on a specific territory basis as opposed to a global basis. The option was not considered to be a separate deliverable in the arrangement as it was considered to be substantive.

As at December 31, 2014, the option has not been exercised by Lilly.

The license rights to fruquintinib, delivered at the inception of the arrangement, did not have stand-alone value apart from the other deliverables in the arrangement which include the development services, the participation in the joint steering committee and the manufacturing of active pharmaceutical ingredients during the development phase. The non-refundable up-front payment was deferred and is being recognized rateably over the development period, which has been estimated to end in 2018. The Group recognizes milestone revenue relating to the deliverables in the agreement as a single unit of accounting using the milestone method.

The Group did not recognize any milestone revenues in relation to this contract during the years ended December 31, 2014 and 2013. The Group recognized US$0.6 million revenue from amortisation of the up-front payment during the year ended December 31, 2014.

23. Revenue from license and collaboration agreements—third parties (Continued)

License and collaboration agreement with AstraZeneca

On December 21, 2011, the Group and AstraZeneca ("AZ") entered into a global licensing, co-development, and commercialization agreement for volitinib (name subsequently changed to 'savolitinib'), a novel targeted therapy and a highly selective inhibitor of the c-Met receptor tyrosine kinase for the treatment of cancer.

Under the terms of the agreement, development costs for savolitinib in China will be shared between the Group and AZ, with the Group continuing to lead the development in China. AZ will lead and pay for the development of savolitinib for the rest of the world. The Group received a non-refundable upfront payment of US$20.0 million upon the signing of the agreement and will receive up to US$120 million contingent upon the successful achievement of clinical development and first sale milestones. The agreement also contains possible significant future commercial sale milestones and up to double-digit percentage royalties on net sales. Following execution of the agreement, the Group received milestone payment of US$5.0 million in 2013, and a further US$5.0 million in 2014.

The license right to develop savolitinib in the rest of the world was delivered to AZ at the inception of the arrangement. Such license had stand-alone value apart from the other deliverables in the arrangement which include the development of savolitinib in China and the participation in the joint steering committee. As the joint steering committee did not have significant value, the non-refundable up-front payment was allocated to (a) the license to develop savolitinib in the rest of the world, which was recognized at inception and (b) the research and development services for which amount allocated has been deferred and is being recognized rateably over the development period which is expected to be end in 2021.

The Group recognizes milestone revenue relating to the deliverables, in the agreement as a single unit of using the milestone method. The Group recognized in milestone revenues of US$5.0 million and US$5.0 million for the years ended December 31, 2014 and 2013, respectively. The Group also recognized US$6.6 million and US$3.4 million for the provision of research and development services for the years ended December 31, 2014 and 2013 respectively. In addition, the Group recognized US$0.1 million and US$0.1 million as revenue from amortization of the upfront payment during the years ended December 31, 2014 and 2013.

License and collaboration agreement with Ortho-McNeil-Janssen

After an original research and development alliance agreement entered in December 2008, the Group modified the original arrangement and entered into a new research and development alliance agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. ("Janssen") on June 2, 2010 for the discovery and development of novel small-molecule therapeutics against a target in the area of inflammation/immunology. The original agreement signed in December 2008 was terminated and superseded by the new agreement.

Under the terms of the 2010 agreement, the Group will provide drug discovery activities in order to assess whether the selected compound meets certain criteria specified in the agreement. Upon selected compound meeting the specified criteria, Janssen has the option to elect to receive from the Group an exclusive worldwide license to develop and commercialize the compound. If Janssen opts not to do so, the Group may choose to further pursue clinical development of drug compounds from the discovery programme through the demonstration of clinical proof-of-concept. Upon the success in achieving the clinical proof-of-concept, Janssen may again opt to take over further development and obtain the exclusive rights to develop and commercialize drug compounds from the Group's programme. The option did not have any significant value at inception of the arrangement.

23. Revenue from license and collaboration agreements—third parties (Continued)

License and collaboration agreement with Ortho-McNeil-Janssen (Continued)

The Group received from Janssen an up-front, non-refundable payment of US$3.0 million upon execution of the 2008 agreement, which was carried forward to cover discovery activities under the 2010 agreement.

The Group recognized the upfront payment of US$3.0 million over the drug discovery period under the initial agreement signed in 2008. Upon signing of the 2010 agreement, the portion of revenue that had not been recognized under the 2008 agreement was adjusted to be recognized over the remaining drug discovery period under the terms of the 2010 agreement to September 2012. The Group received US$1.0 million in 2011 following confirmation of selected compound meeting sustainable lead criteria and a further US$6.0 million in 2013 when the selected compound met development candidate criteria as specified in the agreement.

The Group recognized such milestone revenue of US$6.0 million using the milestone method during the year ended December 31, 2013.

On 13 August 2015, the Group received a notice from Janssen to terminate the license and collaboration agreement between HMPL and Janssen dated 2 June 2010 for the discovery and development of novel small molecule therapeutics against a target in the area of inflammation/immunology. Please refer to subsequent events in Note 33.

24. Gain on disposal of a business

On November 27, 2012, Hutchison MediPharma (Hong Kong) Limited (a subsidiary of the Group) and Nestlé Health Science S.A. ("Nestlé", a fully-owned subsidiary of Nestlé S.A. and a company specialized in the development of science-based personalized nutritional solutions) entered into a joint venture agreement ("JV agreement"). Pursuant to the JV Agreement, Nestlé agreed to contribute cash of US$30 million and the Group agreed to contribute certain of its assets and business processes including the global development and commercial rights of a novel, oral therapy for Inflammatory Bowel Disease and the exclusive rights to its extensive botanical library, among other things, into the joint venture, NSPL. NSPL is jointly owned with each of the Group and Nestlé having a 50% equity interest. The above contribution made by the Group constituted a transfer of a business as it comprises an integrated set of activities including inputs in the form of a botanical library and a team of scientists engaged in the field of gastrointestinal disease, and critical processes in the form of well-established botanical research and development platform that are used to generate outputs in the form of novel medicines and nutritional products. Although the related team of scientists was not transferred as a result of this transaction, NSPL entered into service agreements with the Group and Nestlé for the use of experienced employees for development activities.

In April 2013, all regulatory approvals regarding the formation of NSPL were received and Nestlé has injected cash of US$30 million in accordance with the JV agreement. Accordingly, a gain of US$30 million was recorded on the disposal of business for the year ended December 31, 2013, being the difference between fair value of the Group's interest in the joint venture and the carrying value of net assets contributed into NSPL.

25. Government incentives

The Group receives government grants from the PRC Government (including the National level and Shanghai province). These grants are given in support of drug research and development activities and are conditional upon i) the Group spending a predetermined budget cost, regardless of success or failure of the research and development projects and ii) achievement of certain stages of research and development

25. Government incentives (Continued)

projects being approved by relevant PRC government authority. These government grants are subject to ongoing reporting and monitoring by the PRC Government over the period of the grant.

Government incentives, which are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate, are recognized in other payable, accruals and advance receipts (note 17) and will be refundable to the PRC Government if the related research and development projects are suspended. In 2014 and 2013, the Group received government grants of US$859,000 and US$1,786,000 respectively.

The government grants recorded as a reduction to research and development expenses for the years ended December 31, 2014 and 2013 was US$3,558,000 and US$704,000 respectively.

26. Significant related party transactions

The Group has the following significant transactions during the year with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	2014	2013
	(in US$'000)	
Sales of goods to		
—Indirect subsidiaries of CK Hutchison	7,823	7,803
Income from provision of research and development services		
—Equity investees	4,312	3,612
Purchase of goods from		
—A non-controlling shareholder of a subsidiary	6,727	6,304
—Equity investees	2,480	—
	9,207	6,304
Providing consultancy services to		
—An equity investees	38	325
Rendering of marketing services from		
—Indirect subsidiaries of CK Hutchison	480	569
Rendering of management service from		
—An indirect subsidiary of CK Hutchison	989	951
Interest paid to		
—An immediate holding company	113	92
—A non-controlling shareholder of a subsidiary	19	—
	132	92
Guarantee fee on bank loan to		
—The ultimate holding company	471	471
Dividend paid to		
—A non-controlling shareholder of a subsidiary	1,179	577

26. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	2014	2013
	(in US$'000)	
Accounts receivable from related parties:		
—Indirect subsidiaries of CK Hutchison (note (i))	1,922	2,986
—An equity investee (note (i))	262	952
	2,184	3,938
Accounts payable due to a related party:		
—A non-controlling shareholder of a subsidiary (note (i))	2,190	2,352
Amounts due from related parties:		
—The ultimate holding company (note (i))	107	88
—An indirect subsidiary of CK Hutchison (note (i))	—	89
—Equity investees (note (i))	1,176	1,077
—Loan to an equity investee (note (ii))	5,000	—
	6,283	1,254
Amounts due to related parties:		
—Immediate holding company (note (iii))	8,694	7,374
—An indirect subsidiary of CK Hutchison (note (i))	22	—
	8,716	7,374
Non-controlling shareholders:		
—Loan from a non-controlling shareholder of a subsidiary (note (iv))	579	579
—Loan from a non-controlling shareholder of a subsidiary (note (v))	2,550	4,800
—Interest payable due to a non-controlling shareholder of a subsidiary	19	—
	3,148	5,379

Notes:

(i) Other balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(ii) Loan to an equity investee is unsecured, interest-bearing (with waiver of interest).

(iii) Amount due to immediate holding company is unsecured, interest-bearing and repayable on demand. The carrying value of amount due to immediate holding company approximates its fair value due to its short-term maturities.

(iv) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest bearing (with waiver of interest) and is recorded in other non-current liabilities.

(v) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest-bearing and is recorded in other non-current liabilities. The loan was interest-free in 2013. US$2,250,000 was repaid during the year ended December 31, 2014.

27. Income Taxes

	2014	2013
	(in US$'000)	
Continuing operations:		
Current tax		
—HK	131	—
—PRC	51	21
Deferred income tax -PRC	1,161	1,029
Income tax expense	1,343	1,050

(a) The Company, a subsidiary incorporated in British Virgin Islands and its Hong Kong subsidiaries are subject to Hong Kong profits tax which has been provided for at the rate of 16.5% on the estimated assessable profits less estimated available tax losses for the years ended December 31, 2014 and 2013.

(b) Taxation in the PRC has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses. Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the EIT Law provides for, among others, a preferential tax rate of 15% for companies which qualifies as High and New Technology Enterprises. Hutchison MediPharma Limited qualifies as a High and New Technology Enterprise. Pursuant to the EIT law, a 10% withholding tax is levied on dividends declared by their PRC to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC companies are incorporated in Hong Kong and meet the condition or requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holders of the major subsidiaries and equity investees of the Company are Hong Kong incorporated companies, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed. As of December 31, 2014 and 2013, the amounts accrued in deferred tax liabilities relating to withholding tax on dividends were determined on the basis that 100% of the distributable reserves of the major subsidiaries and equity investees operating in the PRC will be distributed as dividends.

The reconciliation of the Group's reported income tax expense to the theoretical tax amount that would arise using the tax rates of the Company against the Group's (loss)/income before income taxes and equity in earnings of equity investees is as follows:

Continuing operations:

	2014	2013
	(in US$'000)	
(Loss)/income before income taxes and equity in earnings of equity investees	(19,957)	16,922
Tax calculated at the statutory tax rate of the Company	(3,293)	2,792
Effects of different tax rates available to different jurisdictions	3,551	(4,077)
Tax valuation allowance	783	802
Expenses not deductible for tax purposes	399	3,670
Utilization of previously unrecognized tax losses	(1,055)	(2,662)
Withholding tax on undistributed earnings of equity investees	1,161	1,029
Others	(203)	(504)
Income tax expense	1,343	1,050

27. Income Taxes (Continued)

Continuing operations: (Continued)

Deferred income tax as at December 31 is as follows:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Deferred tax assets	105	130
Deferred tax liabilities	(2,947)	(2,397)
Net deferred tax liabilities	(2,842)	(2,267)

The movements in net deferred income tax liabilities are as follows:

	2014	2013
	(in US$'000)	
At January 1	(2,267)	(2,403)
Exchange differences	4	—
Acquisition of a subsidiary (Note 4)	(98)	—
Utilization of previously recognized withholding tax on undistributed earnings	797	1,165
(Charged)/credited to the consolidated statement of operations		
—withholding tax on undistributed earnings of equity investees	(1,161)	(1,029)
—deferred tax on amortization of intangible assets	11	—
—utilization of previously recognized tax losses	(128)	—
At December 31	(2,842)	(2,267)

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes related to the same fiscal authority.

The significant components of deferred tax assets and liabilities are as follows:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Deferred income tax assets:		
Tax losses	7,468	9,600
Depreciation allowances	49	—
Others	43	—
Total deferred income tax assets	7,560	9,600
Less: Valuation allowance	(7,455)	(9,470)
Net deferred income tax assets	105	130
Deferred income tax liabilities:		
Undistributed earnings from equity investees	2,760	2,397
Others	187	—
Total deferred income tax liabilities	2,947	2,397

27. Income Taxes (Continued)

Continuing operations: (Continued)

These tax losses can be carried forward against future taxable income and will expire in the following years:

	December 31, 2014	December 31, 2013
	(in US$'000)	
No expiry date	21,063	18,269
2014	—	8,647
2015	10,098	10,341
2016	—	336
2017	4,097	5,672
2018	1,148	1,347
2019	633	—
	37,039	44,612

The Company believes that it is not more likely than not that future operations will generate sufficient taxable income to realize the benefit of the deferred income tax assets as the subsidiaries of the Company have had sustained pre-tax losses. Accordingly, a valuation allowance has been recorded against the deferred income tax assets arising from the tax losses of the Company.

The table below summarizes changes in the deferred tax valuation allowance:

	December 31, 2014	December 31, 2013
	(in US$'000)	
Deferred income tax valuation allowance:		
At January 1	9,470	10,802
Exchange differences	(135)	242
Charged to statement of operations	783	802
Utilization of previously unrecognized tax losses	(1,055)	(2,662)
Write-off of expired tax losses	(1,169)	—
Others	(439)	286
At December 31	7,455	9,470

The Group recognizes interests and penalties, if any, under other payables, accruals and advance receipts on its consolidated balance sheets and under other expenses in its consolidated statement of operations. As of December 31, 2014 and 2013, the Group did not have any material unrecognized uncertain tax positions.

28. (Losses)/Earnings per Share

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the net (loss)/income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Periodic accretion to preferred shares of HMHL (note 20) is recorded as deductions to

28. (Losses)/Earnings per Share (Continued)

(a) Basic (losses)/earnings per share (Continued)

consolidated net income to arrive at net (loss)/income available to the Company's ordinary shareholders for purpose of calculating the consolidated basic (losses)/earnings per share.

	2014	2013
Weighted average number of outstanding ordinary shares in issue	52,563,387	52,050,988
Net (loss)/income from continuing operations	(6,120)	26,903
Net income attributable to non-controlling interests	(2,203)	(1,553)
Accretion on redeemable non-controlling interests	(25,510)	—
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000)	(33,833)	25,350
Income/(loss) from discontinued operations, net of tax	2,034	(1,978)
Net (income)/loss attributable to non-controlling interests	(1,017)	570
Net income/(loss) for the year attributable to ordinary shareholders of the Company—Discontinued operations (US$'000)	1,017	(1,408)
	(32,816)	23,942
(Losses)/Earnings per share attributable to ordinary shareholders of the Company		
—Continuing operations (US$ per share)	(0.64)	0.49
—Discontinued operations (US$ per share)	0.02	(0.03)
	(0.62)	0.46

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share is calculated by dividing net (loss)/income attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary share equivalent outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by HMHL using the if-converted method. The computation of diluted (losses)/earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at the HMHL and includes in the numerator of consolidated (losses)/earnings per share the amount based on the diluted (losses)/earnings per share of HMHL multiplied by the number of shares owned by the Company. If dilutive, the percentage of the Company's shareholding in HMHL was calculated by treating convertible preferred shares issued by HMHL as having been converted at the beginning of the period and share options as having been exercised during the period.

28. (Losses)/Earnings per Share (Continued)

(b) Diluted (losses)/earnings per share (Continued)

For purpose of calculating (losses)/earnings per share for discontinued operations, the same number of potential ordinary shares used in computing the diluted per share amount for income from continuing operations was used in computing diluted per share amount for income from discontinued operations.

	2014	2013
Weighted average number of outstanding ordinary shares in issue	52,563,387	52,050,988
Adjustment for share options	—	827,438
	52,563,387	52,878,426
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000) (Basic)	(33,833)	25,350
Net income attributable to preferred shares and share options of HMHL	—	(1,971)
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000) (Diluted)	(33,833)	23,379
Income/(loss) from discontinued operations, net of tax	2,034	(1,978)
Net (income)/loss attributable to non-controlling interests	(1,017)	570
Net income/(loss) for the year attributable to ordinary shareholders of the Company—Discontinued operations (US$'000)	1,017	(1,408)
	(32,816)	21,971
(Losses)/Earnings per share attributable to ordinary shareholders of the Company		
—Continuing operations (US$ per share)	(0.64)	0.44
—Discontinued operations (US$ per share)	0.02	(0.03)
	(0.62)	0.41

For the year ended December 31, 2014, the preferred shares issued by HMHL and share options issued by the Company and HMHL were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

Diluted loss per share from continuing operations for the year ended December 31, 2014 was the same as the basic loss per share from continuing operations.

In July 2015, the Company signed a subscription agreement with Mitsui to exchange 5,247,493 convertible preference shares held by Mitsui in HMHL for 3,214,404 new ordinary shares of the Company, which changed the number of ordinary shares outstanding of the Company after the period ended June 30, 2015. Please refer to subsequent event in Note 33.

29. Segment reporting

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. Details of the operating segments are disclosed in Note 1. The performance of the reportable segments are assessed based on two measurements: (a) earnings or losses of subsidiaries before interest income, finance costs and tax expenses ("EBIT/(LBIT)") and (b) equity in earnings of equity investees, net of tax. The group had discontinued part of its Consumer Health business under the Commercial Platform in the PRC and France for the year ended December 31, 2013. Details of the discontinued operations are included in Note 5.

29. Segment reporting (Continued)

The segment information for the reportable segments is as follows:

Continuing operations

	As at and for the year ended December 31, 2014						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Revenue from external customers	20,344	50,202	3,847	12,936	87,329	—	87,329
EBIT/(LBIT)	(13,817)	48	771	999	(11,999)	(7,001)	(19,000)
Interest income	33	68	12	3	116	443	559
Equity in earnings of equity investees, net of tax	(8,409)	13,201	10,388	—	15,180	—	15,180
Operating profit/(loss)	(22,193)	13,317	11,171	1,002	3,297	(6,558)	(3,261)
Finance costs	—	10	77	19	106	1,410	1,516
Additions to non-current assets (other than financial instrument and deferred tax assets)	3,671	915	24	2	4,612	6	4,618
Depreciation/amortization	1,145	65	6	7	1,223	42	1,265
Income tax expense	—	51	—	131	182	1,161	1,343
Total assets	43,061	68,650	70,731	7,050	189,492	21,342	210,834
Property, plant and equipment	7,305	62	36	8	7,411	71	7,482
Leasehold land	1,436	—	—	—	1,436	—	1,436
Goodwill	—	3,023	407	—	3,430	—	3,430
Intangible asset	—	666	—	—	666	—	666
Investments in equity investees	13,067	39,158	55,753	—	107,978	—	107,978

29. Segment reporting (Continued)

Continuing operations (Continued)

	As at and for the year ended December 31, 2013						
	Innovation Platform	Commercial Platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Revenue from external customers	20,077	—	4,908	11,562	36,547	—	36,547
EBIT/(LBIT)	24,261	—	726	(486)	24,501	(6,545)	17,956
Interest income	31	—	21	2	54	397	451
Equity in earnings of equity investees, net of tax	(8,764)	11,212	8,583	—	11,031	—	11,031
Operating profit/(loss)	15,528	11,212	9,330	(484)	35,586	(6,148)	29,438
Finance costs	—	—	186	—	186	1,299	1,485
Additions to non-current assets (other than financial instrument and deferred tax assets)	2,461	—	5	2	2,468	32	2,500
Depreciation/amortization	889	—	19	15	923	40	963
Income tax expense	21	—	—	—	21	1,029	1,050
Total assets	50,117	28,774	70,156	8,312	157,359	27,113	184,472
Property, plant and equipment	4,890	—	18	13	4,921	107	5,028
Leasehold land	1,508	—	—	—	1,508	—	1,508
Goodwill	—	—	407	—	407	—	407
Intangible asset	—	—	—	—	—	—	—
Investments in equity investees	21,483	36,520	53,293	—	111,296	—	111,296

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated attributable to (a) sales between Prescription Drugs business and Consumer Health within the PRC of US$271,000 and nil; (b) sales within Consumer Health business from Hong Kong to the PRC of US$105,000 and US$628,000 for the years ended December 31, 2014 and 2013.

Sales between segments are carried out at mutually agreed terms.

There was one customer under Innovative Platform who accounted for 13% of the Group's revenue for the year ended December 31, 2014. There were two customers under Innovative Platform who accounted for 23% and 21% of the Group's revenue for the year ended December 31, 2013.

Unallocated expenses mainly represent corporate expenses which include corporate employee benefit expenses and the relevant share-based compensation expenses. Unallocated assets mainly comprise cash at banks.

29. Segment reporting (Continued)

Continuing operations (Continued)

A reconciliation of (LBIT)/EBIT for reportable segments to net (loss)/income from continuing operations is provided as follows:

	2014	2013
	(in US$'000)	
(LBIT)/EBIT	(11,999)	24,501
Unallocated expenses	(7,001)	(6,545)
Interest income	559	451
Equity in earnings of equity investees, net of tax	15,180	11,031
Finance costs	(1,516)	(1,485)
Income taxes	(1,343)	(1,050)
Net (loss)/income from continuing operations	(6,120)	26,903

30. Litigation

From time to time, the Group may become involved in litigation relating to claims arising from the ordinary course of business. The Group believes that there are currently no claims or actions pending against the Group, the ultimate disposition of which could have a material adverse effect on the Group's results of operations, financial condition or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. When an unfavourable outcome occurs, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavourable outcome occurs, and potentially in future periods.

31. Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries in China only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries in China are required to make certain appropriation of net after-tax profits or increase in net assets to the statutory surplus fund prior to payment of any dividends. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each subsidiary. As a result of these and other restrictions under PRC laws and regulations, the Company's subsidiaries in China are restricted in their ability to transfer their net assets to the Group in terms of cash dividends, loans or advances, which restricted portion amounted to US$79,441,000 and US$63,033,000 as at December 31, 2014 and 2013 respectively. Even though the Group currently does not require any such dividends, loans or advances from the PRC subsidiaries, for working capital and other funding purposes, the Group may in the future require additional cash resources from the Company's subsidiaries in China due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends to make distributions to shareholders.

Further, the Group has certain investments in equity investees, of which the Group's equity in undistributed earnings amounted to US$51,244,000 and US$37,429,000 as at December 31, 2014 and 2013 respectively.

32. Additional information: condensed financial statements of the Company

Regulation S-X require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The Company's investments in its subsidiaries are accounted for under the equity method of accounting. Such investment is presented on separate condensed balance sheets of the Company as "Investments in subsidiaries" and the Company's shares of the profit or loss of subsidiaries are presented as "Equity in earnings of subsidiaries" in the statements of operations. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this condensed financial information of parent company, the Company has continued to reflect its share, based on its proportionate interest, of the losses of a subsidiary regardless of the carrying value of the investment even though the Company is not legally obligated to provide continuing support or fund losses.

The Company's subsidiaries did not pay any dividends to the Company for the periods presented except for Hutchison Chinese Medicine Holdings Limited and Hutchison Chinese Medicine (Shanghai) Investment Limited which paid dividends of US$2,564,000 and US$15,385,000 respectively during the year ended December 31, 2014. Hutchison Chinese Medicine Holdings Limited paid dividends of US$1,282,000 during the year ended December 31, 2013.

Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures represent supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group.

32. Additional information: condensed financial statements of the Company (Continued)

Condensed Balance Sheets
(in US$'000)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	1	1
Prepayments	1	—
Amounts due from related parties	76	76
Amounts due from subsidiaries	—	4,668
Total current assets	78	4,745
Non-current asset:		
Investments in subsidiaries	90,004	79,938
Total assets	90,082	84,683
Liabilities and shareholders' equity		
Current liabilities		
Other payables and accruals	599	917
Amounts due to subsidiaries	9,055	—
Amounts due to immediate holding company	241	152
Total liabilities	9,895	1,069
Redeemable non-controlling interests	41,036	12,467
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized; 53,076,676 and 52,051,448 shares issued at December 31, 2014 and 2013	53,076	52,051
Other shareholders' equity	(13,925)	19,096
Total Company's shareholders' equity	39,151	71,147
Total liabilities and shareholders' equity	90,082	84,683

32. Additional information: condensed financial statements of the Company (Continued)

Condensed Statements of Operations
(in US$'000, except share and per share data)

	Years Ended December 31, 2014	Years Ended December 31, 2013
Operating expenses		
Administrative	(1,146)	(1,770)
Other (expense)/income		
Interest expense	(3)	(1)
Other (expense)/income	(98)	12
Total other (expenses)/income	(101)	11
Equity in earnings of subsidiaries, net of tax	(6,059)	25,701
Net (loss)/income	(7,306)	23,942

Condensed Statements of Cash Flows
(in US$'000)

	Years Ended December 31, 2014	Years Ended December 31, 2013
Operating activities		
Net (loss)/income	(7,306)	23,942
Adjustments to reconcile net (loss)/income to net cash used in operating activities		
Equity in earnings of subsidiaries, net of tax	6,059	(25,701)
Loss on disposal of a subsidiary	98	—
Changes in operating assets and liabilities		
Prepayments	(1)	1
Amounts due from related parties	—	130
Amounts due from/(to) subsidiaries	1,379	987
Other payables and accruals	(318)	512
Amounts due to immediate holding company	89	129
Net cash from operating activities and net increase in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	1	1
Cash and cash equivalents at end of year	1	1

33. Subsequent events

The Group evaluated subsequent events through August 21, 2015, which is the date when the consolidated financial statements were issued.

(a) On July 23, 2015, the Group entered into a subscription agreement (the "Agreement") with Mitsui, the redeemable non-controlling interest, under which the Group has issued 3,214,404 new ordinary shares in the Company ("Subscription Shares") valued at approximately US$84 million in exchange for these convertible preferred shares with carrying value of US$84 million (including accretion

33. Subsequent events (Continued)

adjustment up to July 23, 2015). The transaction was completed on July 23, 2015 and as a result of this transaction, Mitsui will hold approximately 5.69% of the enlarged share capital of the Company. The outstanding balance of redeemable non-controlling interests was extinguished with the corresponding increase in the Company's shares amount.

(b) On August 13, 2015, the Group received a notice from Janssen to terminate the license and collaboration agreement between HMPL and Janssen dated June 2, 2010 for the discovery and development of novel small molecule therapeutics against a target in the area of inflammation/ immunology. All licenses and other rights granted by the Group to Janssen shall terminate upon the termination date, which is 90 days after the notice of termination. As at the date of this report, the Group does not have any outstanding liabilities or obligations due to/from Janssen in relation to the termination of the agreement.

Hutchison China MediTech Limited
Condensed Consolidated Balance Sheets
(in US$'000)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	48,830	38,946
Short-term investments	—	12,179
Accounts receivable—third parties	30,823	22,724
Accounts receivable—related parties	3,255	2,184
Other receivables, prepayments and deposits	2,777	3,016
Amounts due from related parties	7,567	6,283
Inventories	7,009	4,405
Deferred tax assets	69	105
Total current assets	**100,330**	**89,842**
Property, plant and equipment, net	8,088	7,482
Leasehold land	1,417	1,436
Goodwill	3,430	3,430
Other intangible asset	630	666
Long-term prepayment	2,404	—
Investments in equity investees	121,003	107,978
Total assets	**237,302**	**210,834**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable—third parties	18,703	18,237
Accounts payable—related parties	5,298	2,190
Other payables, accruals and advance receipts	17,622	17,159
Deferred revenue	2,522	2,394
Amounts due to related parties	11,863	8,716
Short-term bank borrowings	23,718	26,282
Deferred tax liabilities	321	321
Total current liabilities	**80,047**	**75,299**
Deferred tax liabilities	3,294	2,626
Long-term bank borrowings	26,923	26,923
Deferred revenue	3,333	4,182
Deferred income	2,404	—
Other non-current liabilities	3,925	3,853
Total liabilities	**119,926**	**112,883**
Commitments and contingencies (Note 19)		
Redeemable non-controlling interest	83,051	41,036
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized; 53,299,964 and 53,076,676 shares issued at June 30, 2015 and December 31, 2014	53,300	53,076
Additional paid-in capital	35,395	76,256
Accumulated losses	(84,124)	(100,051)
Accumulated other comprehensive income	9,868	9,870
Total Company's shareholders' equity	**14,439**	**39,151**
Non-controlling interests	19,886	17,764
Total shareholders' equity	**34,325**	**56,915**
Total liabilities and shareholders' equity	**237,302**	**210,834**

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison China MediTech Limited
Condensed Consolidated Statements of Operations
(Unaudited, in US$'000, except share and per share data)

	Six Months Ended June 30,	
	2015	**2014**
Revenues		
Sales of goods—third parties	50,786	16,428
Sales of goods—related parties	4,772	3,969
Revenue from license and collaboration agreements—third parties	23,248	8,696
Revenue from research and development services—third parties	1,317	1,790
Revenue from research and development services—related parties	2,362	2,463
Total revenues	**82,485**	**33,346**
Operating expenses		
Costs of sales of goods—third parties	(46,448)	(14,608)
Costs of sales of goods—related parties	(3,494)	(2,607)
Research and development expenses	(21,260)	(12,204)
Selling expenses	(3,799)	(1,788)
Administrative expenses	(7,516)	(6,216)
Total operating expense	**(82,517)**	**(37,423)**
Loss from operations	**(32)**	**(4,077)**
Other income/(expense)		
Interest income	318	187
Other income	278	103
Interest expense	(707)	(744)
Other expense	—	(872)
Total other expense	**(111)**	**(1,326)**
Loss before income taxes and equity in earnings of equity investees	**(143)**	**(5,403)**
Income tax expense	(1,161)	(954)
Equity in earnings of equity investees, net of tax	19,368	13,278
Net income from continuing operations	**18,064**	**6,921**
Income from discontinued operations, net of tax	—	1,750
Net income	**18,064**	**8,671**
Less: Net income attributable to non-controlling interests	(2,115)	(2,591)
Net income attributable to the Company	**15,949**	**6,080**
Accretion on redeemable non-controlling interests	(42,015)	(8,334)
Net loss attributable to ordinary shareholders of the Company	**(26,066)**	**(2,254)**
(Losses)/earnings per share attributable to ordinary shareholders of the Company—basic and diluted (US$ per share)		
Continuing operations	(0.49)	(0.06)
Discontinued operations	—	0.02
Number of shares used in per share calculation—basic and diluted	53,172,325	52,173,678

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison China MediTech Limited
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in US$'000)

	Six Months Ended June 30,	
	2015	**2014**
Net income	18,064	8,671
Other comprehensive income/(loss):		
Foreign currency translation income/(loss)	5	(3,550)
Total Comprehensive income	**18,069**	**5,121**
Less: Comprehensive income attributable to non-controlling interests	(2,122)	(2,227)
Total comprehensive income attributable to ordinary shareholders of the Company	**15,947**	**2,894**

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison China MediTech Limited
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited, in US$'000, except share and per share data)

	Ordinary Number	Shares Amount	Additional Paid-in Capital	Accumulated Losses	Accumulated Other Comprehensive Income	Total Company's Shareholders' Equity	Non-controlling Interests	Total Equity
As of January 1, 2014	**52,051**	**52,051**	**99,361**	**(92,575)**	**12,310**	**71,147**	**6,960**	**78,107**
Net income	—	—	—	6,080	—	6,080	2,591	8,671
Non-controlling interests arising from acquisition of subsidiaries	—	—	—	—	—	—	9,003	9,003
Issuance of ordinary shares in relation to exercise of options	845	845	711	—	—	1,556	—	1,556
Share-based compensation	—	—	331	—	—	331	7	338
Transfer between reserve	—	—	8	(8)	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(3,186)	(3,186)	(364)	(3,550)
Accretion to redemption value of redeemable non-controlling interests	—	—	(8,334)	—	—	(8,334)	—	(8,334)
As of June 30, 2014	**52,896**	**52,896**	**92,077**	**(86,503)**	**9,124**	**67,594**	**18,197**	**85,791**
As of January 1, 2015	53,076	53,076	76,256	(100,051)	9,870	39,151	17,764	56,915
Net income	—	—	—	15,949	—	15,949	2,115	18,064
Issuance of ordinary shares in relation to exercise of options	224	224	1,024	—	—	1,248	—	1,248
Share-based compensation	—	—	106	—	—	106	—	106
Transfer between reserve	—	—	24	(24)	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(2)	(2)	7	5
Dilution of interests in a subsidiary in relation to exercise of options of a subsidiary	—	—	—	2	—	2	—	2
Accretion to redemption value of redeemable non-controlling interests	—	—	(42,015)	—	—	(42,015)	—	(42,015)
As of June 30, 2015	**53,300**	**53,300**	**35,395**	**(84,124)**	**9,868**	**14,439**	**19,886**	**34,325**

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison China MediTech Limited
Condensed Consolidated Statements of Cash Flows
(Unaudited, in US$'000)

	Six Months Ended June 30,	
	2015	**2014**
Operating activities		
Net income	18,064	8,671
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	896	560
Loss on retirement of property, plant and equipment	—	15
Inventories written off	9	187
Provision for excess and obsolete inventories	—	24
Decrease in provision for excess and obsolete inventories due to sales of inventories	(6)	(88)
Allowance for doubtful accounts	51	18
Share-based compensation expense	275	507
Equity in earnings of equity investees	(19,368)	(13,278)
Dividend received from equity investees	6,410	12,718
Foreign currency (loss)/gain	(87)	189
Income taxes	746	634
Changes in operating assets and liabilities		
Accounts receivable—third parties	(8,150)	7,860
Accounts receivable—related parties	(1,071)	2,206
Other receivables, prepayments and deposits	239	(264)
Amounts due from related parties	(1,284)	(5,171)
Inventories	(2,607)	408
Accounts payables—third parties	466	(1,474)
Accounts payables—related parties	3,108	(73)
Other payables, accruals and advance receipts	326	(3,823)
Deferred revenue	(721)	(397)
Deferred income	2,404	—
Amounts due to related parties	3,147	395
Long-term prepayment	(2,404)	—
Net cash generated from operating activities	443	9,824
Investing activities		
Acquisition of a subsidiary, net of cash acquired	—	689
Purchases of property, plant and equipment	(1,446)	(1,866)
Withdrawal of deposit in short-term investments	12,179	—
Net cash generated from/(used in) investing activities	10,733	(1,177)
Financing activities		
Proceeds from issuance of ordinary shares	1,248	1,556
Proceeds from exercise of share options of a subsidiary	2	—
Capital contribution from redeemable non-controlling interests	—	3,059
Repayment of loan to a non-controlling shareholder of a subsidiary	—	(2,250)
Proceeds from bank borrowings	—	8,205
Repayment of bank borrowings	(2,564)	(6,128)
Net cash (used in)/generated from financing activities	(1,314)	4,442
Net increase in cash and cash equivalents	9,862	13,089
Effect of exchange rate changes on cash and cash equivalents	22	(525)
	9,884	12,564
Cash and cash equivalents		
Cash and cash equivalents at beginning of period	38,946	46,863
Cash and cash equivalents at end of period	48,830	59,427
Supplemental disclosure for cash flow information		
Cash paid for interest	581	656
Cash paid for tax, net of refunds	415	666

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison China MediTech Limited
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Nature of Business

Hutchison China MediTech Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in researching, developing, manufacturing and selling pharmaceuticals and health-related consumer products. The Group and its equity investees have manufacturing plants in Shanghai and Guangzhou in the People's Republic of China (the "PRC") and sell mainly in the PRC and Hong Kong.

The Company considers Hutchison Healthcare Holdings Limited as its immediate holding company and CK Hutchison Holdings Limited ("CK Hutchison") as its ultimate holding company. Hutchison Whampoa Limited was the Company's ultimate holding company till June 3, 2015 when it became a subsidiary of CK Hutchison upon certain reorganisation within the group.

The Group determines the operating segments from both business and geographic perspectives as follows:

(i) Innovation Platform (Drug research and development ("Drug R&D")): focuses on discovering and developing innovative therapeutics in oncology and autoimmune diseases, and the provision of research and development services; and

(ii) Commercial Platform: comprising of the manufacture, marketing and distribution of prescription and over-the-counter pharmaceuticals in the PRC as well as certain health-related consumer products through Hong Kong. The Commercial Platform is further segregated into two core business areas:

  (a) Prescription Drugs: comprises the development, manufacture, distribution, marketing and sale of prescription pharmaceuticals; and

  (b) Consumer Health: comprises the development, manufacture, distribution, marketing and sale of over-the-counter pharmaceuticals and health-related consumer products.

Innovation Platform and Prescription Drugs business under the Commercial Platform are primarily located in the PRC. The locations for Consumer Health business under the Commercial Platform are further segregated into the PRC and Hong Kong.

The Group discontinued an operation in the PRC of the Consumer Health business under the Commercial Platform.

The Company was incorporated in the Cayman Islands on December 18, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision), Chapter 22 of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's ordinary shares are listed on the AIM regulated by the London Stock Exchange.

Liquidity

The Group incurred losses from operations of nil and US$4.1 million for the six months ended June 30, 2015 and 2014. As of June 30, 2015 the Group had accumulated losses of US$84.1 million. As of June 30, 2015, the Group had cash and cash equivalents of US$48.8 million and unutilized bank borrowing facilities of US$6.3 million. The Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

Based on the Group's operating plan, existing cash and cash equivalents are considered to be sufficient to meet the cash requirements to fund planned operations and other commitments for at least the next twelve months. The Group's operating plan includes the continued receipt of dividends from certain of its equity investees and there can be no assurances that these entities will continue to declare and pay dividends to its shareholders.

2. Particulars of Principal Subsidiaries and Equity Investees

Name	Place of establishment and operations	Equity interest attributable to the Group June 30, 2015	Equity interest attributable to the Group December 31, 2014	Principal activities
Subsidiaries				
Hutchison MediPharma Limited	The PRC	99.81%	99.81%	Research and development of pharmaceutical products
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm")	The PRC	51%	51%	Provision of sales, distribution and marketing services to pharmaceutical manufacturers
Hutchison Hain Organic (Hong Kong) Limited ("HHOL") (note (i))	Hong Kong	50%	50%	Wholesale and trading of healthcare and consumer products
Hutchison Hain Organic (Guangzhou) Limited ("HHOGZL") (note (i))	The PRC	50%	50%	Wholesale and trading of healthcare and consumer products
Hutchison Healthcare Limited ("HHL")	The PRC	100%	100%	Manufacture and distribution of healthcare products
Hutchison Consumer Products Limited	Hong Kong	100%	100%	Wholesale and trading of healthcare and consumer products
Equity investees				
Nutrition Science Partners Limited ("NSPL") (note (ii))	Hong Kong	49.9%	49.9%	Research and development of pharmaceutical products
Shanghai Hutchison Pharmaceuticals Limited ("SHPL")	The PRC	50%	50%	Manufacture and distribution of prescription drugs products
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited ("HBYS") (note (iii))	The PRC	40%	40%	Manufacture and distribution of over-the-counter drug products

Notes:

(i) HHOL and HHOGZL are regarded as subsidiaries of the Company as while both shareholders have equal representation at the Board, in the event of a deadlock, the Group has a casting vote and is therefore, able to unilaterally control the financial and operating policies of HHOL and HHOGZL.

(ii) The 50% equity interest in NSPL is held by a 99.8% owned subsidiary of the Group in 2014 which was 100% owned in 2013. The effective equity interest of the Group in NSPL is therefore 49.9% as at June 30, 2015 and December 31, 2014.

(iii) The 50% equity interest in HBYS is held by a 80% owned subsidiary of the Group. The effective equity interest of the Group in HBYS is therefore 40% as at June 30, 2015 and December 31, 2014.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Rule 10-01 of Regulation S-X.

Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim unaudited condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal year. The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. GAAP. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for amounts recorded in connection with acquisitions, including initial fair value determinations of assets and liabilities and other intangible assets as well as subsequent fair value measurements. Additionally, estimates are used in determining items such as useful lives of property, plant and equipment, write-down of inventories, allowance for doubtful accounts, share-based compensation, impairments of long-lived assets, impairment of other intangible asset and goodwill, taxes on income, tax valuation allowances and revenues from research and development projects. Actual results could differ from those estimates.

Foreign Currency Translation

The Group's functional currency is Renminbi ("RMB") but the presentation currency is the U.S. dollar ("US$"). The financial statements of the Company's subsidiaries with a functional currency other than the U.S. dollar have been translated into the Company's reporting currency, the U.S. dollar. All assets and liabilities of the subsidiaries are translated using year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Translation adjustments are reflected in the accumulated other comprehensive income/(loss) component of shareholders' equity.

Net foreign currency exchange gain of US$23,000 and net foreign currency exchange losses of US$872,000 were recorded in other income/(expense) for the six months ended June 30, 2015 and 2014 respectively.

3. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Group considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash on hand and demand deposits and are stated at cost, which approximates fair value.

Short-term Investments

Short-term investments include deposits placed with banks with original maturities of more than three months but less than one year. Interest generated from short-term investments are recorded over the period earned. It is recorded as 'interest income' on the statement of operations and measured based on the actual amount of interest the Group earns.

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and other receivables and amounts due from related parties.

The Group places substantially all of its deposits of cash and cash equivalents and short-term investments in major financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any particular financial institution.

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of goods are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Foreign Currency Risk

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB, which is not freely convertible into foreign currencies. The Group's cash and cash equivalents that are subject to such government controls as of June 30, 2015 and December 31, 2014 are as disclosed in Note 7. The value of the RMB is subject to changes by the central government policies and international economic and political developments that affect the supply and demand of RMB in the foreign exchange market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

3. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Financial instruments that are measured at fair value is determined according to a fair value hierarchy that prioritizes the inputs and assumptions used, and the valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs are quoted prices for similar assets or liabilities in active markets; or quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3	Inputs are unobservable inputs based on the Group's assumptions and valuation techniques used to measure assets or liabilities at fair value. The inputs require significant management judgment or estimation.

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The fair value of assets and liabilities is established using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and a fair value hierarchy is established based on the inputs used to measure fair value.

Goodwill

Goodwill represents the excess of the purchase price plus fair value of non-controlling interests over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized, but is tested for impairment at the reporting unit level on at least an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When performing an evaluation of goodwill impairment, the Group has the option to first assess qualitative factors, such as significant events and changes to expectations and activities that may have occurred since the last impairment evaluation, to determine if it is more likely than not that goodwill might be impaired. If, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative fair value test is performed. No impairments of goodwill were identified during any of the years presented.

Property, Plant and Equipment

Property, plant and equipment consist of buildings, leasehold improvements, plant and equipment, furniture, fixtures, other equipment and motor vehicles. Property, plant and equipment are stated at cost,

3. Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment (Continued)

net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets.

Buildings	20 years
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	4-5 years
Leasehold improvements	Shorter of (a) 5 years or (b) remaining term of lease

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations in the year of disposition. Additions and improvements that increase the value or extend the life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Group evaluates the recoverability of long-lived assets in accordance with authoritative guidance on accounting for the impairment or disposal of long-lived assets. The Group evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Such impairment is recognized in the event the net book value of such assets exceeds their fair value. If the carrying value of the net assets assigned exceeds the fair value of the assets, then the second step of the impairment test is performed in order to determine the implied fair value. No impairment of long-lived assets occurred in the years presented.

Leasehold Land

Leasehold land represents fees paid to acquire the right to use the land on which various plants and buildings are situated for a specified period of time from the date the respective right was granted and are stated at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over the lease period of 50 years.

Other Intangible Asset

Intangible asset with finite useful life represents the Goods Supply Practice ("GSP") license. It is carried at cost less accumulated amortization and impairment loss, if any. Amortization is computed using straight-line basis over its estimated useful life of 10 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A provision for excess and obsolete inventory will be made based primarily on forecast of product demand and production requirements. The excess balance determined by this analysis becomes the basis for excess

3. Summary of Significant Accounting Policies (Continued)

Inventories (Continued)

inventory charge and the written-down value of the inventory becomes its cost. Written-down inventory is not written up if market conditions improve.

Accounts Receivable

Accounts receivable are stated at the amount management expect to collect from customers based on their outstanding invoices. Management reviews accounts receivable regularly to determine if any receivable will potentially be uncollectible. Estimates are used to determine the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value. The amount of the allowance for doubtful accounts is recognized in the statement of operations.

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits, share-based compensation, occupancy, materials and supplies, contracted research, consulting arrangements and other expenses incurred to sustain the Group's research and development programs. Research and development costs are expensed as incurred.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of operations on a straight-line basis over the period of the leases.

Total operating lease rentals of land and building for the six months ended June 30, 2015 and 2014 amounted to US$626,000 and US$434,000 respectively. US$29,000 and US$61,000 were recorded in research and development expense for the six months ended June 30, 2015 and 2014 respectively and US$597,000 and US$373,000 were recorded in administrative expenses for the six months period ended June 30, 2015 and 2014 respectively.

Income Taxes

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss (estimated annual effective tax rate).

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest method.

Defined Contribution Plans

The Company's subsidiaries in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. The relevant labour regulations require the Company's subsidiaries in the PRC to pay the local labour and social welfare authorities monthly contributions at a stated contribution rate

3. Summary of Significant Accounting Policies (Continued)

Defined Contribution Plans (Continued)

based on the monthly basic compensation of qualified employees. The relevant local labour and social welfare authorities are responsible for meeting all retirement benefits obligations and the Company's subsidiaries in the PRC have no further commitments beyond their monthly contributions. The contributions to the plan are expensed as incurred.

The Group also makes payments to other defined contribution plans for the benefit of employees employed by subsidiaries outside the PRC. The defined contribution plans are generally funded by the relevant companies and by payments from employees of the contribution plans.

The Group's contributions to defined contribution plans for the six months ended June 30, 2015 and 2014 amounted to US$816,000 and US$577,000 respectively.

Share-Based Compensation

The Group recognizes share-based compensation expense on share options granted to employees and directors based on their estimated grant date fair value using the Binomial model. This Binomial pricing model uses various inputs to measure fair value, including estimated market value of the underlying ordinary share at the grant date, contractual terms, estimated volatility, risk-free interest rate and expected dividend yields. The Group recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on a graded vesting over the requisite service period. The Group applies an estimated forfeiture rate derived from historical and expected future employee termination behaviour. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods.

For share options granted to non-employees, the fair value of the share options is estimated using the Binomial model. This model utilizes the estimated market value of the Company's underlying ordinary share at the measurement date, the contractual terms of the option, estimated volatility, risk-free interest rates and expected dividend yields of the Company's ordinary share. The Company recognizes share-based compensation expense, net of estimated forfeitures, in the consolidated statements of operations on graded vesting over the requisite service period. Measurement of share-based compensation is subject to periodic adjustment for changes in the fair value of the award.

Share-based compensation expense, when recognized, is charged to the consolidated statements of operations with the corresponding entry to additional paid-in capital or non-controlling interests.

Convertible Preferred Shares

When the Company or its subsidiaries issues preferred shares, the Group assesses whether such instruments should be liability, mezzanine equity, or permanent equity classified based on multiple indicators such as redemption features, conversion features, voting rights and other embedded features. Freestanding equity instruments with mandatory redemption requirements, embodies an obligation to repurchase the issuer's equity shares by transferring assets, or certain obligations to issue a variable number of shares, are treated as liability-classified instruments. Equity instruments that are redeemable at the option of the holder or not solely within our control are classified as mezzanine equity of the issuer entity (and redeemable non-controlling interests of the consolidated financial statements of the Group if preferred shares are issued by its subsidiaries). Subsequent measurements of financing instruments are driven by the instruments' balance sheet classification.

3. Summary of Significant Accounting Policies (Continued)

Convertible Preferred Shares (Continued)

The Group also reviews the terms of each convertible instrument and determines whether the host instrument is more akin to debt or equity based on the economic characteristics and risks in order to evaluate if there were any embedded features would require bifurcation and separate accounting from the host contract. For embedded conversion features that are not required to be separated under ASC 815, Derivatives and Hedging, the Group analyzes the accounting conversion price and our share price at the commitment date to identify any beneficial conversion features.

For modification to preferred shares not classified as liabilities, the Group assesses whether an amendment to the term of the preferred shares is an extinguishment or a modification using the fair value model. The Group considers that a significant change in fair value after the change of the terms to be substantive and thus triggers extinguishment. A change in fair value which is not significant immediately after the change of the terms is considered non-substantive and thus is subject to modification accounting. When preferred shares are extinguished, the difference between the fair value of the consideration transferred to the preferred shareholders and the carrying amount of such preferred shares (net of issuance costs) is treated as a deemed dividend to the preferred shareholders. When preferred shares are modified and such modification results in value transfer between preferred shareholders and ordinary shareholders, the change in fair value resulted from the amendment is treated as a deemed dividend to or from the preferred shareholders.

Government Incentives

Incentives from governments are recognized at their fair values. Government incentives that are received in advanced are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate. Government incentives in relation to the achievement of stages of research and development projects are recognized in the statement of operations when there is reasonable assurance that the incentives will be received and all attached conditions have been compiled with.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who is the chief operating decision maker.

The chief operating decision maker has reviewed the Group's internal reporting in order to assess performance and allocate resources and determined that the Group's reportable segments are as disclosed in Note 1.

Revenue Recognition

Sales of goods—wholesale

Revenue from our Commercial Platform segments are recognized when product is delivered and title passes to the customer and there are no further obligations to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Sales discounts are issued to customers as direct discounts at the point-of-sales or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provision s for sales discounts and returns.

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects

The Group recognizes revenue for the performance of services when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

The Group follows ASC 605-25, Revenue Recognition—Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under the Group's license and collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) licenses to the Group's intellectual property, (ii) materials and technology, (iii) clinical supply, and/or (iv) participation in joint research or joint steering committees. The payments the Group may receive under these arrangements typically include one or more of the following: non-refundable, up-front license fees; funding of research and/or development efforts; amounts due upon the achievement of specified milestones; and/or royalties on future product sales.

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit utilizing the relative selling price method. The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence ("VSOE") of selling price, if available, or third party evidence of selling price if VSOE is not available, or the Company's best estimate of selling price, if neither VSOE nor third party evidence is available. Determining the best estimate of selling price for a deliverable requires significant judgment. The Company typically uses its best estimate of a selling price to estimate the selling price for licenses to do development work, since it often does not have VSOE or third party evidence of selling price for these deliverables. In those circumstances where the Company applies its best estimate of selling price to determine the estimated selling price of a license to development work, it considers market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed estimates that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the license. In validating its best estimate of selling price, the Company evaluates whether changes in the key assumptions used to determine its best estimate of selling price will have a significant effect on the allocation of arrangement consideration between deliverables. The Company recognizes consideration allocated to an individual element when all other revenue recognition criteria are met for that element.

The allocated consideration for each unit of accounting is recognized over the related obligation period in accordance with the applicable revenue recognition criteria.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects (Continued)

the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as unearned revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

The Group typically receives non-refundable, up-front payments when licensing the Group's intellectual property, which often occurs in conjunction with a research and development agreement. If management believes that the license to the Group's intellectual property has stand-alone value, the Group generally recognizes revenue attributed to the license upon delivery provided that there are no future performance requirements for use of the license. When management believes that the license to the Group's intellectual property does not have stand-alone value, the Group would recognize revenue attributed to the license rateably over the contractual or estimated performance period.

For payments payable on achievement of milestones that do not meet all of the conditions to be considered substantive, the Group recognizes a portion of the payment as revenue when the specific milestone is achieved, and the contingency is removed. Other contingent event-based payments for which payment is either contingent solely upon the passage of time or the result of collaborator's performance are recognized when earned. The Company's collaboration and license agreements generally include contingent milestone payments related to specified pre-clinical research and development milestones, clinical development milestones, regulatory milestones and sales-based milestones. Pre-clinical research and development milestones are typically payable upon the selection of a compound candidate for the next stage of research and development. Clinical development milestones are typically payable when a product candidate initiates or advances in clinical trial phases or achieves defined clinical events such as proof-of-concept. Regulatory milestones are typically payable upon submission for marketing approval with regulatory authorities or upon receipt of actual marketing approvals for a compound, approvals for additional indications, or upon the first commercial sale. Sales-based milestones are typically payable when annual sales reach specified levels.

At the inception of each arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (i) the entity's performance to achieve the milestone or (ii) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone; (b) the consideration relates solely to past performance; and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment.

For further details on the license and collaboration agreements, see Note 23.

Comprehensive Income/(loss)

Comprehensive income/(loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources, and currently

3. Summary of Significant Accounting Policies (Continued)

Comprehensive Income/(loss) (Continued)

consists of net income and gains and losses on foreign currency translation related to the Company's subsidiaries.

Earnings/(losses) per share

Basic earnings/(losses) per share is computed by dividing net income/(loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(losses) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary shares equivalents outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by its subsidiary, Hutchison MediPharma Holdings Limited ("HMHL"), (referred to as redeemable non-controlling interests on the consolidated balance sheets) using the if-converted method.

The computation of diluted earnings/(losses) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at the HMHL and includes in the numerator of consolidated earnings/(losses) per share the amount based on the diluted earnings/(losses) per share of HMHL multiplied by the number of shares owned by the Company.

In addition, periodic accretion to preferred shares of HMHL (Note 20) is recorded as deductions to consolidated net income to arrive at net income/(loss) available to the Company's ordinary shareholders for purpose of calculating the consolidated basic earnings/(losses) per share.

Discontinued Operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of operations, which comprises the post-tax profit or loss of the discontinued operation.

Profit appropriation and statutory reserves

The Group's subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from its after-tax profit (as determined under generally accepted accounting principles in the PRC ("PRC GAAP") to reserve funds including general reserve fund, the enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the

3. Summary of Significant Accounting Policies (Continued)

Profit appropriation and statutory reserves (Continued)

after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriation to the enterprise expansion fund and staff bonus and welfare fund is made at the company's discretion.

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to the offsetting of losses or increases the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. All these reserves are not allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the periods ended June 30, 2015 and 2014, profit appropriation to statutory funds for the Group's entities incorporated in the PRC was approximately US$24,000 and US$8,000 respectively. No appropriation to other reserves was made for any for the periods presented.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* ASU 2014-08 defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The standard states that a strategic shift could include a disposal of: a major geographic area of operations, a major line of business, a major equity investment, or other major parts of an entity. ASU 2014-08 is effective for fiscal years and interim periods within those years beginning after December 15, 2014. The adoption of ASU 2014-08 did not have a material impact on the Group's consolidated financial position, results of operations, or cash flows. However, in the event that a future disposition meets the revised criteria, this standard will have an impact on the presentation of the financial statements and associated disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards ("IFRS"). An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and early adoption is permitted but not earlier than the original effective date of December 15, 2016. The Group is currently evaluating the method of adoption and the impact ASU 2014-09 will have on the Group's consolidated financial position, results of operations, cash flows, and associated disclosures.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* ASU 2014-15 provides guidance regarding managements responsibility to (i) evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and (ii) provide related footnote disclosures. ASU 2014-15 is effective for fiscal years and interim periods within those years

3. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

beginning after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a significant impact on the Group's consolidated financial statement disclosures.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory" which requires an entity to measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this guidance more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in IFRS. ASU 2015-11 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Group does not expect this updated standard to have a material impact on the consolidated financial statements and related disclosures.

Other amendments that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Group's consolidated financial statements upon adoption.

4. Acquisition

In April 2014, the Group invested approximately US$9,597,000 in cash for the subscription of 51% equity interests in the enlarged share capital of Hutchison Sinopharm which was formerly known as Sinopharm Holding HuYong Pharmaceutical (Shanghai) Co., Ltd.. Hutchison Sinopharm is engaged in providing sales, distribution, and marketing services to major domestic and multi-national third party pharmaceutical manufacturers. The Group expects the acquisition will provide a broadened sales and marketing platform for synergy across the Group.

The Group accounted for the acquisition using the acquisition method. The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as at the acquisition date. The

4. Acquisition (Continued)

following table summarizes the amount invested in Hutchison Sinopharm and the fair value of the assets acquired and liabilities assumed recognized at the acquisition date.

	In US$'000
Cash and cash equivalents	10,286
Property, plant and equipment	69
Goodwill (note (i))	3,023
Other intangible asset (note (ii))	708
Deferred tax assets	100
Inventories	3,208
Accounts receivable and other receivables	21,105
Accounts payable and other payables	(14,932)
Deferred tax liabilities	(198)
Short-term bank borrowings	(4,769)
Fair value of net assets acquired	18,600
Less: Non-controlling interest (note (iii))	(9,003)
Total purchase consideration	9,597
Cash and cash equivalents acquired	10,286
Less: cash injected	(9,597)
Net cash inflow arising from acquisition	689

Notes:

(i) Goodwill arising from this acquisition is from the premium attributable to a pre-existing, well positioned business in a competitive market. This goodwill is recorded at the consolidation level and is not expected to be deductible for tax purposes. This goodwill is attributable to the Prescription Drugs business under the Commercial Platform.

(ii) Intangible asset of US$708,000 represents the GSP license which enables Hutchison Sinopharm to carry out the drug distribution business and is amortized over its useful life of 10 years.

(iii) The non-controlling interest is measured as the proportion of fair value of the net assets acquired shared by the non-controlling interest.

(iv) The fair value of accounts receivable and other receivables was equal to the gross contractual amount of which all were expected to be collectible.

(v) Acquisition related costs of approximately US$23,000 have been included in the administrative expenses in the Condensed Consolidated Statements of Operations.

(vi) Hutchison Sinopharm contributed revenue of US$12,841,000 and net income of US$57,000 to the Group for the period from April 25, 2014 to June 30, 2014. If the acquisition has occurred on January 1, 2014, the revenue and net income attributed by Hutchison Sinopharm for the six months ended June 30, 2014 would have been US$33,918,000 and US$127,000 respectively.

5. Discontinued operations

In 2013, the Group discontinued an operation in the PRC which was part of the Group's Consumer Health business under the Commercial Platform segment, as its performance was below expectation in light of increased competitive activities in the consumer products market.

The results and cash flows of the discontinued operations are set out below.

	June 30, 2015	June 30, 2014
	(in US$'000)	
Sales of goods	—	—
Expenses	—	—
Other income (note (i))	—	2,096
Net income before taxation from discontinued operations	—	2,096
Income tax expense	—	(346)
Net income for the period from discontinued operations	—	1,750
Cash flow from discontinued operations	—	
Net cash generated from operating activities	—	2,515
Net increase in cash and cash equivalents	—	2,515

(i) The income from the discontinued operations for the six months ended June 30, 2014 represented the compensation income from an arbitration proceeding against a supplier, being the excess of US$2.5 million compensation proceeds received over the carrying amount of US$0.4 million receivables recorded in prior years.

6. Fair Value Disclosures

The following table presents the Group's financial instruments by level within the fair value hierarchy:

	Fair Value Measurement Using			
(in US$'000)	Level 1	Level 2	Level 3	Total
As of June 30, 2015				
Cash and cash equivalents	48,830	—	—	48,830
As of December 31, 2014				
Cash and cash equivalents	38,946	—	—	38,946
Short-term investments	12,179	—	—	12,179

Accounts receivable, other receivables, amounts due from related parties, accounts payable and amounts due to related parties are carried at cost, which approximates fair value due to the short-term nature of these financial instruments and are therefore, excluded from the above table.

The carrying amount of bank borrowings also approximates its fair values.

7. Cash and cash equivalents

	June 30, 2015	December 31, 2014
	(in US$'000)	
Cash at bank and in hand	44,316	32,019
Short-term bank deposits (note (i))	4,514	6,927
	48,830	38,946
Denominated in:		
US$ (note (ii))	3,388	8,104
RMB (note (ii))	37,313	28,034
UK Pound Sterling	634	247
Hong Kong dollar ("HK$")	7,485	2,543
Euro	10	18
	48,830	38,946

Notes:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 7 to 30 days and 7 to 78 days as of June 30, 2015 and December 31, 2014 respectively, was 3.72% and 1.74% per annum as of June 30, 2015 and December 31, 2014 respectively.

(ii) Certain cash and bank balances denominated in RMB and US$ were deposited with banks in the PRC. The conversion of these RMB and US$ denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

8. Short-term investments

	June 30, 2015	December 31, 2014
	(in US$'000)	
Bank deposits maturing over three months (note (i))	—	12,179
Denominated in:		
RMB	—	12,179

Note:

(i) The weighted average effective interest rate on bank deposits, with maturity ranging from 91 to 167 days, was 2.92% per annum as of December 31, 2014.

9. Accounts receivable

Substantially all the accounts receivable are denominated in RMB and HK$ and all are due within one year from the end of the reporting period.

The carrying value of accounts receivable approximates their fair values.

9. Accounts receivable (Continued)

Movements on the allowance for doubtful accounts, which is only in respect of accounts receivable—third parties, are as follows:

	2015	2014
	(in US$'000)	
At 1 January	1,793	1,670
Allowance	51	18
Exchange difference	—	(74)
At June 30	1,844	1,614

As at June 30, 2015 and December 31, 2014, accounts receivable of approximately US$1,710,000 and US$2,130,000 respectively were past due but not impaired. These are in respect of a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Up to 3 months	287	—
4 to 6 months	19	24
6 to 12 months	1,404	2,106
	1,710	2,130

The credit quality of accounts receivable neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

As at June 30, 2015, there are no accounts receivables from related parties that are past due or impaired.

10. Other receivable, prepayments and deposits

Other receivable, prepayments and deposits consisted of the following:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Prepayments to suppliers	1,221	1,327
Interest receivable	43	200
Prepaid general and administrative expenses	323	305
Government incentives	—	407
Others	1,190	777
	2,777	3,016

11. Inventories

Inventories consisted of the following:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Raw materials	574	291
Finished goods	6,435	4,114
	7,009	4,405

Movements on the provision for excess and obsolete inventories are as follows:

	2015	2014
	(in US$'000)	
At January 1	34	126
Provision	—	24
Decrease due to sale of inventories	(6)	(88)
Exchange difference	—	(1)
At June 30	28	61

12. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Cost		
Buildings	2,492	2,491
Leasehold improvements	5,606	4,291
Plant and equipment	99	91
Furniture and fixtures, other equipment and motor vehicles	12,955	12,278
Construction in progress	277	832
Total Cost	21,429	19,983
Less: Accumulated depreciation	(13,341)	(12,501)
	8,088	7,482

12. Property and Equipment (Continued)

The movements in accumulated depreciation are as follows:

	June 30, 2015	June 30, 2014
	(in US$'000)	
As at January 1	12,501	11,860
Exchange differences	2	(369)
Acquisition of a subsidiary	—	110
Expense for the period	841	529
Disposals	(3)	(124)
As at June 30	13,341	12,006

Depreciation for the period ended June 30, 2015 and 2014 is approximately US$841,000 and US$529,000 respectively.

13. Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	June 30, 2015	June 30, 2014
	(in US$'000)	
Cost		
As at January 1	1,720	1,761
Exchange differences	—	(55)
As at June 30	1,720	1,706
Accumulated amortisation		
As at January 1	284	253
Exchange differences	—	(8)
Amortisation charge	19	19
As at June 30	303	264
Net book value		
As at June 30	1,417	1,442

14. Goodwill and other intangible asset

Goodwill consisted of the followings:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Goodwill		
—acquisition of HHL in 2009	407	407
—acquisition of Hutchison Sinopharm in 2014	3,023	3,023
	3,430	3,430

The goodwill arising from acquisition of HHL is included in the Prescription Drugs business under the Commercial Platform. The goodwill arising from the acquisition of Hutchison Sinopharm is included in the Consumer Health business under the Commercial Platform.

The Group performed its most recent annual impairment test as of December 31, 2014 and concluded that goodwill was not impaired.

Other intangible asset consisted of the following:

	June 30,	
	2015	2014
	(in US$'000)	
GSP License		
Cost		
As at January 1	714	—
Addition	—	708
Exchange differences	—	—
As at June 30	714	708
Accumulated amortisation		
As at January 1	48	—
Amortisation charge	36	12
As at June 30	84	12
Net book value		
As at June 30	630	696

The GSP license arose from the acquisition of Hutchison Sinopharm (see Note 4), is recorded at fair value, and is amortized on a straight-line basis over its estimated useful life of 10 years. The amortization expense for the six month ended June 30, 2015 and 2014 is approximately US$36,000 and US$12,000 respectively.

14. Goodwill and other intangible asset (Continued)

The estimated aggregate amortization expense for each of the next five years as of June 30, 2015 is as follows:

	GSP License
	(in US$'000)
2015	36
2016	71
2017	71
2018	71
2019	71

15. Investments in equity investees

	June 30, 2015	December 31, 2014
	(in US$'000)	
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	62,188	55,753
Shanghai Hutchison Pharmaceuticals Limited	47,740	39,158
Nutrition Science Partners Limited	10,835	12,823
Others	240	244
	121,003	107,978

Particulars regarding the principal equity investees are as disclosed in Note 2.

All of the equity investees are private companies and there is no quoted market price available for their shares.

Summarized financial information for the significant equity investees HBYS, SHPL and NSPL are as follows:

(i) Summarized balance sheet

	Commercial Platform				Innovation Platform	
	Consumer health		Prescription drugs		Drug R&D	
	HBYS		SHPL		NSPL	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
			(in US$'000)			
Current assets	**148,325**	144,129	**86,994**	77,566	**3,493**	8,548
Non-current assets	**84,186**	73,042	**90,240**	65,608	**30,000**	30,000
Current liabilities	**(87,676)**	(84,850)	**(61,425)**	(52,052)	**(11,822)**	(12,903)
Non-current liabilities	**(16,593)**	(17,013)	**(26,738)**	(19,216)	**—**	—
Net assets	**128,242**	115,308	**89,071**	71,906	**21,671**	25,645

15. Investments in equity investees (Continued)

(ii) Summarized statement of operations

	Commercial Platform				Innovation Platform	
	Consumer health		Prescription drugs		Drug R&D	
	HBYS		SHPL		NSPL[(a)]	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(in US$'000)					
Revenue	**125,878**	134,088	**103,934**	91,041	**—**	**—**
Gross profit	**57,424**	53,378	**74,574**	65,524	**—**	**—**
Depreciation and amortisation	**(1,818)**	(1,576)	**(1,437)**	(1,358)	**—**	**—**
Interest income	**379**	541	**128**	90	**—**	**—**
Finance cost	**(95)**	(104)	**—**	—	**—**	**—**
Income/(loss) before taxation	**23,054**	20,452	**27,741**	24,376	**(3,974)**	**(11,361)**
Income tax expense and non-controlling interest	**(3,827)**	(3,272)	**(4,251)**	(3,635)	**—**	**—**
Net income/(loss)	**19,227**	17,180	**23,490**	20,741	**(3,974)**	**(11,361)**

Notes:

(a) NSPL only incurs research and development expenses in 2015 and 2014.

(b) The net loss for other individual immaterial equity investees for the six months period ended June 30, 2015 and 2014 is approximately US$7,000 and US$4,000 respectively.

(iii) Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of investment in equity investees as follows:

	Commercial Platform				Innovation Platform	
	Consumer health		Prescription drugs		Drug R&D	
	HBYS		SHPL		NSPL	
	2015	2014	2015	2014	2015	2014
	(in US$'000)					
Opening net assets at 1 January	**115,308**	109,986	**71,906**	66,476	**25,645**	42,457
Net income/(loss)	**19,227**	17,180	**23,490**	20,741	**(3,974)**	(11,361)
Dividend declared	**(6,410)**	(6,359)	**(6,410)**	(19,077)	**—**	—
Other comprehensive income and non-controlling interests	**117**	(3,499)	**85**	(2,384)	**—**	—
Closing net assets at 30 June	**128,242**	117,308	**89,071**	65,756	**21,671**	31,096
Group's share of net assets	**64,121**	58,670	**44,536**	32,878	**10,835**	15,548
Goodwill	**—**	—	**3,204**	3,179	**—**	—
Non-controlling interests	**(1,933)**	(1,661)	**—**	—	**—**	—
Carrying value	**62,188**	57,009	**47,740**	36,057	**10,835**	15,548

15. Investments in equity investees (Continued)

(iii) Reconciliation of summarized financial information (Continued)

The equity investees had the following operating lease commitments and capital commitments:

(a) The equity investees lease various factories and offices under non-cancellable operating lease agreements. Future aggregate minimum payments under non-cancellable operating leases as of the date indicated are as follows:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Not later than one year	935	1,109
Later than one year and not later than five years	431	548
Total minimum lease payments	1,366	1,657

(b) Capital commitments

The equity investees had the following capital commitments:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	46,701	61,311

16. Accounts payable

Substantially all the accounts payables due to third parties are denominated in RMB and US$ and due within one year from the end of the reporting period.

The carrying value of accounts payables approximates their fair values due to their short-term maturities.

17. Other payables, accruals and advance receipts

Other payables, accruals and advance receipts consisted of the following:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Research and development expenses	4,230	5,963
Accrued salaries and benefits	3,375	4,140
Accrued expenses	6,335	3,938
Other payables	2,175	1,802
Payments in advance from customers	162	564
Deferred government incentives	1,007	580
Current tax liabilities	162	122
Accrued interest	176	50
	17,622	17,159

18. Bank borrowings

Summarized below are the bank borrowings as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Non-current (note (i))	26,923	26,923
Current (note (ii))	23,718	26,282
	50,641	53,205

The weighted average interest rate for bank borrowings outstanding as of June 30, 2015 and December 31, 2014 was 1.39% and 1.60% respectively.

Notes:

(i) In December 2011, the Group, through its subsidiary, entered into a three-year term loan with a bank in the aggregate principal amount of HK$210,000,000 (US$26,923,000). The term loan bears interest at 1.5% over the Hong Kong Interbank Offered Rate ("HKIBOR") per annum.

In June 2014, the term loan was refinanced into a four-year term loan which bears interest at 1.35% over the HKIBOR per annum. Accordingly, the term loan is recorded as a long-term bank borrowing as at June 30, 2015 and December 31, 2014.

The term loan is unsecured and guaranteed by Hutchison Whampoa Limited, the Company's ultimate holding company as at June 30, 2015 and December 31, 2014. A fee is paid to Hutchison Whampoa Limited for the guarantee of the Company (see note 25).

(ii) As at June 30, 2015 and December 31, 2014 the Group, through its subsidiary has revolving loans of HK$185,000,000 (US$23,718,000) and HK$205,000,000 (US$26,282,000) which bears interest at 1.05% over HKIBOR per annum and is unsecured. The borrowing was classified as current borrowing as of June 30, 2015 and December 31, 2014.

18. Bank borrowings (Continued)

(iii) The carrying amount of all bank borrowings approximates their fair values. The fair value of bank borrowings was estimated using a discounted cash flows approach (an income approach) using market based observable inputs. Such fair value measurements are considered Level 2 under the fair value hierarchy.

(iv) The Group's bank borrowings are repayable as follows:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Within 1 year	23,718	26,282
Between 2 and 5 years	26,923	26,923
	50,641	53,205

(v) The carrying amounts of the Group's bank borrowings are denominated in HK$.

(vi) As at June 30, 2015 and December 31, 2014, the Group has unused credit facilities in relation to revolving loan facilities of US$6,282,000 and US$8,526,000 respectively.

19. Commitments and Contingencies

(a) Lease commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. Future aggregate minimum payments under non-cancellable operating leases as of the date indicated are as follows:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Not later than one year	990	980
Later than one year and not later than five years	1,005	1,425
Later than five years	262	329
Total minimum lease payments	2,257	2,734

(b) Capital commitments

The Group had the following capital commitments:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Property, plant and equipment		
Contracted but not provided for	545	719

In addition, the Group has also undertaken to provide the necessary additional funds for NSPL to finance its ongoing operations.

20. Redeemable non-controlling interests

In November and December 2010, the Company and HMHL entered into subscription and shareholders' agreements ("SSAs") with Mitsui & Co., Ltd. ("Mitsui") and SBCVC Fund III Company Limited ("SBCVC") (collectively as "preferred shareholders"), whereby HMHL issued 7,390,029 redeemable convertible preferred shares ("Preferred Shares") for an aggregate consideration of US$20.1 million. The Preferred Shares on an as-if-converted basis represented approximately 19.76% of the aggregate issued and outstanding share capital of HMHL on the closing date.

In October 2012, the Company repurchased all 2,815,249 preferred shares from SBCVC. The remaining 4,574,780 Preferred Shares of US$12.5 million held by Mitsui, which represents approximately 12.24% of HMHL on a fully diluted basis, remained outstanding throughout 2015 and 2014.

In May and June 2014, the Company and HMHL further entered into two subscription agreements with Mitsui, whereby HMHL issued a total of 672,713 HMHL's redeemable convertible preferred shares to Mitsui and 4,825,418 HMHL's ordinary shares to the Company for an aggregate consideration of US$25.0 million.

The preferred shares held by Mitsui represent approximately 12.24% of HMHL on a fully diluted basis throughout the period ended June 30, 2015 and year ended December 31, 2014.

Conversion

Pursuant to the SSAs signed in 2010, the preferred shareholders have the right to convert all of their preferred shareholdings into ordinary shares of HMHL at the initial conversion ratio of 1:1 at any time after the date of issuance of the preferred shares by issuing a notice to the Company. However, these preferred shares could be convertible into a higher conversion ratio of ordinary shares of HMHL when there is occurrence of a pre-defined adjustment event ("Adjustment Event").

In July 2012, Mitsui and SBCVC agreed for an extension of triggering of Adjustment Event. The Company assessed whether this amendment to the preferred shares was an extinguishment or a modification in accordance with its accounting policy. It was concluded that it was modification, rather than extinguishment, of preferred shares as the change in fair value of the preferred shares due to the amendment was less than 10%.

In March 2013, as a result of the satisfaction of the required condition, the conversion ratio of the preferred shares is no longer subject to change due to Adjustment Event.

Redemption

Preferred shareholders have the right to require the Company to redeem the preferred shares if HMHL fails to be listed after the company valuation of HMHL has reached above the specified threshold. The redemption price shall be based on such preferred shareholder's share of the actual valuation that would have been obtained in the event of occurrence of such pre-defined condition.

Liquidation

In the event of a winding-up of HMHL, any other return of capital (other than a redemption or purchases by HMHL of its own shares), or a trade sale, where the distribution proceeds are equal to or less than the post money valuation at preferred shares issuance, then such proceeds shall be distributed first to repay preferred shareholders up to the subscription price and any accrued and unpaid dividend before any

20. Redeemable non-controlling interests (Continued)

Liquidation (Continued)

surplus will be distributed to the holders of the ordinary shares. However, if the distribution proceeds are greater than the post money valuation at preferred shares issuance, distribution proceeds will be distributed equally and rateably among the preferred and ordinary shareholders.

Accounting for preferred shares

The preferred shares issued by HMHL are redeemable upon occurrence of an event that is not solely within the control of the issuer. Accordingly, the redeemable preferred shares issued by HMHL are recorded and accounted for as redeemable non-controlling interests outside of permanent equity in the Group's consolidated balance sheets. The Group recorded accretion when it is probable that the preferred shares will become redeemable. The accretion, which increases the carrying value of the redeemable non-controlling interests, is recorded against retained earnings, or in the absence of retained earnings, by recording against the additional paid-in capital. During the six months ended June 30, 2015 and 2014, HMHL recorded an accretion of US$42,015,000 and US$8,334,000 respectively to the preferred shares based on such preferred shareholder's share of the estimated valuation of HMHL.

21. Ordinary share

The Company is authorized to issue 75,000,000 ordinary shares.

A summary of ordinary shares transactions (in thousands) is as follows:

	June 30, 2015	June 30, 2014
Balance as at January 1	53,076	52,051
Issuances in relation to exercise of options	224	845
Balance as at June 30	53,300	52,896

Each ordinary share is entitled to one vote. The holders of ordinary share are also entitled to receive dividends whenever funds are legally available and when declared by the board of directors.

22. Share-based Compensation

(i) Share-based Compensation of the Company

The Company conditionally adopted a share option scheme (the "HCML Share Option Scheme") on June 4, 2005 which was amended on March 21, 2007. Pursuant to the HCML Share Option Scheme, the Board of Directors of the Company may, at its discretion, offer any employees and directors (including Executive and Non-executive Directors but excluding Independent Non-executive Directors) of the Company, holding companies of the Company and any of their subsidiaries or affiliates, and subsidiaries or affiliates of the Company share options to subscribe for shares of the Company.

The aggregate number of shares issuable under the HCML Share Option Scheme is 2,560,606 ordinary shares. As of June 30, 2015, the number of shares authorized but unissued was 21,700,036 ordinary shares.

22. Share-based Compensation (Continued)

(i) Share-based Compensation of the Company (Continued)

Share options granted are generally subject to a three-year or four-year vesting schedule, depending on the nature and the purpose of the grant, Share options subject to three-year vesting schedule, in general, vest 33.3% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 33.3% every subsequent year; Share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of ten years from the date of grant.

On December 17, 2014, 593,686 share options were cancelled with the consent of the relevant eligible employees in exchange for 1,187,372 new share options of a subsidiary in (see note (ii)). This was accounted for as the modification of the original share options granted which did not result in any incremental fair value to the Group.

As of June 30, 2015, no outstanding share options were held by non-employees.

	Number of options	Weighted-average Exercise Price in £ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (in £'000)
Outstanding at January 1, 2014	2,303,317	3.67		
Granted	—	—		
Exercised	(1,025,228)	1.59		
Cancelled	(593,686)	6.10		
Outstanding at December 31, 2014	684,403	4.67	6.79	6,423
Granted	—	—		
Exercised	(223,288)	3.72		
Cancelled	—	—		
Outstanding at June 30, 2015	461,115	5.13	6.99	5,314
Vested and expected to vest at December 31, 2014	569,931	4.39	6.38	5,506
Vested and exercisable at December 31, 2014	419,878	3.91	5.64	4,256
Vested and expected to vest at June 30, 2015	352,143	4.82	6.53	4,164
Vested and exercisable at June 30, 2015	234,090	4.18	5.54	2,919

The Company uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The Company calculated its expected volatility with reference to the historical volatility prior to the issuances of share options.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United Kingdom because the Company's shares are currently listed on AIM and denominated in pounds sterling (£).

22. Share-based Compensation (Continued)

(i) Share-based Compensation of the Company (Continued)

Dividends

The Company has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

In determining the fair value of share options granted, the following assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options			
	September 11, 2006	**May 18, 2007**	**June 24, 2011**	**December 20, 2013**
Value of each share option	£ 0.553	£ 0.533	£ 1.841	£ 3.154
Significant inputs into the valuation model:				
Exercise price	£ 1.715	£ 1.535	£ 4.405	£ 6.100
Share price at effective date of grant	£ 1.7325	£ 1.5400	£ 4.3250	£ 6.1000
Expected volatility	38.8%	40.0%	46.6%	36.0%
Risk-free interest rate	4.766%	5.098%	3.130%	3.160%
Contractual life of share options	10 years	10 years	10 years	10 years
Expected dividend yield	0%	0%	0%	0%

The following table summarizes the Company's share option values:

	Six Months Ended June 30,	
	2015	**2014**
	(in £'000, except per share data)	
Weighted-average grant-date fair value of option share granted during the period	—	—
Total intrinsic value of share options exercised	1,675	6,135
Total intrinsic value of share options exercised in US$'000	2,613	10,217

Share-based Compensation Expense

The Company recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's condensed consolidated statements of operations:

	Six Months Ended June 30,	
	2015	**2014**
	(in US$'000)	
Research and development expenses	—	250
Administrative expenses	12	128
	12	378

22. Share-based Compensation (Continued)

(i) Share-based Compensation of the Company (Continued)

As of June 30, 2015, the total unrecognized compensation cost was $96,000, net of estimated forfeiture rate, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 2.47 years.

Cash received from option exercises under the share option plan for the six months ended June 30, 2015 and 2014 was approximately US$1,248,000 and US$1,556,000 respectively.

(ii) Share-based Compensation of a subsidiary

HMHL adopted a share option scheme on August 6, 2008 (as amended on April 15, 2011) and another share option scheme on December 17, 2014 (collectively the "HMHL Share Option Schemes"). Pursuant to the HMHL Share Option Schemes, any employee or director of HMHL and any of its holding company, subsidiaries and affiliates is eligible to participate in the HMHL Share Option Schemes subject to the discretion of the board of directors of HMHL.

The aggregate number of shares issuable under the HMHL Share Option Schemes is 9,622,414 ordinary shares. As of June 30, 2015, the number of shares authorized but unissued was 157,111,839 ordinary shares.

Share options granted are generally subject to a four-year vesting schedules, depending on the nature and the purpose of the grant, share options subject to four-year vesting schedule, in general, vest 25% upon the first anniversary of the vesting commencement date as defined in the grant letter, and 25% every subsequent year. No outstanding share options will be exercisable or subject to vesting after the expiry of a maximum of six or nine years from the date of grant.

On December 20, 2013, 2,485,189 share options were cancelled with the consent of the relevant eligible employees in exchange for new share options of HCML vesting over a period of four years and/or cash consideration payable over a period of four years. This was accounted for as the modification of the original share options which did not result in any incremental fair value to the Group for the options in exchange for new share options under HCML Share Option Scheme. For the share options in exchange for cash consideration, this was accounted for as a modification in classification that changed the award's classification from equity-settled to a liability.

A liability has been recognized on the modification date taking into account the requisite service period that has been provided by the employee at the modification date. As at June 30, 2015, US$0.8 million and US$1.1 million have been recognized in other non-current liabilities and other payables respectively. As at December 31, 2014, US$0.7 million and US$1.0 million were recognized in other non-current liabilities and other payables respectively.

22. Share-based Compensation (Continued)

(ii) Share-based Compensation of a subsidiary (Continued)

A summary of the subsidiary's share option activity and related information follows:

	Number of options	Weighted-average Exercise Price in US$ per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (in US$'000)
Outstanding at January 1, 2014	538,420	2.03		
Granted	1,187,372	7.82		
Exercised	(80,924)	1.50		
Lapsed	(393,212)	2.15		
Cancelled	(39,884)	1.70		
Outstanding at December 31, 2014	1,211,772	7.71	8.84	134
Granted	—	—		
Exercised	(924)	2.36		
Lapsed	—	—		
Cancelled	—	—		
Outstanding at June 30, 2015	1,210,848	7.71	8.34	9,828
Vested and expected to vest at December 31, 2014	769,714	7.75	8.88	54
Vested and exercisable at December 31, 2014	316,393	7.48	8.55	107
Vested and expected to vest at June 30, 2015	769,400	7.75	8.39	6,215
Vested and exercisable at June 30, 2015	320,319	7.42	7.98	2,695

The subsidiary uses the Binomial model to estimate the fair value of share option awards using various assumptions that require management to apply judgment and make estimates, including:

Volatility

The subsidiary calculated its expected volatility with reference to the historical volatility of the comparable companies for the past five to six years as of the valuation date.

Risk-free Rate

The risk-free interest rates used in the Binomial model are with reference to the sovereign yield of the United States.

Dividends

The subsidiary has not declared or paid any dividends and does not currently expect to do so in the foreseeable future, and therefore uses an expected dividend yield of zero in the Binomial model.

22. Share-based Compensation (Continued)

(ii) Share-based Compensation of a subsidiary (Continued)

In determining the fair value of share options granted, the following weighted-average assumptions were used in the Binomial model for awards granted in the periods indicated:

	Effective date of grant of share options		
	August 2, 2010	April 18, 2011	December 17, 2014
Value of each share option	US$0.258	US$0.923	US$3.490
Significant inputs into the valuation model:			
Exercise price	US$2.240	US$2.360	US$7.820
Share price at effective date of grant	US$1.030	US$2.048	US$7.820
Expected volatility (note)	49.0%	55.0%	48.4%
Risk-free interest rate	2.007%	2.439%	1.660%
Contractual life of share options	6 years	6 years	9 years
Expected dividend yield	0%	0%	0%

The following table summarizes the subsidiary's share option values:

	Six Months Ended June 30,	
	2015	2014
	(in US$'000, except per share data)	
Weighted-average fair value of option share granted during the period	—	—
Total intrinsic value of share options exercised	5	—

Share-based Compensation Expense

The subsidiary recognizes compensation expense for only the portion of options expected to vest, on a graded vesting approach over the requisite service period. The following table presents share-based compensation expense included in the Group's condensed consolidated statements of operations:

	Six Months Ended June 30,	
	2015	2014
	(in US$'000)	
Research and development	263	129

As of June 30, 2015, the total unrecognized compensation cost was $543,000, net of estimated forfeiture rate and will be recognized on a graded vesting approach over the weighted-average remaining service period of 2.47 years.

Cash received from option exercises under the share option plan for the six months ended June 30, 2015 and 2014 was US$2,000 and nil respectively.

23. Revenue from license and collaboration agreements—third parties

The Group recognized revenue from license and collaboration agreements—third parties of US$23.2 million and US$8.7 million for the six months ended June 30, 2015 and 2014 respectively, which consisted of the following:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(in US$'000)	
Milestone revenue	10,000	5,000
Amortisation of upfront payment	546	397
Research and development services	12,702	3,299
	23,248	8,696

These are mainly from 3 license and collaboration agreements as follows:

License and collaboration agreement with Eli Lilly

On October 8, 2013, the Group entered into a licensing, co-development and commercialization agreement in China with Eli Lilly ("Lilly") relating to fruquintinib, a targeted oncology therapy for the treatment of various types of solid tumors. In accordance with terms of the agreement, the Group will potentially receive a series of payments of up to US$86.5 million, including upfront payments and development and regulatory approval milestones. Should fruquintinib be successfully commercialized in China, the Group would receive tiered royalties based on certain percentage of net sales. Development costs after the first development milestone are shared between the Group and Lilly.

Following execution of the agreement, the Group received a non-refundable, up-front payment of US$6.5 million.

Supplemental to the main agreement, the Group also signed an option agreement which grants Lilly an exclusive option to expand the fruquintinib rights beyond Hong Kong and China. The option agreement further sets out certain milestone payments and royalty rates that apply in the event the option is exercised on a global basis. However, these are subject to further negotiation should the option be exercised on a specific territory basis as opposed to a global basis. The option was not considered to be a separate deliverable in the arrangement as it was considered to be substantive.

As at June 30, 2015, the option has not been exercised by Lilly.

The license rights to fruquintinib, delivered at the inception of the arrangement, did not have stand-alone value apart from the other deliverables in the arrangement which include the development services, the participation in the joint steering committee and the manufacturing of active pharmaceutical ingredients during the development phase. The non-refundable up-front payment was deferred and is being recognized rateably over the development period which has been estimated to end in 2018. The Group recognizes milestone revenue relating to the deliverables in the agreement as a single unit of accounting using the milestone method.

The Group recognized US$10.0 million milestone revenues in relation to this contract during the period ended June 30, 2015. The Group also recognized US$0.5 million and US$0.4 million as revenue from amortisation of the upfront payment during the periods ended June 30, 2015 and 2014, respectively.

23. Revenue from license and collaboration agreements—third parties (Continued)

License and collaboration agreement with Eli Lilly (Continued)

In addition, the Group recognized US$10.6 million for the provision of research and development services for the period ended June 30, 2015.

License and collaboration agreement with AstraZeneca

On December 21, 2011, the Group and AstraZeneca ("AZ") entered into a global licensing, co-development, and commercialization agreement for Volitinib (name subsequently changed to 'savolitinib'), a novel targeted therapy and a highly selective inhibitor of the c-Met receptor tyrosine kinase for the treatment of cancer.

Under the terms of the agreement, development costs for savolitinib in China will be shared between the Group and AZ, with the Group continuing to lead the development in China. AZ will lead and pay for the development of savolitinib for the rest of the world. The Group received a non-refundable upfront payment of US$20.0 million upon the signing of the agreement and will receive up to US$120.0 million contingent upon the successful achievement of clinical development and first sale milestones. The agreement also contains possible significant future commercial sale milestones and up to double-digit percentage royalties on net sales. Following execution of the agreement, the Group received milestone payment of US$5.0 million in July 2013, and a further US$5.0 million in 2014.

The license right to develop savolitinib in the rest of the world was delivered to AZ at the inception of the arrangement. Such license had stand-alone value apart from the other deliverables in the arrangement which include the development of savolitinib in China and the participation in the joint steering committee. The non-refundable up-front payment was allocated to (a) the license to develop savolitinib in the rest of the world, which was recognized at inception and (b) the research and development services for which amount allocated has been deferred and is being recognized rateably over the development period which is expected to be end in 2021.

The Group recognizes milestone revenue relating to the deliverables, other than the license to develop and commercialise savolitinib in the rest of the world, in the agreement as a single unit of accounting using the milestone method. The Group did not recognize any milestone income for the period ended June 30, 2015 but US$5 million was recognized for the period ended June 30, 2014. In addition, the Group recognized US$2.1 million and US$3.3 million for the provision of research and development services for the periods ended June 30, 2015 and 2014 respectively.

License and collaboration agreement with Ortho-McNeil-Janssen

After the original research and development alliance agreement entered in December 2008, the Group modified the original arrangement and entered into a new research and development alliance agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. ("Janssen") on June 2, 2010 for the discovery and development of novel small-molecule therapeutics against a target in the area of inflammation/immunology. The original agreement signed in December 2008 was terminated and superseded by the new agreement.

Under the terms of the 2010 agreement, the Group will provide drug discovery activities in order to assess whether the selected compound meets certain criteria specified in the agreement. Upon selected compound meeting the specified criteria, Janssen has the option to elect to receive from the Group an exclusive worldwide license to develop and commercialize the compound. If Janssen opts not to do so, the

23. Revenue from license and collaboration agreements—third parties (Continued)

License and collaboration agreement with Ortho-McNeil-Janssen (Continued)

Group may choose to further pursue clinical development of drug compounds from the discovery programme through the demonstration of clinical proof-of-concept. Upon the success in achieving the clinical proof-of-concept, Janssen may again opt to take over further development and obtain the exclusive rights to develop and commercialize drug compounds from the Group's programme. The option did not have any significant value at inception of the arrangement.

The Group received from Janssen an up-front, non-refundable payment of US$3.0 million upon execution of the 2008 agreement, which was carried forward to cover discovery activities under the 2010 agreement.

The Group recognized the upfront payment of US$3.0 million over the drug discovery period under the initial agreement signed in 2008. Upon signing of the 2010 agreement, the portion of revenue that had not been recognized under the 2008 agreement was adjusted to be recognized over the remaining drug discovery period under the terms of the 2010 agreement to September 2012. The Group received US$1.0 million in 2011 following confirmation of selected compound meeting sustainable lead criteria and a further US$6.0 million in 2013 when the selected compound met development candidate criteria as specified in the agreement.

The Group did not recognize any milestone income for the period ended June 30, 2015 and 2014.

On August 13, 2015, the Group received a notice from Janssen to terminate the license and collaboration agreement between HMPL and Janssen dated June 2, 2010 for the discovery and development of novel small molecule therapeutics against a target in the area of inflammation/ immunology. Please refer to subsequent events in Note 32.

24. Government incentives

The Group receives government grants from the PRC Government (including the National level and Shanghai province). These grants are given in support of drug research and development activities and are conditional upon i) the Group spending a predetermined budget cost, regardless of success or failure of the research and development projects and ii) achievement of certain stages of research and development projects being approved by relevant PRC government authority. These government grants are subject to ongoing reporting and monitoring by the PRC Government over the period of the grant.

Government incentives which are deferred and recognized in the statement of operations over the period necessary to match them with the costs that they are intended to compensate are recognized in other payable, accruals and advance receipts (Note 17) and will be refundable to the PRC Government if the related research and development projects are suspended. During the six months ended June 30, 2015 and 2014, the Group received government grants of US$1,192,000 and US$124,000 respectively.

The government grants recorded as a reduction to research and development expenses for the six months ended June 30, 2015 and 2014 was US$360,000 and US$96,000 respectively.

25. Significant related party transactions

The Group has the following significant transactions during the period with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(in US$'000)	
Sales of goods to		
—Indirect subsidiaries of CK Hutchison	4,772	3,969
Income from provision of research and development services		
—Equity investees	2,362	2,463
Purchase of goods from		
—A non-controlling shareholder of a subsidiary	5,750	3,101
—Equity investees	3,950	582
	9,700	3,683
Providing consultancy services to		
—An equity investees	—	38
Rendering of marketing services from		
—Indirect subsidiaries of CK Hutchison	465	296
—An equity investee	1,919	—
	2,384	296
Rendering of management service from		
—An indirect subsidiary of CK Hutchison	422	495
Interest paid to		
—An immediate holding company	68	52
—A non-controlling shareholder of a subsidiary	42	—
	110	52
Guarantee fee on bank loan to		
—A subsidiary of CK Hutchison	234	234

25. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	June 30, 2015	December 31, 2014
	(in US$'000)	
Accounts receivable from related parties:		
—Indirect subsidiaries of CK Hutchison (note (i))	2,807	1,922
—An equity investee (note (i))	448	262
	3,255	2,184
Accounts payable due to related parties:		
—A non-controlling shareholder of a subsidiary (note (i))	4,820	2,190
—An equity investee (note (i))	478	—
	5,298	2,190
Amounts due from related parties:		
—A subsidiary of CK Hutchison (note (i))	109	107
—Equity investees (note (i) and (vi))	2,458	1,176
—Loan to an equity investee (note (ii))	5,000	5,000
	7,567	6,283
Amounts due to related parties:		
—Immediate holding company (note (iii))	9,814	8,694
—An indirect subsidiary of CK Hutchison (note (i))	22	22
—A equity investee (note (i))	2,027	—
	11,863	8,716
Non-controlling shareholders:		
—Loan from a non-controlling shareholder of a subsidiary (note (iv))	579	579
—Loan from a non-controlling shareholder of a subsidiary (note (v))	2,550	2,550
—Interest payable due to a non-controlling shareholder of a subsidiary	61	19
	3,190	3,148
Deferred income:		
—An equity investee (note (vi))	2,404	—

Notes:

(i) Other balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(ii) Loan to an equity investee is unsecured, interest-bearing (with waiver of interest).

25. Significant related party transactions (Continued)

(iii) Amount due to immediate holding company is unsecured, interest-bearing and repayable on demand. The carrying value of amount due to immediate holding company approximates its fair value due to its short-term maturities.

(iv) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest-bearing (with waiver of interest) and is recorded in other non-current liabilities.

(v) Loan from a non-controlling shareholder of a subsidiary is unsecured, interest-bearing (with waiver of interest) and is recorded in other non-current liabilities. US$2,250,000 was repaid during the period ended June 30, 2014.

(vi) Deferred income represents amount recognized from granting of promotion and marketing rights. 50% of the amount is received during the period ended June 30, 2015 and the remaining 50% balance to be received is recorded in amounts due from related parties: equity investees.

26. Income Taxes

Income tax expense is based on the Group's estimate of the annual effective income tax rate expected for the full financial year. The estimated annual income tax rate used for the year ended December 31, 2014 is 14%. The estimated annual income tax rate used for the six months ended June 30, 2015 is 14%.

Subsidiaries where ordinary losses are expected for the full financial year and where no benefits are expected to be recognized from those losses are excluded from the computation of the overall estimated annual effective income tax rate. A full valuation allowance against these tax losses resulted in a separate effective tax rate of nil.

Tax on undistributed earnings of equity investees, which give rise to deferred tax liabilities, was calculated on a separate estimated annual effective tax rate of 5%.

27. (Losses)/Earnings per Share

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the net (loss)/income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Periodic accretion to preferred shares of HMHL (note 20) is recorded as deductions to consolidated net income to arrive at net (loss)/income available to the Company's ordinary shareholders for purpose of calculating the consolidated basic (losses)/earnings per share.

	Six Months Ended June 30,	
	2015	2014
Weighted average number of outstanding ordinary shares in issue	53,172,325	52,173,678
Net income from continuing operations	18,064	6,921
Net income attributable to non-controlling interests	(2,115)	(1,716)
Accretion on redeemable non-controlling interests	(42,015)	(8,334)
Net loss for the period attributable to ordinary shareholders of the Company—Continuing operations (US$'000)	(26,066)	(3,129)
Income from discontinued operations, net of tax	—	1,750
Net income attributable to non-controlling interests	—	(875)
Net income for the period attributable to ordinary shareholders of the Company—Discontinued operations (US$'000)	—	875
	(26,066)	(2,254)
(Losses)/Earnings per share attributable to ordinary shareholders of the Company		
—Continuing operations (US$ per share)	(0.49)	(0.06)
—Discontinued operations (US$ per share)	—	0.02
	(0.49)	(0.04)

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share is calculated by dividing net (loss)/income attributable to ordinary shareholders, by the weighted average number of ordinary and dilutive ordinary share equivalent outstanding during the period. Dilutive ordinary share equivalents include shares issuable upon the exercise or settlement of share-based awards issued by the Company and its subsidiaries using the treasury stock method and the ordinary shares issuable upon the conversion of the preferred shares issued by HMHL using the if-converted method. The computation of diluted (losses)/earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect.

In determining the impact from share-based awards and convertible preferred shares issued by HMHL, the Company first calculates the diluted earnings per share at the HMHL and includes in the numerator of consolidated (losses)/earnings per share the amount based on the diluted (losses)/earnings per share of HMHL multiplied by the number of shares owned by the Company. If dilutive, the percentage

27. (Losses)/Earnings per Share (Continued)

(b) Diluted (losses)/earnings per share (Continued)

of the Company's shareholding in HMHL was calculated by treating convertible preferred shares issued by HMHL as having been converted at the beginning of the period and share options as having been exercised during the period.

For purpose of calculating (losses)/earnings per share for discontinued operations, the same number of potential ordinary shares used in computing the diluted per share amount for income from continuing operations was used in computing diluted per share amount for income from discontinued operations.

	Six Months Ended June 30,	
	2015	2014
Diluted (losses)/earnings per share attributable to ordinary shareholders of the Company		
—Continuing operations (US$ per share)	(0.49)	(0.06)
—Discontinued operations (US$ per share)	—	0.02
	(0.49)	(0.04)

For the periods ended June 30, 2015 and 2014, the preferred shares issued by HMHL and share options issued by the Company and HMHL were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

Diluted loss per share from continuing operations for the periods ended June 30, 2015 and 2014 was the same as the basic loss per share from continuing operations.

In July 2015, the Company signed a subscription agreement with Mitsui to exchange 5,247,493 convertible preference shares held by Mitsui in HMHL for 3,214,404 new ordinary shares of the Company, which changed the number of ordinary shares outstanding of the Company after the period ended June 30, 2015. Please refer to subsequent event in Note 32.

28. Segment reporting

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. Details of the operating segment are disclosed in Note 1. The performance of the reportable segments are assessed based on two measurements: (a) earnings or losses of subsidiaries before interest income, finance costs and tax expenses ("EBIT/(LBIT)") and (b) equity in earnings of equity investees, net of tax.

28. Segment reporting (Continued)

The segment information for the reportable segments is as follows:

Continuing operations

	For the six months ended June 30, 2015						
	Innovation platform	Commercial platform					
	Drug R&D	Prescription Drugs	Consumer health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Revenue from external customers	26,927	45,409	1,742	8,407	82,485	—	82,485
EBIT/(LBIT)	3,997	322	(60)	534	4,793	(4,547)	246
Interest income	18	73	21	—	112	206	318
Equity in earnings of equity investees, net of tax	(1,991)	11,745	9,614	—	19,368	—	19,368
Operating profit/(loss)	2,024	12,140	9,575	534	24,273	(4,341)	19,932
Finance costs	—	—	—	42	42	665	707
Additions to non-current assets (other than financial instrument and deferred tax assets)	1,436	9	1	—	1,446	—	1,446
Depreciation/amortization	821	47	5	3	876	20	896
Income tax expense	—	116	—	46	162	999	1,161

	As at June 30, 2015						
	Innovation platform	Commercial platform					
	Drug R&D	Prescription Drugs	Consumer health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Total assets	51,840	92,362	69,071	8,257	221,530	15,772	237,302
Property, plant and equipment	7,939	59	31	6	8,035	53	8,088
Leasehold land	1,417	—	—	—	1,417	—	1,417
Goodwill	—	3,023	407	—	3,430	—	3,430
Intangible asset	—	630	—	—	630	—	630
Investments in equity investees	11,075	47,740	62,188	—	121,003	—	121,003

28. Segment reporting (Continued)

	For six months ended June 30, 2014						
	Innovation platform	Commercial platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Revenue from external customers	12,949	12,841	1,338	6,218	33,346	—	33,346
EBIT/(LBIT)	(1,109)	100	(84)	465	(628)	(4,218)	(4,846)
Interest income	18	6	6	2	32	155	187
Equity in earning investees, net of tax	(5,682)	10,370	8,590	—	13,278	—	13,278
Operating profit/(loss)	(6,773)	10,476	8,512	467	12,682	(4,063)	8,619
Finance costs	—	10	57	—	67	677	744
Additions to non-current assets (other than financial instrument and deferred tax assets)	1,856	781	1	—	2,638	5	2,643
Depreciation/amortization	516	15	3	4	538	22	560
Income tax expense	—	39	—	57	96	858	954

	As at December 31, 2014						
	Innovation platform	Commercial platform					
	Drug R&D	Prescription Drugs	Consumer Health		Reportable segment		
	PRC	PRC	PRC	Hong Kong	Total	Unallocated	Total
				(in US$'000)			
Total assets	43,061	68,650	70,731	7,050	189,492	21,342	210,834
Property, plant and equipment	7,305	62	36	8	7,411	71	7,482
Leasehold land	1,436	—	—	—	1,436	—	1,436
Goodwill	—	3,023	407	—	3,430	—	3,430
Intangible asset	—	666	—	—	666	—	666
Investments in equity investees	13,067	39,158	55,753	—	107,978	—	107,978

Segment information for discontinued operation has been disclosed in Note 5.

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated attributable to (a) sales between Prescription Drugs and Consumer Health businesses with the PRC of US$74,000 and nil and (b) sales within Consumer Health business from Hong Kong to the PRC of US$1,283,000 and US$105,000 for the periods ended June 30, 2015 and 2014.

Sales between segments are carried out at mutually agreed terms.

There was a customer under Innovative Platform who accounted for 26% of the Group's revenue for the period ended June 30, 2015. For the period ended June 30, 2014, there was a customer under Innovative Platform who accounted for 25% of the Group's revenue.

28. Segment reporting (Continued)

Unallocated expenses mainly represent corporate expenses which include corporate employee benefit expenses. Unallocated assets mainly comprise cash at banks.

A reconciliation of EBIT for reportable segments to net income from continuing operations is provided as follows:

	June 30, 2015	June 30, 2014
	(in US$'000)	
EBIT	4,793	(628)
Unallocated expenses	(4,547)	(4,218)
Interest income	318	187
Equity income from equity investees, net of tax	19,368	13,278
Finance costs	(707)	(744)
Income taxes	(1,161)	(954)
Net income from continuing operations	18,064	6,921

29. Litigation

From time to time, the Group may become involved in litigation relating to claims arising from the ordinary course of business. The Group believes that there are currently no claims or actions pending against the Group, the ultimate disposition of which could have a material adverse effect on the Group's results of operations, financial condition or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. When an unfavourable outcome occurs, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavourable outcome occurs, and potentially in future periods.

30. Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries in China only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries in China are required to make certain appropriation of net after-tax profits or increase in net assets to the statutory surplus fund prior to payment of any dividends. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each subsidiary. As a result of these and other restrictions under PRC laws and regulations, the Company's subsidiaries in China are restricted in their ability to transfer their net assets to the Group in terms of cash dividends, loans or advances, which restricted portion amounted to US$79,745,000 and US$79,441,000 as at June 30, 2015 and December 31, 2014 respectively. Even though the Group currently does not require any such dividends, loans or advances from the PRC subsidiaries, for working capital and other funding purposes, the Group may in the future require additional cash resources from the Company's subsidiaries in China due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends to make distributions to shareholders.

Further, the Group has certain investments in equity investees, of which the Group's equity in unremitted earnings amounted to US$56,562,000 and US$51,244,000 as at June 30, 2015 and December 31, 2014 respectively.

31. Additional information: condensed financial statements of the Company

Regulation S-X require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The Company's investments in its subsidiaries are accounted for under the equity method of accounting. Such investment is presented on separate condensed balance sheets of the Company as "Investments in subsidiaries" and the Company's shares of the profit or loss of subsidiaries are presented as "Equity in earnings of subsidiaries" in the statements of operations. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this condensed financial information of parent company, the Company has continued to reflect its share, based on its proportionate interest, of the losses of a subsidiary regardless of the carrying value of the investment even though the Company is not legally obligated to provide continuing support or fund losses.

The Company's subsidiaries did not pay any dividends to the Company for the periods presented.

Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures represent supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group.

31. Additional information: condensed financial statements of the Company (Continued)

Condensed Balance Sheets
(in US$'000)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	1	1
Prepayments	1	1
Amounts due from related parties	75	76
Total current assets	77	78
Non-current asset:		
Investments in subsidiaries	107,525	90,004
Total assets	107,602	90,082
Liabilities and shareholders' equity		
Current liabilities		
Other payables and accruals	1,610	599
Amounts due to subsidiaries	8,216	9,055
Amounts due to immediate holding company	287	241
Total liabilities	10,113	9,895
Redeemable non-controlling interests	83,050	41,036
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized; 53,299,964 and 53,076,676 shares issued at June 30, 2015 and December 31, 2014	53,300	53,076
Other shareholders' equity	(38,861)	(13,925)
Total Company's shareholders' equity	14,439	39,151
Total liabilities and shareholders' equity	107,602	90,082

Condensed Statements of Operations
(Unaudited, in US$'000, except share and per share data)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating expenses		
Administrative	(1,466)	(639)
Other expense		
Interest expense	(2)	(1)
Equity in earnings of subsidiaries, net of tax	17,417	6,720
Net income	15,949	6,080

31. Additional information: condensed financial statements of the Company (Continued)

Consolidated Statements of Cash Flows
(Unaudited, in US$'000)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating activities		
Net income	15,949	6,080
Adjustments to reconcile net income to net cash used in operating activities		
Equity in earnings of subsidiaries, net of tax	(17,417)	(6,720)
Changes in operating assets and liabilities		
Amounts due to subsidiaries	411	532
Other payables and accruals	1,011	53
Amounts due to immediate holding company	46	55
Net cash from operating activities and net increase in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	1	1
Cash and cash equivalents at end of period	1	1

32. Subsequent events

The Group evaluated subsequent events through August 21, 2015.

(a) On July 23, 2015, the Group entered into a subscription agreement (the "Agreement") with Mitsui, the redeemable non-controlling interest, under which the Group has issued 3,214,404 new ordinary shares in the Company ("Subscription Shares") valued at approximately US$84 million in exchange for these convertible preferred shares with carrying value of US$84 million (including accretion adjustment up to July 23, 2015). The transaction was completed on July 23, 2015 and as a result of this transaction, Mitsui will hold approximately 5.69% of the enlarged share capital of the Company. The outstanding balance of redeemable non-controlling interests was extinguished with the corresponding increase in the Company's shares amount.

(b) On August 13, 2015, the Group received a notice from Janssen to terminate the license and collaboration agreement between HMPL and Janssen dated June 2, 2010 for the discovery and development of novel small molecule therapeutics against a target in the area of inflammation/immunology. All licenses and other rights granted by the Group to Janssen shall terminate upon the termination date, which is 90 days after the notice of termination. The Group does not have any outstanding liabilities or obligations due to/from Janssen in relation to the termination of the agreement.

SHANGHAI HUTCHISON PHARMACEUTICALS LIMITED

Independent Auditor's Report

To the Board of Directors and Shareholders of Shanghai Hutchison Pharmaceuticals Limited

We have audited the accompanying consolidated financial statements of Shanghai Hutchison Pharmaceuticals Limited and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shanghai Hutchison Pharmaceuticals Limited and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
August 21, 2015

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Income Statement
For the years ended December 31, 2014 and 2013

	Note	2014	2013
		(US$'000)	(US$'000)
Revenue		154,703	138,160
Cost of sales		(44,738)	(37,993)
Gross profit		109,965	100,167
Selling expenses		(70,239)	(64,933)
Administrative expenses		(8,932)	(9,524)
Other net operating income	5	711	910
Operating profit	6	31,505	26,620
Finance costs		—	—
Profit before taxation		31,505	26,620
Taxation charge	7	(5,103)	(4,196)
Profit for the year		26,402	22,424

The accompanying notes are an integral part of these consolidated financial statements

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2014 and 2013

	2014	2013
	(US$'000)	(US$'000)
Profit for the year	26,402	22,424
Other comprehensive (loss)/income that has been or may be reclassified subsequently to profit or loss:		
Exchange translation differences	(1,895)	1,856
Total comprehensive income for the year (net of tax)	24,507	24,280

The accompanying notes are an integral part of these consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Statement of Financial Position
As at December 31, 2014 and 2013

	Note	2014 (US$'000)	2013 (US$'000)
ASSETS			
Non-current assets			
Property, plant and equipment	9	52,954	20,413
Leasehold land	10	11,989	12,557
Deferred tax assets	11	2,788	2,676
		67,731	35,646
Current assets			
Inventories	12	35,136	24,386
Trade and bills receivables	13	18,938	19,293
Other receivables, prepayments and deposits		2,495	1,149
Cash and cash equivalents	14	16,575	30,331
Bank deposits maturing over three months	14	2,299	—
		75,443	75,159
Total assets		143,174	110,805
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	33,382	33,382
Reserves		38,524	33,094
Total equity		71,906	66,476
LIABILITIES			
Current liabilities			
Trade payables	16	9,937	10,742
Other payables, accruals and advance receipts	17	33,031	25,876
Bank borrowings	18	7,476	—
Current tax liabilities		1,608	1,866
		52,052	38,484
Non-current liabilities			
Deferred income	19	4,703	5,025
Bank borrowings	18	14,513	820
		19,216	5,845
Total liabilities		71,268	44,329
Net current assets		23,391	36,675
Total assets less current liabilities		91,122	72,321
Total equity and liabilities		143,174	110,805

The accompanying notes are an integral part of these consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Statement of Changes in Equity
For the years ended December 31, 2014 and 2013

	Share capital	Exchange reserve	General reserves	Retained earnings	Total equity
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
As at January 1, 2013	10,605	5,820	862	42,071	59,358
Profit for the year	—	—	—	22,424	22,424
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	1,856	—	—	1,856
Total comprehensive income for the year (net of tax)	—	1,856	—	22,424	24,280
Issue of shares (Note 15)	22,777	—	—	(22,777)	—
Transfer between reserves	—	—	48	(48)	—
Dividend paid	—	—	—	(17,162)	(17,162)
As at December 31, 2013	33,382	7,676	910	24,508	66,476

	Share capital	Exchange reserve	General reserves	Retained earnings	Total equity
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
As at January 1, 2014	33,382	7,676	910	24,508	66,476
Profit for the year	—	—	—	26,402	26,402
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	(1,895)	—	—	(1,895)
Total comprehensive income for the year (net of tax)	—	(1,895)	—	26,402	24,507
Transfer between reserves	—	—	15	(15)	—
Dividend paid	—	—	—	(19,077)	(19,077)
As at December 31, 2014	33,382	5,781	925	31,818	71,906

The accompanying notes are an integral part of these consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Statement of Cash Flows
For the years ended December 31, 2014 and 2013

	Note	2014	2013
		(US$'000)	(US$'000)
Cash flows from operating activities			
Net cash generated from operations	20	20,114	28,869
Interest received		257	197
Income tax paid		(5,494)	(4,290)
Net cash generated from operating activities		14,877	24,776
Cash flows from investing activities			
Purchase of property, plant and equipment		(27,655)	(6,608)
Government grants relating to property, plant and equipment received		559	3,428
Proceeds from disposal of property, plant and equipment		19	36
Increase in bank deposits maturing over three months		(2,299)	—
Net cash used in investing activities		(29,376)	(3,144)
Cash flows from financing activities			
Interest expense paid		(691)	(9)
Dividend paid to shareholders		(19,077)	(17,162)
New short-term bank borrowings		7,476	—
New long-term bank borrowings		13,693	820
Net cash generated from/(used in) financing activities		1,401	(16,351)
Net (decrease)/ increase in cash and cash equivalents		(13,098)	5,281
Cash and cash equivalents at January 1		30,331	24,196
Exchange differences		(658)	854
Cash and cash equivalents at December 31		16,575	30,331
Analysis of cash and bank balances			
—Cash and cash equivalents	14	16,575	30,331
—Bank deposits maturing over three months	14	2,299	—
	14	18,874	30,331

The accompanying notes are an integral part of these consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Notes To The Accounts

1. General information

Shanghai Hutchison Pharmaceuticals Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in manufacturing and selling of prescription drugs products. The Group has manufacturing plants in the People's Republic of China (the "PRC") and sells mainly in the PRC.

The Company was incorporated in the PRC on April 30, 2001 as a Chinese-Foreign Equity joint ventures and the approved operation period is 50 years. The Company is jointly controlled by Shanghai Hutchison Chinese Medicine (HK) Investment Limited ("SHCM(HK)IL") and Shanghai Traditional Chinese Medicine Co., Ltd ("SHTCML").

These consolidated accounts are presented in thousands of United States dollars ("US$000"), unless otherwise stated.

2. Summary of significant accounting policies

The consolidated accounts of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These consolidated accounts have been prepared under the historical cost convention.

During the year of 2014, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual periods beginning January 1, 2014. The adoption of these new and revised standards, amendments and interpretations did not have any material effects on the Group's results of operations or financial position.

New Standards and interpretations not yet adopted.

At the date of authorisation of these consolidated accounts, the following standards, amendments and interpretations were in issue but not yet effective and have not been early adopted by the Group:

IAS 1 (Amendments)(2)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)(2)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)(2)	Agriculture: Bearer Plants
IAS 19 (Amendments)(1)	Defined Benefit Plans: Employee Contributions
IAS 27 (Amendments)(2)	Equity Method in Separate Financial Statements
IFRS 9(3)	Financial Instruments
IFRS 10 and IAS 28 (Amendments)(2)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)(2)	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)(2)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14(2)	Regulatory Deferral Accounts
IFRS 15(3)	Revenue from Contracts with Customers
Annual improvements 2010-2012 cycle(1)	Improvements to IFRSs
Annual improvements 2011-2013 cycle(1)	Improvements to IFRSs
Annual improvements 2012-2014 cycle(2)	Improvements to IFRSs

(1) Effective for the Group for annual periods beginning on or after January 1, 2015.

(2) Effective for the Group for annual periods beginning on or after January 1, 2016.

(3) Effective for the Group for annual periods beginning on or after January 1, 2018.

2. Summary of significant accounting policies (Continued)

The adoption of standards, amendments and interpretations listed above in future periods is not expected to have any material effect on the Group's result of operations and financial position, except for the adoption of IFRS 15 which the management is still assessing the impact.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to December 31.

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Subsidiary

The subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the consolidated accounts, the subsidiary is accounted for as described in Note 2(a) above.

The subsidiary is fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(c) Foreign currency translation

Items included in the accounts of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiary is Renminbi ("RMB") whereas the consolidated accounts are presented in United States dollars ("US dollars"), which is the Company's presentation currency.

The accounts of the Company and its subsidiary are translated into the Company's presentation currency using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised directly in the consolidated statement of comprehensive income.

(d) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2. Summary of significant accounting policies (Continued)

(d) Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their costs less accumulated impairment losses over their estimated useful lives. The principal annual rates are as follows:

Buildings	30 years
Leasehold improvements	Over the unexpired period of the lease or 5 years, whichever is shorter
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	5 years

The assets' useful lives are reviewed and adjusted if appropriate, at end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount of the relevant assets and are recognised in income statement.

(e) Construction in progress

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2(d).

(f) Leasehold land

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land is calculated on a straight-line basis over the period of the land use rights.

(g) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will generate future economic benefits by considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised (if any) are amortised on a straight-line basis over the period of expected benefit not exceeding five years. The capitalised development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount.

Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the income statement.

2. Summary of significant accounting policies (Continued)

(h) Impairment of non-financial assets

Assets that have an indefinite useful life such as goodwill or intangible assets not ready to use are not subject to amortisation and are tested for impairment annually. Assets are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

2. Summary of significant accounting policies (Continued)

(m) Financial liabilities and equity instruments (Continued)

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(n) Current and deferred income tax

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Employee benefits

(i) Pension plans

The employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group required to make monthly contributions to the plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations to all existing and future retired employees payable under the plan described above. Other than the monthly contributions, the Group has no further obligations for the payment of the retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(q) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

2. Summary of significant accounting policies (Continued)

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(s) Government incentives

Incentives from government are recognised at their fair values where there is a reasonable assurance that the incentives will be received and all attached conditions will be complied with.

Government incentives relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and credited to the income statement on a straight-line basis over the expected lives of the related assets.

(t) Revenue and income recognition

Revenue comprises the fair value of the consideration received and receivable for the sales of goods in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue is shown net of value-added tax, returns, volume rebates and discounts after eliminated sales within the Group. Revenue and income are recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(u) Segment information

The Group has one reporting segment which is manufacturing and selling of prescription drug products. All segment assets are located in the PRC. The Group's chief operating decision-maker reviews the consolidated results of the Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, cash flow interest rate risk and liquidity risk. The Group does not use any derivative financial instruments for speculative purpose.

(i) Credit risk

The carrying amounts of cash at bank, bank deposits, trade receivables (including bills receivables) and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of the counterparty in relation to its financial assets.

Substantially all of the Group's cash at banks are deposited in major financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution.

Bills receivables are mostly to be settled by reputable banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

Management makes periodic assessment on the recoverability of trade receivables and other receivables. The Group's historical experience in collection of receivables falls within the recorded allowances. It is considered that adequate provision for uncollectible receivables has been made.

(ii) Cash flow interest rate risk

The Group has no significant interest-bearing assets except for bank deposits and cash at bank, details of which have been disclosed in Note 14. The Group's exposure to interest rate risk is mainly attributable to its bank borrowing, which bear interest at fixed rate. Therefore, the fixed rate interest bearing financial liabilities makes the Group expose to fair value interest rate risk. Details of the Group's bank borrowings are disclosed in Note 18. Since it bears the interest at fixed rate, the Group considers the exposure to the change in interest rate risk is insignificant and no sensitivity analysis has been performed.

(iii) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding when necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

As at December 31, 2013 and 2014, the Group's current financial liabilities were due for settlement contractually within twelve months.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' return that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the liabilities to assets ratio. This ratio is calculated as total liabilities divided by total assets as shown on the consolidated statement of financial position.

Currently, it is the Group's strategy to maintain a reasonable liabilities to assets ratio. The liabilities to assets ratio as at December 31, 2014 and 2013 were as follows:

	2014	2013
	(US$'000)	(US$'000)
Total liabilities	71,268	44,329
Total assets	143,174	110,805
Liabilities to assets ratio	49.8%	40.0%

The increase in the liabilities to assets ratio was primarily resulted from the increase of bank borrowings during 2014.

(c) Fair value estimation

The Group does not have any financial assets or liabilities which are carried at fair value. The carrying amounts of the Group's current financial assets, including cash and bank balances, trade and bills receivables, and other receivables and current financial liabilities, including trade payables, other payables and accruals and bank borrowings approximate their fair values due to their short-term maturities. The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Note 2 includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(a) Useful lives of property, plant and equipment

The Group has made substantial investments in property, plant and equipment. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

(b) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the relevant counterparty and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment is recognised in the period in which such estimate has been changed.

(c) Deferred income tax

Deferred tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities against which the deductible temporary differences and the carry forward of unused tax losses and tax credits can be utilised. Where the final outcomes are different from the estimations, such differences will impact the carrying amount of deferred tax in the period in which such determination is made.

5. Other net operating income

	2014 (US$'000)	2013 (US$'000)
Interest income	257	197
Net foreign exchange (losses)/gains	(15)	24
Other operating income	469	689
	711	910

6. Operating profit

Operating profit is stated after charging the following:

	2014 (US$'000)	2013 (US$'000)
Auditor's remuneration	47	45
Amortisation of leasehold land	276	277
Cost of inventories recognised as expense	27,504	22,584
Depreciation of property, plant and equipment	2,375	2,335
Provision for inventories (note)	263	902
Loss on disposal of property, plant and equipment	38	70
Operating lease rentals in respect of land and buildings	599	570
Research and development expense	(69)	1,403
Employee benefit expenses (note 8)	42,605	38,580

Note:

Provision for inventories amounted to US$263,000 (2013: US$902,000) mainly related to obsolete or damaged inventories.

7. Taxation charge

	2014 (US$'000)	2013 (US$'000)
Current tax	5,279	4,708
Deferred income tax (Note 11)	(176)	(512)
Taxation charge	5,103	4,196

(a) The Company has been granted High and New Technology Enterprise status. Accordingly, the Company is subjected to a preferential income tax rate of 15.0% up to 2016 (2013:15.0%) and is renewable subject to approval by the relevant authorities.

(b) The taxation charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's weighted average tax rate as follows:

	2014 (US$'000)	2013 (US$'000)
Profit before taxation	31,505	26,620
Tax calculated at the domestic tax rates of respective companies	7,876	6,655
Expenses not deductible for tax purposes	873	1,108
Temporary differences	(195)	(784)
(Over)/under provision in prior years	(17)	38
Tax effect on concession	(3,434)	(2,821)
Taxation charge	5,103	4,196

7. Taxation charge (Continued)

The weighted average tax rate calculated at the domestic tax rates of the respective companies for the year was 25.0% (2013:25.0%).

The effective tax rate for the year was 16.2% (2013:15.8%).

8. Employee benefit expenses

	2014 (US$'000)	2013 (US$'000)
Wages, salaries and bonuses	28,910	24,734
Pension costs—defined contribution plans	3,377	2,946
Staff welfare	10,318	10,900
	42,605	38,580

Approximately US$16,971,000 (2013: US$14,507,000) is included in cost of sales.

9. Property, plant and equipment

	Buildings situated in the PRC (US$'000)	Leasehold improvements (US$'000)	Plant and equipment (US$'000)	Furniture and fixtures, other equipment and motor vehicles (US$'000)	Construction in progress (US$'000)	Total (US$'000)
Cost						
As at January 1, 2014	23,619	1,730	13,467	3,718	6,074	48,608
Exchange differences	(554)	(43)	(318)	(91)	(298)	(1,304)
Additions	—	9	243	671	34,683	35,606
Disposals	—	—	(309)	(108)	—	(417)
Transfers	—	460	577	76	(1,113)	—
As at December 31, 2014	23,065	2,156	13,660	4,266	39,346	82,493
Accumulated depreciation and impairment						
As at January 1, 2014	15,821	1,145	9,003	2,226	—	28,195
Exchange differences	(375)	(29)	(213)	(54)	—	(671)
Charge for the year	939	252	677	507	—	2,375
Disposals	—	—	(268)	(92)	—	(360)
As at December 31, 2014	16,385	1,368	9,199	2,587	—	29,539
Net book value						
As at December 31, 2014	6,680	788	4,461	1,679	39,346	52,954

9. Property, plant and equipment (Continued)

	Buildings situated in the PRC	Leasehold improvements	Plant and equipment	Furniture and fixtures, other equipment and motor vehicles	Construction in progress	Total
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
Cost						
As at January 1, 2013	22,881	1,595	13,473	3,180	1,106	42,235
Exchange differences	738	53	429	109	104	1,433
Additions	—	143	272	613	5,589	6,617
Disposals	—	(148)	(1,335)	(194)	—	(1,677)
Transfers	—	87	628	10	(725)	—
As at December 31, 2013	23,619	1,730	13,467	3,718	6,074	48,608
Accumulated depreciation and impairment						
As at January 1, 2013	14,322	1,045	9,255	1,936	—	26,558
Exchange differences	477	39	291	66	—	873
Charge for the year	1,022	190	727	396	—	2,335
Disposals	—	(129)	(1,270)	(172)	—	(1,571)
As at December 31, 2013	15,821	1,145	9,003	2,226	—	28,195
Net book value						
As at December 31, 2013	7,798	585	4,464	1,492	6,074	20,413

During 2014, the finance cost of US$650,712 (2013: US$7,881) of bank borrowing was capitalised.

10. Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	2014	2013
	(US$'000)	(US$'000)
Cost		
As at January 1	14,057	13,618
Exchange differences	(328)	439
Additions	—	—
As at December 31	13,729	14,057
Accumulated amortisation		
As at January 1	1,500	1,181
Exchange differences	(36)	42
Amortisation charge	276	277
As at December 31	1,740	1,500
Net book value		
As at December 31	11,989	12,557

11. Deferred income tax

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Deferred tax assets		
— to be recovered within 12 months	2,123	2,056
— to be recovered after 12 months	665	620
	2,788	2,676

The movements in deferred income tax assets are as follows:

	2014 (US$'000)	2013 (US$'000)
At January 1	2,676	2,089
Exchange differences	(64)	75
Credited to the consolidated income statement		
—accrued expenses, provisions and depreciation allowances	176	512
At December 31	2,788	2,676

12. Inventories

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Raw materials	18,188	9,004
Work in progress	8,540	6,023
Finished goods	8,408	9,359
	35,136	24,386

13. Trade and bills receivables

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Trade receivables from third parties	8,661	7,495
Trade receivables from a related party (Note 22(b))	1,844	785
Bills receivables	8,433	11,013
	18,938	19,293

All the trade and bills receivables are denominated in RMB and are due within one year from the end of the reporting period.

The carrying value of trade and bills receivables approximates their fair values.

13. Trade and bills receivables (Continued)

Movements on the provision for trade receivables are as follows:

	2014 (US$'000)	2013 (US$'000)
At January 1	140	136
Provision	—	—
Exchange difference	(3)	4
At December 31	137	140

The impaired and provided receivables of US$137,000 (2013: US$140,000) are aged over 6 months.

14. Cash and bank balances

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Cash at bank and in hand (note (a))	16,094	30,331
Short-term bank deposits (note (b))	481	—
Bank deposits maturing over three months (note (b))	2,299	—
	18,874	30,331

Notes:

(a) The cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) The weighted average effective interest rate on 2014 bank deposits, with maturity ranging from 90 to 365 days, was 3.0% per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

15. Share capital

Registered and fully paid capital

	Nominal amount (US$'000)
Registered and fully paid:	
As at January 1, 2013	10,605
Capital contribution from shareholders (note)	22,777
As at December 31, 2013, January 1, 2014 and December 31, 2014	33,382

Note:

During 2013, the Company capitalised RMB141 million (equivalent to US$22,777,000) distributed retained profit as the registered capital. The total registered and fully paid capital increased from RMB88 million (equivalent to US$10,605) to RMB229 million (equivalent to US$33,382).

16. Trade payables

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Trade payables due to third parties	4,652	6,161
Trade payable due to a related party (Note 22(b))	5,285	4,581
	9,937	10,742

All the trade payables are denominated in RMB and due within one year from the end of the reporting period.

The carrying value of trade payables approximates their fair values due to their short-term maturities.

17. Other payables, accruals and advance receipts

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Other payables and accruals		
Accrued operating expenses	15,047	13,418
Accrued salaries	7,177	6,661
Other payables	10,008	4,867
	32,232	24,946
Advance receipts		
Payments in advance from customers	799	930
	33,031	25,876

18. Bank borrowings

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Bank borrowings		
Non-current (note (i))	14,513	820
Current (note (i))	7,476	—
Total borrowings	21,989	820
Weighted average effective interest rate (notes (ii))	6.25%	6.25%

Notes:

(i) The long-term and short-term bank borrowings are unsecured, interest-bearing, denominated in RMB and the carrying amount of the bank borrowings approximates their values.

(ii) The finance costs incurred in the course of drawdown of bank borrowings directly for the purpose of fixed assets requisition.

The Group's bank borrowings are repayable as follow:

	2014 (US$'000)	2013 (US$'000)
Within 1 year	7,476	—
Between 2 and 5 years	14,513	820
	21,989	820

19. Deferred income

	December 31 2014 (US$'000)	December 31 2013 (US$'000)
Deferred government incentives		
— Property, plant and equipment	4,552	4,194
— Research and development projects	151	831
	4,703	5,025

Deferred income represents government incentives of approximately US$4,552,000 (2013: US$4,194,000) received by the Group mainly in relation to property, plant and equipment.

20. Notes to the consolidated statement of cash flows

Reconciliation of profit for the year to net cash generated from operations:

	2014	2013
	(US$'000)	(US$'000)
Profit for the year	26,402	22,424
Adjustments for:		
Taxation charge	5,103	4,196
Amortisation of leasehold land	276	277
Provision for inventories	263	902
Depreciation on property, plant and equipment	2,375	2,335
Loss on disposal of property, plant and equipment	38	70
Interest income	(257)	(197)
Exchange differences	(291)	21
Operating profit before working capital changes	33,909	30,028
Changes in working capital:		
—increase in inventories	(11,013)	(7,853)
—decrease/(increase) in trade and bills receivables	355	(1,450)
—increase in other receivables, prepayments and deposits	(1,346)	(502)
—(decrease)/increase in trade payables	(805)	2,537
—increase in other payables, accruals and advance receipts	(105)	6,365
—decrease in deferred income	(881)	(256)
Net cash generated from operations	20,114	28,869

21. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	December 31 2014	December 31 2013
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	30,897	1,103

Capital commitment for property, plant and equipment contracted is mainly for the construction in progress of new plant of the Company.

21. Commitments (Continued)

(b) Operating lease commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	2014 (US$'000)	2013 (US$'000)
Not later than one year	410	372
Later than one year and not later than five years	340	134
	750	506

22. Significant related party transactions

Save as disclosed above, the Group has the following significant transactions during the year with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	2014 (US$'000)	2013 (US$'000)
Sales of goods to		
—a fellow subsidiary of SHTCML	17,880	17,458
—a fellow subsidiary of SHCM(HK)IL	2,408	—
	20,288	17,458
Purchase of goods from		
—a fellow subsidiary of SHTCML	13,035	12,428
Rendering of marketing services from		
—a fellow subsidiary of SHTCML	358	349
Rendering of research and development services from		
—a fellow subsidiary of SHCM(HK)IL	121	—
Rendering of consultancy services from		
—a fellow subsidiary of SHCM(HK)IL	38	325

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended December 31, 2013 and 2014.

22. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	December 31 2014	December 31 2013
	(US$'000)	(US$'000)
Trade receivables from a related party:		
—a fellow subsidiary of SHTCML (Note 13)(note)	1,844	785
Trade payable due to a related party:		
—a fellow subsidiary of SHTCML (Note 16)(note)	5,285	4,581
Other payable due to related parties:		
—SHTCML (note)	137	140
—Fellow subsidiaries of SHCM(HK)IL (note)	641	654
	778	794

Note:

Balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

23. Particulars of a principal subsidiary

Name	Place of establishment and operation	Nominal value of registered capital	Equity interest attributable to the Group As at December 31 2014	2013	Type of legal entity	Principal activities
Hutchison Heze Bio Resources & Technology Co., Limited	The PRC	RMB1,500,000	100%	—	Limited liability company	Agriculture & sales of Chinese herbs

Note:

As at December 31, 2014, Shanghai Shangyao Hutchison Whampoa GSP Company Limited has obtained its business license, while its paid-in capital was not yet injected by the Company.

Shanghai Hutchison Pharmaceuticals Limited
Condensed Consolidated Income Statement
For the six months ended June 30, 2015 and June 30, 2014

	Note	Six months ended June 30, 2015 (US$'000) (unaudited)	Six months ended June 30, 2014 (US$'000) (unaudited)
Revenue		103,934	91,041
Cost of sales		(29,360)	(25,517)
Gross profit		74,574	65,524
Selling expenses		(41,292)	(36,096)
Administrative expenses		(5,716)	(5,141)
Other net operating income	5	175	89
Operating profit	6	27,741	24,376
Finance costs		—	—
Profit before taxation		27,741	24,376
Taxation charge	7	(4,251)	(3,635)
Profit for the period		23,490	20,741

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Condensed Consolidated Statement of Comprehensive Income
For the six months ended June 30, 2015 and June 30, 2014

	Six months ended June 30,	
	2015	**2014**
	(US$'000)	**(US$'000)**
	(unaudited)	
Profit for the period	23,490	20,741
Other comprehensive income/(loss) that has been or may be reclassified subsequently to profit or loss:		
Exchange translation differences	85	(2,384)
Total comprehensive income for the period (net of tax)	23,575	18,357

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Condensed Consolidated Statement of Financial Position
As at June 30, 2015 and December 31, 2014

	Note	June 30, 2015	December 31, 2014
		(US$'000) (unaudited)	(US$'000)
ASSETS			
Non-current assets			
Property, plant and equipment	8	75,406	52,954
Leasehold land		11,851	11,989
Other intangible asset		2,284	—
Deferred tax assets		2,809	2,788
		92,350	67,731
Current assets			
Inventories	9	34,365	35,136
Trade and bills receivables	10	30,291	18,938
Other receivables, prepayments and deposits		2,842	2,495
Cash and cash equivalents		12,336	16,575
Bank deposits maturing over three months		5,050	2,299
		84,884	75,443
Total assets		177,234	143,174
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	33,382	33,382
Reserves		55,689	38,524
Total equity		89,071	71,906
LIABILITIES			
Current liabilities			
Trade payables	12	9,182	9,937
Other payables, accruals and advance receipts	13	39,703	33,031
Bank borrowings	14	11,397	7,476
Current tax liabilities		1,143	1,608
		61,425	52,052
Non-current liabilities			
Deferred income		4,613	4,703
Bank borrowings	14	22,125	14,513
		26,738	19,216
Total liabilities		88,163	71,268
Net current assets		23,459	23,391
Total assets less current liabilities		115,809	91,122
Total equity and liabilities		177,234	143,174

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Condensed Consolidated Statement of Changes In Equity
For the six months ended June 30, 2015 and June 30, 2014

	Share capital (US$'000)	Exchange reserve (US$'000)	General reserve (US$'000) (unaudited)	Retained earnings (US$'000)	Total equity (US$'000)
As at January 1, 2014	33,382	7,676	910	24,508	66,476
Profit for the period	—	—	—	20,741	20,741
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	(2,384)	—	—	(2,384)
Total comprehensive income for the period (net of tax)	—	(2,384)	—	20,741	18,357
Transfer between reserves	—	—	15	(15)	—
Dividend paid	—	—	—	(19,077)	(19,077)
As at June 30, 2014	33,382	5,292	925	26,157	65,756

	Share capital (US$'000)	Exchange reserve (US$'000)	General reserve (US$'000) (unaudited)	Retained earnings (US$'000)	Total equity (US$'000)
As at January 1, 2015	33,382	5,781	925	31,818	71,906
Profit for the period	—	—	—	23,490	23,490
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	85	—	—	85
Total comprehensive income for the period (net of tax)	—	85	—	23,490	23,575
Dividend paid	—	—	—	(6,410)	(6,410)
As at June 30, 2015	33,382	5,866	925	48,898	89,071

The accompanying notes are an integral part of these condensed consolidated financial statements.

Shanghai Hutchison Pharmaceuticals Limited
Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2015 and June 30, 2014

	Note	Six months ended June 30, 2015	Six months ended June 30, 2014
		(US$'000) (unaudited)	(US$'000) (unaudited)
Cash flows from operating activities			
Net cash generated from operations	14	22,629	12,467
Interest received		128	90
Income tax paid		(4,736)	(3,951)
Net cash generated from operating activities		18,021	8,606
Cash flows from investing activities			
Purchase of property, plant and equipment		(23,572)	(13,256)
Government grants relating to property, plant and equipment received		—	11
Proceeds from disposal of property, plant and equipment		—	5
Increase in bank deposits maturing over three months		(2,751)	(2,229)
Net cash used in investing activities		(26,323)	(15,469)
Cash flows from financing activities			
Interest expense paid		(1,056)	(95)
Dividend paid to shareholders		(6,410)	(19,077)
New short-term bank borrowing		3,921	2,361
New long-term bank borrowing		7,612	10,705
Net cash used in financing activities		4,067	(6,106)
Net decrease in cash and cash equivalents		(4,235)	(12,969)
Cash and cash equivalents at beginning of the period		16,575	30,331
Exchange differences		(4)	(810)
Cash and cash equivalents at end of the period		12,336	16,552
Analysis of cash and bank balances			
—Cash and cash equivalents		12,336	16,552
—Bank deposits maturing over three months		5,050	2,229
		17,386	18,781

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. General information

Shanghai Hutchison Pharmaceuticals Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in manufacturing and selling of prescription drugs products. The Group has manufacturing plants in Shanghai in the People's Republic of China (the "PRC") and sells mainly in the PRC.

The Company was incorporated in the PRC on April 30, 2001 as a Chinese-Foreign Equity joint ventures and the approved period is 50 years. The Company is jointly controlled by Shanghai Hutchison Chinese Medicine (HK) Investment Limited ("SHCM(HK)IL") and Shanghai Traditional Chinese Medicine Co., Ltd. ("SHTCML").

Items included in the accounts are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries is Renminbi ("RMB"), whereas the consolidated accounts are presented in United States dollars ("US dollars").

These condensed interim accounts are presented in thousands of United States dollars ("US$'000"), unless otherwise stated.

2. Summary of significant accounting policies

(a) Basis of preparation

The Company has a financial year end date of December 31. These unaudited condensed interim accounts for the six months ended June 30, 2014 and June 30, 2015 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period. These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended December 31, 2014 (the "2014 annual accounts"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

(b) Significant accounting policies

The condensed interim accounts have been prepared under the historical cost convention.

The accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the 2014 annual accounts, except for the adoption of the amendments and interpretations issued by the IASB that are the mandatory for annual periods beginning January 1, 2015.

The effect of the adoption of these amendments and interpretations was not material to the Group's results and financial position.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. Financial risk management and accounting estimates

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. There have been no changes in any risk management policies since last year end.

The preparation of interim accounts required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. In preparing these interim accounts, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2014 annual accounts.

4. Segment information

The Group has one reporting segment which is manufacturing and selling of prescription drugs products. All segment assets are located in the PRC. The Group's chief operating decision-maker reviews the consolidated results of the Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

5. Other net operating income

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Interest income	128	90
Net foreign exchange losses	—	(22)
Other operating income	47	21
	175	89

6. Operating profit

Operating profit is stated after charging the following:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Amortisation of leasehold land	137	138
Amortisation of promotion and marketing rights	120	—
Provision for inventories	1,555	803
Cost of inventories recognised as expense	20,287	17,748
Depreciation on property, plant and equipment	1,180	1,220
Loss on disposal of property, plant and equipment	—	13
Employee benefit expenses	23,902	20,781
Operating lease rentals in respect of land and buildings	325	290
Research and development expenses	733	462

Note:

Provision for inventories amounted to US$1,555,000 (June 30, 2014: US$803,000) mainly related to obsolete or damaged inventories.

7. Taxation charge

	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
Current tax	4,283	3,671
Deferred income tax	(32)	(36)
Taxation charge	4,251	3,635

The Company has been granted High and New Technology Enterprise status. Accordingly, the Company is subjected to a preferential income tax rate of 15% up to 2016 (June 30, 2014: 15%) and is renewable subject to approval by the relevant tax authorities.

8. Property, plant and equipment

	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
Net book value as at January 1	52,954	20,413
Additions	23,572	13,256
Disposal	—	(18)
Depreciation for the period	(1,180)	(1,220)
Exchange differences	60	(769)
Net book value as at June 30	75,406	31,662

During the period ended June 30, 2015, the finance cost of US$1,056,000 (June 30, 2014: US$95,000) of bank borrowing was capitalised.

9. Inventories

	June 30, 2015 (US$'000)	December 31, 2014 (US$'000)
Raw materials	17,582	18,188
Work in progress	9,120	8,540
Finished good	7,663	8,408
	34,365	35,136

10. Trade and bills receivables

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from third parties	15,285	8,661
Trade receivables from related parties (Note 17(b))	4,327	1,844
Bills receivables	10,679	8,433
	30,291	18,938

All the trade and bills receivables are denominated in RMB and are due within one year from the end of the reporting period.

The carrying value of trade and bills receivables approximates their fair values due to their short-term maturities.

11. Share capital

Registered and fully paid share capital

	Nominal amount
	(US$'000)
Registered and fully paid:	
As at January 1, 2014, June 30, 2014, January 1, 2015 and June 30, 2015	33,382

12. Trade payables

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade payables from third parties	5,097	4,652
Trade payables from a related party (Note 17(b))	4,085	5,285
	9,182	9,937

All the trade payables are denominated in RMB and due within one year from the end of the reporting period.

The carrying value of trade payables approximates their fair values due to their short-term maturities.

13. Other payables, accruals and advanced receipts

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Other payables and accruals		
Accrued operating expenses	19,313	15,047
Accrued salaries	6,262	7,177
Other payables	14,032	10,008
	39,607	32,232
Advanced receipts		
Payments in advance from customers	96	799
	39,703	33,031

14. Bank borrowings

The long-term and short-term bank borrowings are unsecured, interest-bearing, denominated in RMB and the carrying amount of the bank borrowings approximates their fair values.

The finance costs incurred in the course of drawdown of bank borrowings directly for the fixed assets requisition.

15. Notes to condensed consolidated statement of cash flows

Reconciliation of profit for the period to net cash generated from operations:

	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
Profit for the period	23,490	20,741
Adjustments for:		
Taxation charge	4,251	3,635
Amortisation of promotion and marketing rights	120	—
Amortisation of leasehold land	137	138
Provision for inventories	1,555	803
Depreciation of property, plant and equipment	1,180	1,220
Loss on disposal of property, plant and equipment	—	13
Interest income	(128)	(90)
Exchange differences	29	(386)
Operating profit before working capital changes	30,634	26,074
Changes in working capital:		
—(increase)/decrease in inventories	(784)	780
—increase in trade and bills receivables	(11,353)	(14,343)
—increase in other receivables, prepayments and deposits	(347)	(775)
—(decrease)/increase in trade payables	(755)	1,546
—increase/(decrease) in other payables, accruals and advance receipts	6,526	(875)
—(decrease)/increase in deferred income	(90)	60
—addition of promotion and marketing rights	(1,202)	—
Net cash generated from operations	22,629	12,467

16. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	June 30, 2015 (US$'000)	December 31, 2014 (US$'000)
Property, plant and equipment		
Contracted but not provided for	20,726	30,897

Capital commitment for property, plant and equipment contracted is mainly for the construction in progress of new plant of the Company.

16. Commitments (Continued)

(b) Operating lease commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Not later than one year	368	410
Later than one year and not later than five years	328	340
	696	750

17. Significant related party transactions

Save as disclosed above, the Group has the following significant transactions during the period with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Sales of goods to		
—A fellow subsidiary of SHTCML	9,039	10,815
—A fellow subsidiary of SHCM(HK)IL	3,295	581
	12,334	11,396
Purchase of goods from		
—A fellow subsidiary of SHTCML	6,415	6,717
Rendering of marketing services from		
—A fellow subsidiary of SHTCML	180	216
Rendering of research and development services from		
—A fellow subsidiary of SHCM(HK)IL	121	—
Rendering of consultancy services from		
—Fellow subsidiaries of SHCM(HK)IL	—	38
Provision of marketing services to		
—A fellow subsidiary of SHCM(HK)IL	2,063	—

No transactions have been entered into with the directors of the Company (being the key management personnel) during the periods ended June 30, 2014 and 2015.

17. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivable from related parties		
—A fellow subsidiary of SHCM(HK)IL (Note 10)(note)	2,506	—
—A fellow subsidiary of SHTCML (Note 10)(note)	1,821	1,844
	4,327	1,844
Trade payable due to a related party:		
—A fellow subsidiary of SHTCML (Note 12)(note)	4,085	5,285
Amounts due to related parties:		
—SHTCML (note)	137	137
—Fellow subsidiaries of SHCM(HK)IL (note)	1,913	641
	2,050	778

Note:

Balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

HUTCHISON WHAMPOA GUANGZHOU BAIYUNSHAN CHINESE MEDICINE COMPANY LIMITED

Independent Auditor's Report

To the Board of Directors and Shareholders of Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited

We have audited the accompanying consolidated financial statements of Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
August 21, 2015

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Income Statement
For the years ended December 31, 2014 and 2013

	Note	2014	2013
		(US$'000)	(US$'000)
Revenue	5	243,746	247,626
Cost of sales		(147,325)	(156,831)
Gross profit		96,421	90,795
Selling expenses		(51,303)	(49,214)
Administrative expenses		(23,488)	(22,885)
Other net operating income	6	3,344	1,940
Operating profit	7	24,974	20,636
Share of profits less losses after tax of:			
Joint venture		4	7
Associated companies		(34)	—
Finance costs	8	(139)	(183)
Profit before taxation		24,805	20,460
Taxation charge	9	(3,940)	(3,099)
Profit for the year		20,865	17,361
Attributable to:			
Equity holders of the Company		20,775	17,165
Non-controlling interests		90	196
		20,865	17,361

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2014 and 2013

	2014	2013
	(US$'000)	(US$'000)
Profit for the year	20,865	17,361
Other comprehensive (loss)/income that has been or may be reclassified subsequently to profit or loss:		
Exchange translation differences	(2,647)	3,301
Total comprehensive income for the year (net of tax)	18,218	20,662
Attributable to:		
Equity holders of the Company	18,208	20,357
Non-controlling interests	10	305
	18,218	20,662

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Statement of Financial Position
As at December 31, 2014 and 2013

	Note	2014 (US$'000)	2013 (US$'000)
ASSETS			
Non-current assets			
Property, plant and equipment	11	35,195	27,436
Leasehold land	12	11,772	5,699
Goodwill	13	9,385	9,610
Other intangible asset	14	865	1,018
Investment in a joint venture		178	179
Investments in associated companies		222	66
Other non-current assets	15	14,733	14,408
Deferred tax assets	16	1,034	836
		73,384	59,252
Current assets			
Inventories	17	43,570	37,784
Trade and bills receivables	18	43,102	45,044
Other receivables, prepayments and deposits		5,278	11,282
Cash and cash equivalents	19	31,004	31,895
Bank deposits maturing over three months	19	20,833	19,692
		143,787	145,697
Total assets		217,171	204,949

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Statement of Financial Position (Continued)
As at December 31, 2014 and 2013

	Note	2014 (US$'000)	2013 (US$'000)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	24,103	24,103
Reserves		87,403	82,483
		111,506	106,586
Non-controlling interests		3,802	3,400
Total equity		115,308	109,986
LIABILITIES			
Current liabilities			
Trade payables	21	29,868	30,851
Other payables, accruals and advance receipts	22	53,068	57,422
Bank borrowing	23	625	—
Current tax liabilities		1,289	582
		84,850	88,855
Non-current liabilities			
Deferred income	24	16,585	5,624
Deferred tax liabilities	16	428	484
		17,013	6,108
Total liabilities		101,863	94,963
Net current assets		58,937	56,842
Total assets less current liabilities		132,321	116,094
Total equity and liabilities		217,171	204,949

The accompanying notes are integral parts of these consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Statement of Changes in Equity
For the years ended December 31, 2014 and 2013

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Exchange reserve	General reserves	Retained earnings	Total		
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
As at January 1, 2013	24,103	11,967	131	56,490	92,691	2,901	95,592
Profit for the year	—	—	—	17,165	17,165	196	17,361
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:							
Exchange translation differences	—	3,192	—	—	3,192	109	3,301
Total comprehensive income for the year (net of tax)	—	3,192	—	17,165	20,357	305	20,662
Dividend paid	—	—	—	(6,462)	(6,462)	—	(6,462)
Capital contribution from a non-controlling shareholder of a subsidiary	—	—	—	—	—	194	194
As at December 31, 2013	24,103	15,159	131	67,193	106,586	3,400	109,986

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Exchange reserve	General reserves	Retained earnings	Total		
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
As at January 1, 2014	24,103	15,159	131	67,193	106,586	3,400	109,986
Profit for the year	—	—	—	20,775	20,775	90	20,865
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:							
Exchange translation differences	—	(2,567)	—	—	(2,567)	(80)	(2,647)
Total comprehensive (loss)/income for the year (net of tax)	—	(2,567)	—	20,775	18,208	10	18,218
Dividend paid	—	—	—	(12,820)	(12,820)	—	(12,820)
Changes in ownership interests in a subsidiary without change of control	—	—	—	(468)	(468)	392	(76)
As at December 31, 2014	24,103	12,592	131	74,680	111,506	3,802	115,308

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Consolidated Statement of Cash Flows
For the years ended December 31, 2014 and 2013

	Note	2014 (US$'000)	2013 (US$'000)
Cash flows from operating activities			
Net cash generated from operations	25(a)	22,148	38,642
Interest received		1,322	1,126
Finance costs paid		(37)	(40)
Income tax paid		(3,481)	(3,277)
Net cash generated from operating activities		19,952	36,451
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,597)	(4,070)
Proceeds from disposal of property plant and equipment		122	33
Increase in bank deposits maturing over three months		(1,141)	(19,692)
Acquisition of a subsidiary	25(b)	—	21
Purchase of leasehold land		(6,798)	(14,408)
Increase in government grant		11,589	1,199
Net cash used in investing activities		(7,825)	(36,917)
Cash flows from financing activities			
Dividend paid		(12,820)	(6,462)
New short-term bank loans		625	—
Repayment of short-term bank loans		—	(620)
Capital contribution from a non-controlling shareholder of a subsidiary		—	194
Purchase of additional interests in a subsidiary	25(c)	(76)	—
Net cash used in financing activities		(12,271)	(6,888)
Net decrease in cash and cash equivalents		(144)	(7,354)
Cash and cash equivalents at January 1,		31,895	38,121
Exchange differences		(747)	1,128
Cash and cash equivalents at December 31,		31,004	31,895
Analysis of cash and bank balances			
—Cash and cash equivalents	19	31,004	31,895
—Bank deposits maturing over three months	19	20,833	19,692
		51,837	51,587

The accompanying notes are an integral part of these consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Notes To The Accounts

1. General information

Hutchison Whampoa Guangzhou Baiyunshan Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in manufacturing and selling of over-the-counter drugs products. The Group has manufacturing plants in the People's Republic of China (the "PRC") and sell mainly in the PRC.

The Company was incorporated in the PRC on April 12, 2005 as a Chinese-Foreign Equity joint ventures. The Company is jointly controlled by Guangzhou Hutchison Chinese Medicine (HK) Investment Limited ("GZHCMHK") and Guangzhou Baiyunshan Pharmaceuticals Holdings Co., Ltd ("GBP").

These consolidated accounts are presented in thousands of United States dollars ("US$000"), unless otherwise stated.

2. Summary of significant accounting policies

The consolidated accounts of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These consolidated accounts have been prepared under the historical cost convention.

During the year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual periods beginning January 1, 2014. The adoption of these new and revised standards, amendments and interpretations did not have any material effects on the Group's results of operations or financial position.

New Standards and interpretations not yet adopted

At the date of authorisation of these consolidated accounts, the following standards, amendments and interpretations were in issue but not yet effective and have not been early adopted by the Group:

IAS 1 (Amendments)(2)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)(2)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)(2)	Agriculture: Bearer Plants
IAS 19 (Amendments)(1)	Defined Benefit Plans: Employee Contributions
IAS 27 (Amendments)(2)	Equity Method in Separate Financial Statements
IFRS 9(3)	Financial Instruments
IFRS 10 and IAS 28 (Amendments)(2)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)(2)	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)(2)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14(2)	Regulatory Deferral Accounts
IFRS 15(3)	Revenue from Contracts with Customers
Annual improvements 2010-2012 cycle(1)	Improvements to IFRSs
Annual improvements 2011-2013 cycle(1)	Improvements to IFRSs
Annual improvements 2012-2014 cycle(2)	Improvements to IFRSs

(1) Effective for the Group for annual periods beginning on or after July 1, 2015.
(2) Effective for the Group for annual periods beginning on or after January 1, 2016.
(3) Effective for the Group for annual periods beginning on or after January 1, 2018.

2. Summary of significant accounting policies (Continued)

The adoption of standards, amendments and interpretations listed above in future periods is not expected to have any material effect on the Group's result of operations and financial position, except for the adoption of IFRS 15 which the management is still assessing the impact.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and all its direct and indirect subsidiaries made up to December 31 and also incorporate the Group's interests in joint venture and associated companies, and on the basis set out in Notes 2(d) and 2(e) below.

The accounting policies of subsidiaries, joint venture and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Non-controlling interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the consolidated accounts, subsidiaries are accounted for as described in Note 2(a) above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

2. Summary of significant accounting policies (Continued)

(b) Subsidiaries (Continued)

Business combinations (Continued)

The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the aqcuiree acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

(c) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined to be a joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interest in joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to "share of profits less losses after tax of joint venture" in the income statement.

(e) Associated companies

An associate is an entity, other than a subsidiary or a joint venture, in which the Group has long-term equity interest and over which the Group is in position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and net assets of associates are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sales, in which case it is accounted for under IFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investment.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The board of directors, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2. Summary of significant accounting policies (Continued)

(g) Foreign currency translation

Items included in the accounts of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries, joint venture and associated companies is Renminbi ("RMB") whereas the consolidated accounts are presented in United States dollars ("US dollars"), which is the Company's presentation currency.

The accounts of the Company, subsidiaries, joint venture and associated companies are translated into the Company's presentation currency using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised directly in the consolidated statement of comprehensive income.

(h) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less accumulated impairment losses over their estimated useful lives. The principal annual rates are as follows:

Buildings	30 years
Leasehold improvements	Over the unexpired period of the lease or 5 years, whichever is shorter
Plant and equipment	10 years
Furniture and fixtures, other equipment and motor vehicles	5 years

The assets' useful lives are reviewed and adjusted if appropriate, at end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(n)).

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount of the relevant assets and are recognised in income statement.

(i) Construction in progress

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2. Summary of significant accounting policies (Continued)

(i) Construction in progress (Continued)

When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2(h).

(j) Leasehold land

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land is calculated on a straight-line basis over the period of the land use rights.

(k) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/business at the date of acquisition, or the excess of fair value of business over its fair value of the net identifiable assets injected to the Company upon its formation. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, the difference is recognised directly in the consolidated income statement.

Goodwill is retained at the carrying amount as a separate asset, and subject to impairment test annually and when there are indications that the carrying value may not be recoverable.

The profit or loss on disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill.

(l) Other intangible asset

The Group's other intangible assets mainly include distribution network. Other intangible asset has definite useful live and is carried at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate its costs over its estimated useful live of ten years.

(m) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will generate future economic benefits by considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised (if any) are amortised on a straight-line basis over the period of expected benefit not exceeding five years. The capitalised development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount.

Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the income statement.

2. Summary of significant accounting policies (Continued)

(n) Impairment of non-financial assets

Assets that have an indefinite useful life such as goodwill or intangible assets not ready to use are not subject to amortisation and are tested for impairment annually. Assets are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the income statement.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(p) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(q) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(s) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

2. Summary of significant accounting policies (Continued)

(s) Financial liabilities and equity instruments (Continued)

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(t) Current and deferred income tax

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. Summary of significant accounting policies (Continued)

(u) Employee benefits

(i) Pension plans

The employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group required to make monthly contributions to the plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations to all existing and future retired employees payable under the plan described above. Other than the monthly contributions, the Group has no further obligations for the payment of the retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

(v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(w) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(x) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(y) Government incentives

Incentives from government are recognised at their fair values where there is a reasonable assurance that the incentives will be received and all attached conditions will be complied with.

Government incentives relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and credited to the income statement on a straight-line basis over the expected lives of the related assets.

(z) Revenue and income recognition

Revenue comprises the fair value of the consideration received and receivable for the sales of goods in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue

2. Summary of significant accounting policies (Continued)

(z) Revenue and income recognition (Continued)

can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue is shown net of value-added tax, returns, volume rebates and discounts after eliminated sales within the Group. Revenue and income are recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Sales rebate

Certain sales rebate is provided to customers when their business performance for the whole year meets certain criteria. Sales rebate is recognised in profit or loss based on the management's estimation at each period end.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, cash flow interest rate risk and liquidity risk. The Group does not use any derivative financial instruments for speculative purpose.

(i) Credit risk

The carrying amounts of cash at bank, bank deposits, trade receivables (including bills receivables) and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of the counterparty in relation to its financial assets.

Substantially all of the Group's cash at banks and bank deposits are deposited in major financial institutions, which management believes are of high credit quality.

Bills receivables are mostly to be settled by reputable banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

Management makes periodic assessment on the recoverability of trade receivables and other receivables. The Group's historical experience in collection of receivables falls within the recorded allowances.

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) Cash flow interest rate risk

The Group has no significant interest-bearing assets except for cash at bank and bank deposits, details of which have been disclosed in Note 19. The Group's exposure to interest rate risk is a mainly attributable to its bank borrowing, which bear interest at fixed rate. Details of the Group's bank borrowings are disclosed in Note 23. Since it bears the interest at fixed rate, the Group considers the exposure to the change in interest rate risk is insignificant and no sensitivity analysis has been performed.

(iii) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding when necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

As at 31 December 2013 and 2014, the Group's current financial liabilities were due for settlement contractually within twelve months.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' return that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the liabilities to assets ratio. This ratio is calculated as total liabilities divided by total assets as shown on the consolidated statement of financial position.

Currently, it is the Group's strategy to maintain a reasonable liabilities to assets ratio. The liabilities to assets ratio as at 31 December 2014 and 2013 were as follows:

	2014	2013
	US$'000	US$'000
Total liabilities	101,863	94,963
Total assets	217,171	204,949
Liabilities to assets ratio	46.9%	46.3%

(c) Fair value estimation

The Group does not have any financial assets or liabilities which are carried at fair value. The carrying amounts of the Group's current financial assets, including cash and bank balances, trade receivables, other receivables and current financial liabilities, including trade payables, other payables and accruals and bank borrowing approximate their fair values due to their short-term maturities. The carrying amounts of the

3. Financial risk management (Continued)

(c) Fair value estimation (Continued)

Group's financial instruments carried at cost or amortised cost are not materially different from their fair values.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Note 2 include a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(a) Sales rebate

Certain sales rebate will be provided to customers when their business performance for the whole year meets certain criteria. The estimate of sales rebate during the year is based on sales transaction, settlement status, and etc. Changes in the performance at year end may cause the sales rebate estimation to change.

(b) Useful lives of property, plant and equipment

The Group has made substantial investments in property, plant and equipment. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

(c) Impairment of non-financial assets

The Group tests annually whether goodwill (Note 13) has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(n). The recoverable amount of an asset or a cash-generating unit is determined based on the higher of the asset's or the cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value, and the growth rate assumptions in the cash flow projections which has been prepared on the basis of management's assumptions and estimates.

4. Critical accounting estimates and judgements (Continued)

(d) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the relevant counterparty and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment is recognised in the period in which such estimate has been changed.

(e) Deferred income tax

Deferred tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities against which the deductible temporary differences and the carry forward of unused tax losses and tax credits can be utilised. Where the final outcomes are different from the estimations, such differences will impact the carrying amount of deferred tax in the period in which such determination is made.

(f) Allocation of purchase price amongst identifiable assets acquired and liabilities assumed in the business combination

The Group accounts for the business combination as detailed in Note 25(b) in accordance with IFRS 3 "Business Combinations". At the date of initial recognition, it is required to recognise separately, the Group's share of identifiable assets and liabilities that satisfy the recognition criteria regardless of whether they have been previously recognised in acquiree's financial statements. An independent professional valuer was engaged to assist in determining the fair values of the assets acquired and liabilities assumed in the business combination.

5. Revenue and segment information

The Group is principally engaged in manufacturing and selling of over-the-counter drugs products.

The management has reviewed the Group's internal reporting in order to assess performance and allocate resources, and has determined that the Group has two reportable operating segments as follows:

—Manufacturing and sales of the drugs products.

—Wholesales of the drugs products and related materials not produced by the Group.

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. The performance of the reportable segments are assessed based on a measure of earnings or losses before share of profits less losses after tax of joint ventures, interest income, finance costs and tax expenses ("EBIT").

The segment information for the reportable segments for the year is as follows:

	As at and for the year ended 31 December 2014		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Total
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Revenue from external customers	166,646	77,100	243,746
EBIT	23,180	472	23,652
Interest income	993	329	1,322
Operating profit	24,173	801	24,974
Share of profits less losses after tax of joint venture and associated companies	(30)	—	(30)
Finance costs	(139)	—	(139)
Additions to non-current assets (other than financial instrument and deferred tax assets)	18,301	94	18,395
Depreciation/amortisation	3,025	181	3,206
Total assets	178,864	38,307	217,171

5. Revenue and segment information (Continued)

The segment information for the reportable segments for the year is as follows:

	As at and for the year ended December 31, 2013		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Total
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Revenue from external customers	157,680	89,946	247,626
EBIT	18,646	864	19,510
Interest income	958	168	1,126
Operating profit	19,604	1,032	20,636
Share of profits less losses after tax of joint venture and associated companies	7	—	7
Finance costs	(183)	—	(183)
Additions to non-current assets (other than financial instrument and deferred tax assets)	18,469	9	18,478
Depreciation/amortisation	2,857	180	3,037
Total assets	168,813	36,136	204,949

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated was US$51,353,000 for 2014 (2013: US$67,654,000).

Sales between segments are carried out at mutually agreed terms.

A reconciliation of EBIT for reportable segments to profit before taxation is provided as follows:

	2014	2013
	(US$'000)	(US$'000)
EBIT for reportable segments	23,652	19,510
Interest income	1,322	1,126
Share of profits less losses after tax of joint venture and associated companies	(30)	7
Finance costs	(139)	(183)
Profit before taxation	24,805	20,460

6. Other net operating income

	2014	2013
	(US$'000)	(US$'000)
Interest income	1,322	1,126
Other operating income	2,541	1,131
Other operating expenses	(519)	(317)
	3,344	1,940

7. Operating profit

Operating profit is stated after charging the following:

	2014 (US$'000)	2013 (US$'000)
Auditor's remuneration	39	35
Amortisation of leasehold land	239	140
Amortisation of other intangible asset	129	129
Impairment of goodwill	—	1,352
Cost of inventories recognised as expense	138,213	145,031
Depreciation of property, plant and equipment	2,838	2,768
Provision for inventories (note)	—	13
Inventories provision written back	(14)	—
Provision for receivables	62	17
Loss on disposal of property, plant and equipment	191	82
Operating lease rentals in respect of land and buildings	700	521
Research and development expense	1,421	2,391
Employee benefit expenses (Note 10)	30,914	29,230

Note:

No provision for inventories for the years ended 31 December 2014 and the provision of inventories for 2013 amounted to US$13,000 mainly related to obsolete or damaged inventories.

8. Finance costs

	2014 (US$'000)	2013 (US$'000)
Interest expense on short-term bank borrowing	37	40
Interest expense on other payable due to an affiliate company of GBP	102	143
	139	183

9. Taxation charge

	2014 (US$'000)	2013 (US$'000)
Current tax	4,203	3,328
Deferred income tax (Note 16)	(263)	(229)
Taxation charge	3,940	3,099

(a) The Company has been granted High and New Technology Enterprise status. Accordingly, the Company is subjected to a preferential income tax rate of 15% up to 2016 (2013: 15%) and is renewable subject to the approval by the relevant tax authorities.

9. Taxation charge (Continued)

(b) The taxation charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's weighted average tax rate as follows:

	2014 (US$'000)	2013 (US$'000)
Profit before taxation	24,805	20,460
Tax calculated at the domestic tax rates of respective companies	6,201	5,115
Tax effect of JV's and associated companies' result	8	(2)
Expenses not deductible for tax purposes	222	43
Tax concession	(2,530)	(2,131)
Tax impact of goodwill impairment upon acquisition of a subsidiary	—	274
Tax losses for which no deferred tax assets was recognised	241	—
Others	(202)	(200)
Taxation charge	3,940	3,099

The weighted average tax rate calculated at the domestic tax rates of respective companies for the year was 25.0% (2013: 25.0%).

The effective tax rate for the year was 15.9% (2013: 15.1%).

10. Employee benefit expenses

	2014 (US$'000)	2013 (US$'000)
Wages, salaries and bonuses	22,922	21,248
Pension costs—defined contribution plans	7,193	7,288
Staff welfare	799	694
	30,914	29,230

Approximately US$9,139,000 (2013: US$8,947,000) is included in cost of sales.

11. Property, plant and equipment

	Buildings situated in the PRC (US$'000)	Leasehold improvements (US$'000)	Plant and equipment (US$'000)	Furniture and fixtures, other equipment and motor vehicles (US$'000)	Construction in progress (US$'000)	Total (US$'000)
Cost						
As at January 1, 2014	21,564	4,288	13,728	7,517	2,030	49,127
Exchange differences	(513)	(101)	(321)	(179)	(85)	(1,199)
Additions	—	—	64	1,153	10,380	11,597
Disposals	(322)	—	(476)	(649)	—	(1,447)
Transfers	1,948	108	280	—	(2,336)	—
As at December 31, 2014	22,677	4,295	13,275	7,842	9,989	58,078
Accumulated depreciation						
As at January 1, 2014	4,812	1,564	9,762	5,554	—	21,692
Exchange differences	(116)	(37)	(227)	(133)	—	(513)
Charge for the year	707	138	1,212	781	—	2,838
Disposals	(90)	—	(471)	(573)	—	(1,134)
As at December 31, 2014	5,313	1,665	10,276	5,629	—	22,883
Net book value						
As at December 31, 2014	17,364	2,630	2,999	2,213	9,989	35,195

	Buildings situated in the PRC (US$'000)	Leasehold improvements (US$'000)	Plant and equipment (US$'000)	Furniture and fixtures, other equipment and motor vehicles (US$'000)	Construction in progress (US$'000)	Total (US$'000)
Cost						
As at January 1, 2013	17,950	3,517	11,239	6,704	615	40,025
Exchange differences	625	123	395	224	38	1,405
Acquisition of a subsidiary (Note 25(b))	2,426	53	1,458	27	—	3,964
Additions	15	—	632	775	2,648	4,070
Disposals	(10)	—	(114)	(213)	—	(337)
Transfers	558	595	118	—	(1,271)	—
As at December 31, 2013	21,564	4,288	13,728	7,517	2,030	49,127
Accumulated depreciation						
As at January 1, 2013	3,550	1,391	7,436	4,747	—	17,124
Exchange differences	130	46	264	161		601
Acquisition of a subsidiary (Note 25(b))	484	—	913	23		1,420
Charge for the year	649	127	1,230	762	—	2,768
Disposals	(1)	—	(82)	(139)	—	(222)
As at December 31, 2013	4,812	1,564	9,761	5,554	—	21,691
Net book value						
As at December 31, 2013	16,752	2,724	3,967	1,963	2,030	27,436

As at December 31, 2014 the net book value of buildings pledged as security for the short-term bank borrowing amounted to US$316,000 (2013: nil).

12. Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and are located in the PRC.

	2014 (US$'000)	2013 (US$'000)
Cost		
As at January 1	6,886	6,423
Exchange differences	(191)	210
Acquisition of a subsidiary (Note 25(b))	—	253
Addition	6,473	—
As at December 31	13,168	6,886
Accumulated amortisation		
As at January 1	1,187	975
Exchange differences	(30)	34
Acquisition of a subsidiary (Note 25(b))	—	38
Amortisation charge	239	140
As at December 31	1,396	1,187
Net book value		
As at December 31	11,772	5,699

As at December 31, 2014, the net book value of leasehold land pledged as security for the short-term bank borrowing amounted to US$142,000 (2013: nil).

13. Goodwill

	2014 (US$'000)	2013 (US$'000)
Cost		
As at January 1	9,610	9,310
Exchange difference	(225)	300
Acquisition of a subsidiary (Note 25(b))	—	1,352
Impairment (Note 25(b)(i))	—	(1,352)
As at December 31	9,385	9,610

The Company was set up with cash and non-cash assets (which constitutes a business) contributed by GZHCMHK and GBP respectively. Upon formation, the Company accounted for the businesses contributed by GBP using acquisition method at fair value and Goodwill of $9,193,000 was recognised. The Goodwill is attributable to manufacturing and sales of the drugs products segment and is attributable to the anticipated profitability of the distribution of the Company's products in the market and the anticipated future operating synergies.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Projections in excess of five years are used

13. Goodwill (Continued)

to take into account increasing market share and growth momentum, which does not exceed the long term average growth rate of pharmacy industry in China.

There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions are set out below:

	2014	2013
Expected growth in revenue	5%	5%
Pre-tax discount rate	11%	11%
Long-term growth rate	3%	3%

Management prepared the financial budgets taking into account actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

14. Other intangible asset

	2014 (US$'000)	2013 (US$'000)
Cost		
As at January 1	1,313	1,272
Exchange differences	(31)	41
As at December 31	1,282	1,313
Accumulated amortisation		
As at January 1	295	160
Exchange difference	(7)	6
Amortisation charge	129	129
As at December 31	417	295
Net book value		
As at December 31	865	1,018

15. Other non-current asset

Other non-current asset represents the prepayments for the construction cost and the land use right. Since the title is in the process of registration, the respective prepayments are recorded in other non-current asset.

16. Deferred income tax

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Deferred tax assets		
—to be recovered after 12 months	692	540
—to be recovered within 12 months	342	296
Deferred tax liabilities		
—to be recovered after 12 months	(428)	(484)
—to be recovered within 12 months	—	—
Net deferred tax assets	606	352

The movements in net deferred income tax assets are as follows:

	2014	2013
	(US$'000)	(US$'000)
At January 1	352	351
Exchange differences	(9)	11
Acquisition of a subsidiary (Note 25(b))	—	(239)
Credited to the consolidated income statement		
—accrued expenses, provisions, depreciation allowances	263	229
At December 31	606	352

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes related to the same fiscal authority.

The Group's deferred tax assets and liabilities are mainly related to the temporary differences including accrued expenses, provisions and depreciation allowances. The potential deferred tax assets in respect of tax losses which have not been recognised in the consolidated accounts amounted to approximately US$251,000 (2013: nil).

These unrecognised tax losses can be carried forward against future taxable income and will expire in the follow year:

	2014	2013
	(US$'000)	(US$'000)
2019	1,003	—

17. Inventories

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Raw materials	6,580	4,294
Work in progress	15,539	16,491
Finished goods	21,451	16,999
	43,570	37,784

18. Trade and bills receivables

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Trade receivables from third parties	22,105	19,011
Trade receivables from related parties (Note 27(b))	33	1,431
Bills receivables	20,964	24,602
	43,102	45,044

All the trade and bills receivables are denominated in RMB and are due within one year from the end of the reporting period.

The carrying value of trade and bills receivables approximates their fair values.

Movements on the provision for trade and bills receivables are as follows:

	2014	2013
	(US$'000)	(US$'000)
At January 1	228	205
Exchange difference	(5)	6
Provision	62	17
At December 31	285	228

The impaired and provided receivables as at December 31, 2014 amounted to US$285,000 (2013: US$228,000) and are aged over 6 months.

19. Cash and bank balances

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Cash at bank and in hand	26,196	20,408
Short-term bank deposits (note (a))	4,808	11,487
Bank deposits maturing over three months (note (a))	20,833	19,692
	51,837	51,587

Notes:

(a) The weighted average effective interest rate on bank deposits with maturity ranging from 90 days to 360 days (2013: 90 days to 360 days) was 3.2% (2013: 3.2%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(b) The cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

20. Share capital

Registered and fully paid share capital

	Nominal amount (US$'000)
Registered and fully paid:	
As at January 1, 2013, December 31, 2013, January 1, 2014 and December 31, 2014	24,103

21. Trade payables

	December 31, 2014 (US$'000)	December 31, 2013 (US$'000)
Trade payables due to third parties	27,067	25,125
Trade payable due to a related party (Note 27(b))	2,801	5,726
	29,868	30,851

All the trade payables are denominated in RMB and due within one year from the end of the reporting period.

The carrying value of trade payables approximates their fair values due to their short-term maturities.

22. Other payables, accruals and advance receipts

	December 31, 2014 (US$'000)	December 31, 2013 (US$'000)
Other payables and accruals		
Accrued operating expenses	21,303	16,879
Accrued salaries	2,471	2,541
Other payables	12,624	12,645
	36,398	32,065
Advance receipts		
Payments in advance from customers	14,054	22,464
Deferred government incentives (note)	2,616	2,893
	16,670	25,357
	53,068	57,422

Note:

The deferred government incentives are related to the research and development projects which are expected to be completed within one year.

23. Bank borrowings

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Short-term bank borrowing	625	—
Weighted average effective interest rate	7%	—

The short-term bank borrowing is secured by certain buildings and leasehold land of a subsidiary (Note 11 and 12). This bank borrowing is interest bearing and denominated in RMB.

24. Deferred income

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Deferred government incentives:		
Buildings and other non-current assets	11,017	—
Others	5,568	5,624
	16,585	5,624

25. Notes to the consolidated statement of cash flows

(a) Reconciliation of profit for the year to net cash generated from operations:

	2014 (US$'000)	2013 (US$'000)
Profit for the year	20,865	17,361
Adjustments for:		
Taxation charge	3,940	3,099
Amortisation of leasehold land	239	140
Amortisation of other intangible asset	129	129
Impairment of goodwill	—	1,352
Inventories provision written back	(14)	—
Provision for inventories	—	13
Provision for receivables	62	17
Depreciation on property, plant and equipment	2,838	2,768
Loss on disposal of property, plant and equipment	191	82
Amortisation of deferred income	(628)	(1,812)
Interest income	(1,322)	(1,126)
Share of profits less losses after tax of:		
Joint venture	(4)	(7)
Associated companies	34	—
Gain on acquisition of an associated company	(194)	—
Finance costs	139	183
Exchange differences	(800)	862
Operating profit before working capital changes	25,475	23,061
Changes in working capital:		
—Increase in inventories	(5,772)	(7,743)
—Decrease in trade and bills receivables	1,880	7,084
—Decrease/(increase) in other receivables, prepayments and deposits	6,004	(7,272)
—(Decrease)/increase in trade payables	(983)	7,229
—(Decrease)/increase in other payables, accruals and advance receipts	(4,456)	16,283
Net cash generated from operations	22,148	38,642

(b) Acquisition of a subsidiary

In April 2013, the Group has invested RMB2 in cash for the subscription of 100% equity interests in Bozhou Baiyunshan Pharmaceuticals Co., Ltd ("Bozhou"). The purpose of Bozhou is to provide new production base for the Company for the manufacturing of the drugs products.

The following table summarises the amount invested in Bozhou and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

25. Notes to the consolidated statement of cash flows (Continued)

(b) Acquisition of a subsidiary (Continued)

	(US$'000)
Capital injection	—

Fair value	(US$'000)
Cash and bank balances	21
Property, plant and equipment	2,544
Leasehold land	215
Inventories	48
Trade receivables	317
Other receivables	104
Trade payables	(398)
Other payables	(3,960)
Deferred tax liabilities	(243)
Total identifiable net liabilities	(1,352)
Goodwill arising on acquisition (Note 13 and note (i))	1,352
	—
Net cash inflow arising from acquisition	
Cash and cash equivalents acquired	21
Less cash injected	—
	21

Notes:

(i) Goodwill of US$1,352,000 was impaired at year end due to that the Group changed strategic plan.

(ii) Bozhou contributed revenue of US$1,488,000 and net profit of US$12,000 to the Group for the period from May 1, 2013 to December 31, 2013. If the acquisition has occurred on January 1, 2013, the consolidated revenue and consolidated loss attributed by Bozhou for the year ended December 31, 2013 would have been US$1,966,000 and US$180,000 respectively.

(iii) Acquisition related costs of approximately US$8,000 have been charged to income statement during the year.

(c) Changes in ownership interests in a subsidiary without change of control

Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Company Limited ("FYBYS") was a 51% owned subsidiary of the Group. In 2014, the Group increased its investments in FYBYS by approximately US$1,872,000. In additional, the Company acquired additional 3.3806% interests for a consideration of approximately US$76,000. FYBYS has become an 75% owned subsidiary of the Group after the transaction.

26. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	30,414	7,277

Capital commitment for property, plant and equipment contracted is mainly for the construction in progress of new plant of the Company.

(b) Operating lease commitments

The Group leases various factories and warehouses under non-cancellable operating lease agreements. The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	2014	2013
	(US$'000)	(US$'000)
Not later than one year	699	1,075
Later than one year end not later than five years	208	—
	907	1,075

27. Significant related party transactions

Save as disclosed above, the Group has the following significant transactions during the years with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	2014	2013
	(US$'000)	(US$'000)
Sales of goods to		
—Fellow subsidiaries of GBP	24,973	26,722
—A fellow subsidiary of GZHCMHK	73	—
	25,046	26,722
Other income from		
—Fellow subsidiaries of GBP	1,295	786
Purchase of goods from		
—Fellow subsidiaries of GBP	25,613	29,800
Rental expenses to		
—A fellow subsidiary of GBP	—	491

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended December 31, 2014 (2013: nil).

27. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	December 31, 2014	December 31, 2013
	(US$'000)	(US$'000)
Trade receivables from related parties:		
—Fellow subsidiaries of GBP (Note 18 and note (i))	33	1,431
Trade payable due to related parties:		
—Fellow subsidiaries of GBP (Note 21 and note (i))	2,801	5,726
Other receivables from related parties:		
—Fellow subsidiaries of GBP (note (i))	683	941
—Joint venture (note (i))	—	258
	683	1,199
Other payable, accruals and advanced receipts due to related parties:		
—Non-controlling shareholders of subsidiaries (note (i))	213	592
—Fellow subsidiaries of GZHCMHK (note (i))	535	414
—Fellow subsidiaries of GBP (note (i))	1,770	3,599
—A fellow subsidiary of GBP (note (ii))	2,809	2,876
	5,327	7,481

Note:

(i) Balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(ii) Balance with related party is unsecured, interest bearing and repayable on demand. The carrying value of balance with a related party approximates its fair value due to its short-term maturity.

28. Particulars of principal subsidiaries, joint venture and associated companies

Name	Place of establishment and operation	Nominal value of issued ordinary share capital/ registered capital in RMB As at December 31 2014	2013	Equity interest attributable to the Group As at December 31 2014	2013	Type of legal entity	Principal activity
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Company Limited	PRC	3,650,000	2,000,000	75%	51%	Limited liability company	Agriculture and sales of Chinese herbs
Nanyang Baiyunshan Hutchison Whampoa Danshen R&D Limited	PRC	1,000,000	1,000,000	51%	51%	Limited liability company	Agriculture and sales of Chinese herbs
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Company Limited	PRC	30,000,000	30,000,000	60%	60%	Limited liability company	Agriculture and sales of Chinese herbs
Wenshan Baiyunshan Hutchison Whampoa Qidan Sanqi Chinese Medicine Co. Ltd.	PRC	2,000,000	2,000,000	51%	51%	Limited liability company	Agriculture and sales of Chinese herbs
Shen Nong Garden Traditional Chinese Medicine Museum	PRC	1,000,000	1,000,000	100%	100%	Limited liability company	Non-profit making organisation
Hutchison Whampoa Guangzhou Baiyunshan Health & Wellness Co. Ltd	PRC	10,000,000	10,000,000	100%	100%	Limited liability company	Health supplemented food distribution
Bozhou Baiyunshan Pharmaceuticals Co Ltd	PRC	500 000	500 000	100%	100%	Limited liability company	Manufacture, sales and distribution of drugs products
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine (Bozhou) Co. Ltd	PRC	100,000,000	50,000,000	100%	100%	Limited liability company	Manufacture, sales and distribution of drugs products
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceuticals Limited	PRC	10,000,000	—	100%	—	Limited liability company	Sales and marketing of the drugs products
Daqing Baiyunshan Hutchison Whampoa Banlangen Technology Company Limited	PRC	1,020,400	1,020,400	51%	51%	Limited liability company	Agriculture and sales of Chinese herbs
Joint Venture							
Qing Yuan Baiyunshan Hutchison Whampoa ChuanXinLian R&D Limited	PRC	1,000,000	1,000,000	50%	50%	Limited liability company	Agriculture and sales of Chinese herbs
Associated companies							
Tibet Lizhi Guangzhou Pharmaceutical Development Co. Ltd.	PRC	2,000,000	2,000,000	20%	20%	Limited liability company	Trading of Chinese herbs
Linyi Shenghe Jiuzhou Pharmaceuticals Company Limited	PRC	3,000,000	3,000,000	30%	—	Limited liability company	Agriculture and sales of Chinese herbs

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Condensed Consolidated Income Statement
For the six months ended June 30, 2015 and June 30, 2014

	Note	Six months ended June 30, 2015 (US$'000) (unaudited)	Six months ended June 30, 2014 (US$'000) (unaudited)
Revenue	4	125,878	134,088
Cost of sales		(68,454)	(80,710)
Gross profit		57,424	53,378
Selling expenses		(22,501)	(22,160)
Administrative expenses		(13,450)	(11,608)
Other net operating income	5	1,676	978
Operating profit	6	23,149	20,588
Share of profits less losses after tax of			
Joint venture		—	2
Associated companies		—	(34)
Finance costs	7	(95)	(104)
Profit before taxation		23,054	20,452
Taxation charge	8	(3,760)	(3,244)
Profit for the period		19,294	17,208
Attributable to:			
Equity holders of the Company		19,227	17,180
Non-controlling interests		67	28
		19,294	17,208

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Condensed Consolidated Statement of Comprehensive Income
For the six months ended June 30, 2015 and June 30, 2014

	Six months ended June 30, 2015	Six months ended June 30, 2014
	(US$'000)	(US$'000)
	(unaudited)	
Profit for the period	19,294	17,208
Other comprehensive income/(loss) that has been or may be reclassified subsequently to profit or loss:		
Exchange translation differences	50	(3,527)
Total comprehensive income for the period (net of tax)	19,344	13,681
Attributable to:		
Equity holders of the Company	19,276	13,760
Non-controlling interests	68	(79)
Total comprehensive income for the period (net of tax)	19,344	13,681

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Condensed Consolidated Statement of Financial Position
As at June 30, 2015 and December 31, 2014

	Note	June 30, 2015 (US$'000) (unaudited)	December 31, 2014 (US$'000)
ASSETS			
Non-current assets			
Property, plant and equipment	9	46,530	35,195
Leasehold land		11,639	11,772
Goodwill	10	9,385	9,385
Other intangible asset		801	865
Investment in a joint venture		178	178
Investments in associated companies		222	222
Other non-current assets		15,067	14,733
Deferred tax assets		847	1,034
		84,669	73,384
Current assets			
Inventories	11	41,675	43,570
Trade and bills receivables	12	48,788	43,102
Other receivables, prepayments and deposits		7,196	5,278
Cash and cash equivalents		45,375	31,004
Bank deposits maturing over three months		4,808	20,833
		147,842	143,787
Total assets		232,511	217,171
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	24,103	24,103
Reserves		100,269	87,403
		124,372	111,506
Non-controlling interests		3,870	3,802
Total equity		128,242	115,308
LIABILITIES			
Current liabilities			
Trade payables	14	29,802	29,868
Other payables, accruals and advance receipts	15	55,955	53,068
Bank borrowing	16	—	625
Current tax liabilities		1,919	1,289
		87,676	84,850
Non-current liabilities			
Deferred income	17	16,195	16,585
Deferred tax liabilities		398	428
		16,593	17,013
Total liabilities		104,269	101,863
Net current assets		60,166	58,937
Total assets less current liabilities		144,835	132,321
Total equity and liabilities		232,511	217,171

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Condensed Consolidated Statement of Changes in Equity
For the six months ended June 30, 2015 and June 30, 2014

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Exchange reserve	General reserve	Retained earnings	Total		
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
				(unaudited)			
As at January 1, 2014	24,103	15,159	131	67,193	106,586	3,400	109,986
Profit for the period	—	—	—	17,180	17,180	28	17,208
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:							
Exchange translation differences	—	(3,420)	—	—	(3,420)	(107)	(3,527)
Total comprehensive (loss)/ income for the period (net of tax)	—	(3,420)	—	17,180	13,760	(79)	13,681
Dividend paid	—	—	—	(6,359)	(6,359)	—	(6,359)
As at June 30, 2014	24,103	11,739	131	78,014	113,987	3,321	117,308

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Exchange reserve	General reserve	Retained earnings	Total		
	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)	(US$'000)
				(unaudited)			
As at January 1, 2015	24,103	12,592	131	74,680	111,506	3,802	115,308
Profit for the period	—	—	—	19,227	19,227	67	19,294
Other comprehensive income that has been or may be reclassified subsequently to profit or loss:							
Exchange translation differences	—	49	—	—	49	1	50
Total comprehensive income for the period (net of tax)	—	49	—	19,227	19,276	68	19,344
Dividend paid	—	—	—	(6,410)	(6,410)	—	(6,410)
As at June 30, 2015	24,103	12,641	131	87,497	124,372	3,870	128,242

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2015 and June 30, 2014

	Note	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
		(unaudited)	
Cash flows from operating activities			
Net cash generated from operations	18	21,122	10,871
Interest received		379	541
Finance costs paid		(34)	(11)
Income tax paid		(2,960)	(1,781)
Net cash generated from operating activities		18,507	9,620
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,262)	(2,176)
Purchase of leasehold land		—	(5,661)
Decrease/(increase) in bank deposits maturing over three months		16,025	(2,564)
Increase in government grant		98	11,289
Net cash generated from investing activities		2,861	888
Cash flows from financing activities			
Dividend paid		(6,410)	(6,359)
New short-term bank borrowing		—	620
Repaid of the bank borrowing		(625)	—
Net cash used in financing activities		(7,035)	(5,739)
Net increase in cash and cash equivalents		14,333	4,769
Cash and cash equivalents at beginning of the period		31,004	31,895
Exchange differences		38	(1,047)
Cash and cash equivalents at end of the period		45,375	35,617
Analysis of cash and bank balances			
—Cash and cash equivalents		45,375	35,617
—Bank deposits maturing over three months		4,808	22,256
		50,183	57,873

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited
Notes To The Unaudited Condensed Accounts

1. General information

Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in manufacturing and selling of over-the-counter drugs products. The Group has manufacturing plants in Guangzhou in the People's Republic of China (the "PRC") and sells mainly in the PRC.

The Company was incorporated in the PRC on April 12, 2005 as a Chinese-Foreign Equity joint ventures and the approved operation period is 50 years. The Company is jointly controlled by Guangzhou Hutchison Chinese Medicine (HK) Investment Limited ("GZHCMHK") and Guangzhou Baiyunshan Pharmaceuticals Co., Ltd. ("GBP").

Items included in the accounts are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries, joint venture and associated companies is Renminbi ("RMB"), whereas the consolidated accounts are presented in United States dollars ("US dollars").

These condensed interim accounts are presented in thousands of United States dollars ("US$'000"), unless otherwise stated.

2. Summary of significant accounting policies

(a) Basis of preparation

The Company has a financial year end date of December 31. These unaudited condensed interim financial information for the six months ended June 30, 2014 and June 30, 2015 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period. These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended December 31, 2014 (the "2014 annual accounts"), which have been prepared in accordance with International Financial Reporting Standards issued by IASB.

(b) Significant accounting policies

The condensed interim accounts have been prepared under the historical cost convention.

The accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the 2014 annual accounts, except for the adoption of the amendments and interpretations issued by the IASB that are mandatory for annual periods beginning January 1, 2015.

The effect of the adoption of these amendments and interpretations was not material to the Group's results and financial position.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. Financial risk management and accounting estimates

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. There have been no changes in any risk management policies since last year end.

3. Financial risk management and accounting estimates (Continued)

The preparation of interim accounts required management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. In preparing these interim accounts, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2014 annual accounts.

4. Revenue and segment information

The Group is principally engaged in manufacturing and selling of over-the-counter drugs products.

The management has reviewed the Group's internal reporting in order to assess performance and allocate resources, and has determined that the Group has two reportable operating segments as follows:

—Manufacturing and sales of the drugs products.

—Wholesales of the drugs products and related materials not produced by the Group.

The operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technological advancement and marketing approach. The performance of the reportable segments are assessed based on a measure of earnings or losses before share of profits less losses after tax of joint ventures and associated companies, interest income, finance costs and tax expenses ("EBIT").

The segment information for the reportable segments for the period is as follows:

	For the period ended June 30, 2015		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Reportable segment
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Revenue from external customers	89,128	36,750	125,878
EBIT	22,112	658	22,770
Interest income	353	26	379
Operating profit	22,465	684	23,149
Share of profits less losses after tax of joint venture and associated companies	—	—	—
Finance costs	(91)	(4)	(95)
Additions to non-current assets (other than financial instrument and deferred tax assets)	13,262	—	13,262
Depreciation/amortisation	1,793	25	1,818

	As at June 30, 2015		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Reportable segment
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Total assets	190,843	41,668	232,511

4. Revenue and segment information (Continued)

	For the period ended June 30, 2014		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Reportable segment
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Revenue from external customers	93,653	40,435	134,088
EBIT	19,510	537	20,047
Interest income	435	106	541
Operating profit	19,945	643	20,588
Share of profits less losses after tax of joint venture and associated companies	(32)	—	(32)
Finance costs	(104)	—	(104)
Additions to non-current assets (other than financial instrument and deferred tax assets)	7,739	98	7,837
Depreciation/amortisation	1,545	31	1,576

	As at December 31, 2014		
	Manufacturing and sales of the drugs products	Wholesale of the drugs products and related materials not produced by the Group	Reportable segment
	PRC	PRC	Total
	(US$'000)	(US$'000)	(US$'000)
Total assets	178,864	38,307	217,171

Revenue from external customers is after elimination of inter-segment sales. The amount eliminated was US$20,764,000 (June 30, 2014: US$35,790,000).

Sales between segments are carried out at mutually agreed terms.

A reconciliation of EBIT for reportable segments to profit before taxation is provided as follows:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
EBIT for reportable segment	22,770	20,047
Interest income	379	541
Share of profits less losses after tax of a joint venture and associated companies	—	(32)
Finance costs	(95)	(104)
Profit before taxation	23,054	20,452

5. Other net operating income

	Six months ended June 30	
	2015	2014
	(US$'000)	(US$'000)
Interest income	379	541
Other operating income	1,297	437
	1,676	978

6. Operating profit

Operating profit is stated after charging the following:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Amortisation of leasehold land	132	127
Amortisation of intangible asset	64	64
Cost of inventories recognised as expense	64,256	76,021
Depreciation on property, plant and equipment	1,622	1,385
Employee benefit expenses	15,201	16,827
Operating lease rentals in respect of land and buildings	240	169
Research and development expenses	288	360

7. Finance costs

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Interest expense on short-term bank borrowing	34	11
Interest expense on other payable due to an affiliate company of GBP	61	93
	95	104

8. Taxation charge

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Current taxation	3,603	3,345
Deferred taxation	157	(101)
Taxation charge	3,760	3,244

8. Taxation charge (Continued)

The Company has been granted High and New Technology Enterprise Status. Accordingly, the Company is subjected to a preferential income tax rate of 15% up to 2016 (June 30, 2014: 15%) and is renewable subject to the approval by the relevant tax authorities.

9. Property, plant and equipment

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Net book value as at 1 January	35,195	27,436
Additions	12,928	2,176
Disposal	—	(10)
Depreciation for the period	(1,622)	(1,385)
Exchange differences	29	(871)
Net book value as at 30 June	46,530	27,346

As at December 31, 2014, the net book value of buildings pledged as security for the short-term bank borrowing amounted to US$316,000 (Note 16).

10. Goodwill

The Company was set up with cash and non-cash assets (which constitutes a business) contributed by GZHCMHK and GBP respectively. Upon formation, the Company accounted for the businesses contributed by GBP using acquisition method at fair value and Goodwill of approximately US$9,193,000 was recognised. The Goodwill is attributable to manufacturing and sales of the drugs products segment and is attributable to the anticipated profitability of the distribution of the Company's products in the market and the anticipated future operating synergies.

11. Inventories

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Raw materials	5,392	6,580
Work in progress	13,620	15,539
Finished goods	22,663	21,451
	41,675	43,570

12. Trade and bills receivables

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from third parties	24,937	22,105
Trade receivables from related parties (Note 20(b))	200	33
Bills receivables	23,651	20,964
	48,788	43,102

All the trade and bills receivables are denominated in RMB and are due within one year from the end of the reporting period.

The carrying value of trade and bills receivables approximates their fair values due to their short-term maturities.

13. Share capital

Registered and fully paid share capital

	Nominal amount
	(US$'000)
Registered and fully paid:	
As at January 1, 2014, June 30, 2014, January 1, 2015 and June 30, 2015	24,103

14. Trade payables

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade payables from third parties	26,566	27,067
Trade payables from related parties (Note 20(b))	3,236	2,801
	29,802	29,868

All the trade payables are denominated in RMB and due within one year from the end of the reporting period.

The carrying value of trade payables approximates their fair values due to their short-term maturities.

15. Other payables, accruals and advanced receipts

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Other payables and accruals		
Accrued operating expenses	17,490	21,303
Accrued salaries	3,955	2,471
Other payables	14,964	12,624
	36,409	36,398
Advanced receipts		
Payments in advance from customers	17,066	14,054
Deferred government incentives (note)	2,480	2,616
	19,546	16,670
	55,955	53,068

Note:

The deferred government incentives are related to the research and development projects which are expected to be completed within one year.

16. Bank borrowings

As at December 31, 2014, the short-term bank borrowing was secured by certain buildings (Note 9) and leasehold land of a subsidiary. This bank borrowing is interest bearing and denominated in RMB.

17. Deferred income

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Deferred government incentives:		
Buildings and other non current assets	11,017	11,017
Others	5,178	5,568
	16,195	16,585

18. Notes to condensed consolidated statement of cash flows

Reconciliation of profit for the period to net cash generated from operations:

	Six months ended June 30, 2015	Six months ended June 30, 2014
	(US$'000)	(US$'000)
Profit for the period	19,294	17,208
Adjustments for:		
Taxation charge	3,760	3,244
Amortisation of leasehold land	132	127
Amortisation of other intangible assets	64	64
Depreciation of property, plant and equipment	1,622	1,385
Loss on disposal of property, plant and equipment	—	10
Amortisation of deferred income	(488)	(403)
Interest income	(379)	(541)
Finance costs	95	104
Share of profits less losses after tax of		
Joint venture	—	(2)
Associated companies	—	34
Exchange differences	(29)	(1,037)
Operating profit before working capital changes	24,071	20,193
Changes in working capital:		
—Decrease/(increase) in inventories	1,895	(5,359)
—Increase in trade and bills receivables	(5,686)	(31,532)
—(Increase)/decrease in other receivables, prepayments and deposits	(1,918)	1,093
—(Decrease)/increase in trade payables	(66)	6,165
—Increase in other payables, accruals and advance receipts	2,826	20,311
Net cash generated from operations	21,122	10,871

19. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	25,975	30,414

Capital commitment for property, plant and equipment contracted is mainly for the construction in progress of new plant of the Company.

19. Commitments (Continued)

(b) Operating lease commitments

The Group leases various factories and warehouses under non-cancellable operating lease agreements. The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Not later than one year	567	699
Later than one year and not later than five years	103	208
	670	907

20. Significant related party transactions

Save as disclosed above, the Group has the following significant transactions during the period with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

(a) Transactions with related parties:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Sales of goods to		
—Fellow subsidiaries of GBP	17,267	14,776
—A fellow subsidiary of GZHCMHK	95	1
	17,362	14,777
Other income from		
—Fellow subsidiaries of GBP	573	433
Purchase of goods from		
—Fellow subsidiaries of GBP	12,519	16,698
Advertising expenses to		
—A fellow subsidiary of GBP	4,700	—

20. Significant related party transactions (Continued)

No transactions have been entered into with the directors of the Company (being the key management personnel) during the periods ended June 30, 2014 and 2015.

(b) Balances with related parties included in:

	June 30, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from related parties:		
—Fellow subsidiaries of GBP (Note 12 and note (i))	200	33
Trade payables due to related parties:		
—Fellow subsidiaries of GBP (Note 14 and note (i))	3,236	2,801
Other receivables from related parties:		
—Fellow subsidiaries of GBP (note (i))	1,197	683
Other payables, accruals and advanced receipts due to related parties:		
—Non-controlling shareholders of subsidiaries (note (i))	697	213
—Fellow subsidiaries of GZHCMHK (note (i))	544	535
—Fellow subsidiaries of GBP (note (i))	1,641	1,770
—A fellow subsidiary of GBP (note (ii))	2,854	2,809
	5,736	5,327

Notes:

(i) Balances with related parties are unsecured, interest-free and repayable on demand. The carrying values of balances with related parties approximate their fair values due to their short-term maturities.

(ii) Balance with related party is unsecured, interest bearing and repayable on demand. The carrying value of balance with a related party approximates its fair value due to its short-term maturity.

NUTRITION SCIENCE PARTNERS LIMITED

Independent Auditor's Report

To the Board of Directors and Shareholders of Nutrition Science Partners Limited

We have audited the accompanying consolidated financial statements of Nutrition Science Partners Limited and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nutrition Science Partners Limited and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers
Hong Kong
August 21, 2015

Nutrition Science Partners Limited
Consolidated Income Statement
For the years ended December 31, 2014 and 2013

	Notes	2014	2013
		(US$'000)	(US$'000)
Turnover		—	—
Service fee charged by related parties	12	(4,594)	(3,752)
Clinical trials expenses		(8,778)	(11,025)
Other research and development costs		(3,381)	(2,652)
Other expenses		(59)	(114)
Operating loss		(16,812)	(17,543)
Loss before taxation		(16,812)	(17,543)
Taxation	5	—	—
Loss for the year		(16,812)	(17,543)

The accompanying notes are an integral part of these consolidated financial statements.

Nutrition Science Partners Limited
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2014 and 2013

	2014 (US$'000)	2013 (US$'000)
Loss for the year	(16,812)	(17,543)
Total comprehensive loss for the year	(16,812)	(17,543)

The accompanying notes are an integral part of these consolidated financial statements.

Nutrition Science Partners Limited
Consolidated Statement of Financial Position
As at December 31, 2014 and 2013

	Notes	2014 (US$'000)	2013 (US$'000)
ASSETS			
Non-current assets			
Intangible assets	7	30,000	30,000
Current assets			
Prepayments		2,299	824
Cash and cash equivalents	8	6,249	17,031
		8,548	17,855
Total assets		38,548	47,855
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	60,000	2
Reserves		(34,355)	42,455
Total equity		25,645	42,457
LIABILITIES			
Current liabilities			
Other payables and accruals		2,393	4,298
Amounts due to related companies	10	510	1,100
Shareholders' loans	11	10,000	—
Total liabilities		12,903	5,398
Total equity and liabilities		38,548	47,855
Net current (liabilities)/assets		(4,355)	12,457
Total assets less current liabilities		25,645	42,457

The accompanying notes are an integral part of these consolidated financial statements.

Nutrition Science Partners Limited
Consolidated Statement of Changes in Equity
For the years ended December 31, 2014 and 2013

	Share capital (US$'000)	Share premium (US$'000)	Accumulated losses (US$'000)	Total equity (US$'000)
At January 1, 2013	1	29,999	—	30,000
Loss for the year and total comprehensive loss for the year	—	—	(17,543)	(17,543)
Issue of shares (note 9)	1	29,999	—	30,000
At December 31, 2013 and at January 1, 2014	2	59,998	(17,543)	42,457
Loss for the year and total comprehensive loss for the year	—	—	(16,812)	(16,812)
Transition to no-par value regime on March 3, 2014 (note 9)	59,998	(59,998)	—	—
At December 31, 2014	60,000	—	(34,355)	25,645

The accompanying notes are an integral part of these consolidated financial statements.

Nutrition Science Partners Limited
Consolidated Statement of Cash Flows
For the years ended December 31, 2014 and 2013

	Notes	2014 (US$'000)	2013 (US$'000)
Cash flows from operating activities			
Loss before taxation		(16,812)	(17,543)
Operating loss before working capital changes		(16,812)	(17,543)
Changes in working capital:			
Increase in prepayments		(1,475)	(824)
(Decrease)/increase in other payables and accruals		(1,905)	4,298
(Decrease)/increase in amounts due to related companies		(590)	1,100
Net cash used in operating activities		(20,782)	(12,969)
Cash flows from financing activities			
Proceeds from issue of shares	9	—	30,000
Increase in shareholders' loans	11	10,000	—
Net cash from financing activities		10,000	30,000
Net (decrease)/increase in cash and cash equivalents		(10,782)	17,031
Cash and cash equivalents at the beginning of the year		17,031	—
Cash and cash equivalents at the end of the year		6,249	17,031
Analysis of balance of cash and cash equivalents			
Bank balance		6,249	17,031

The accompanying notes are an integral part of these consolidated financial statements.

Nutrition Science Partners Limited
Notes To The Accounts

1. General information

Nutrition Science Partners Limited (the "Company") and its subsidiary (together, the "Group") are principally engaged in the research and development of pharmaceutical products. The Company was incorporated in Hong Kong on May 28, 2012 as a limited liability company. The registered office of the Company is located at 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

On November 27, 2012, Hutchison MediPharma (Hong Kong) Limited ("HMPHK"), a subsidiary of Hutchison China MediTech Limited ("Chi-Med", which together with its subsidiaries, hereinafter collectively referred to as the "Chi-Med Group") and Nestlé Health Science S.A. ("NHS"), a subsidiary of Nestlé S.A. ("Nestlé"), entered into a joint venture agreement ("JV Agreement"). Pursuant to the JV Agreement, Nestlé agreed to contribute cash of US$30,000,000 and the Chi-Med Group agreed to contribute certain of its assets and business processes including the global development and commercial rights of a novel, oral therapy for Inflammatory Bowel Disease for a drug candidate and exclusive rights to its extensive botanical library, among other things. The Company is jointly owned by HMPHK and NHS having 50% equity interest each.

During the year ended December 31, 2013, all regulatory approvals regarding the formation of the Company were received and NHS has injected cash of US$30,000,000 in accordance with the JV Agreement.

These consolidated accounts are presented in United States dollars ("US$"), unless otherwise stated.

2. Summary of significant accounting policies

The consolidated accounts of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board. These consolidated accounts have been prepared under the historical cost convention.

As at December 31, 2014, the Group has net current liabilities of US$4,355,000. In preparing these consolidated accounts, management, including the directors of the Company, has taken into account all available information about the foreseeable future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to the availability and sufficiency of the Group's financial resources to satisfy its working capital and other financing requirements for the reasonable period of time, including, the progress and results of its new and in-progress research and development projects, the Group's current and expected future financial performance and operating cash flows, availability of loans and other financial supports from shareholders, potential sources of new funds. HMPHK and NHS have confirmed their respective intentions to provide financial support to the Company to meet its liabilities as and when they fall due. Accordingly, the Directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due within the next twelve months and therefore have prepared the financial statements on a going concern basis.

During the year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual periods beginning January 1, 2014. The adoption of these new and revised standards, amendments and interpretations did not have any material effects on the Group's results of operations or financial position.

2. Summary of significant accounting policies (Continued)

At the date of authorisation of these consolidated accounts, the following standards, amendments and interpretations were in issue but not yet effective and have not been early adopted by the Group:

IAS 1 (Amendments)(2)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)(2)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)(2)	Agriculture: Bearer Plants
IAS 19 (Amendments)(1)	Defined Benefit Plans: Employee Contributions
IAS 27 (Amendments)(2)	Equity Method in Separate Financial Statements
IFRS 9(3)	Financial Instruments
IFRS 10 and IAS 28 (Amendments)(2)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)(2)	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)(2)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14(2)	Regulatory Deferral Accounts
IFRS 15(3)	Revenue from Contracts with Customers
Annual improvements 2010-2012 cycle(1)	Improvements to IFRSs
Annual improvements 2011-2013 cycle(1)	Improvements to IFRSs
Annual improvements 2012-2014 cycle(2)	Improvements to IFRSs

(1) Effective for the Group for annual periods beginning on or after January 1, 2015.

(2) Effective for the Group for annual periods beginning on or after January 1, 2016.

(3) Effective for the Group for annual periods beginning on or after January 1, 2018.

The adoption of standards, amendments and interpretations listed above in future periods is not expected to have any material effect on the Group's result of operations and financial position, except for the adoption of IFRS 15 which the management is still assessing the impact.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiary made up to December 31, 2014 and 2013. The accounts of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiary are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

(b) Subsidiary

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the consolidated accounts, subsidiary is accounted for as described in Note 2(a) above.

2. Summary of significant accounting policies (Continued)

(c) Foreign currency translation

Items included in the accounts of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in US$, which is the Company's functional and presentation currency.

The accounts of the Company and subsidiary are translated into the Company's presentation currency using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised directly in the consolidated statement of comprehensive income.

(d) Segment information

The Group has one reporting segment which is research and development. All segment assets are located in Hong Kong. The Group's chief operating decision-makers review the consolidated results of the Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

(e) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. Summary of significant accounting policies (Continued)

(f) Financial assets

Initial recognition and measurement

Financial assets of the Group are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the income statement.

(g) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2. Summary of significant accounting policies (Continued)

(g) Impairment of financial assets (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

(h) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(i) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at bank, are subject to an insignificant risk of changes in value.

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

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2. Summary of significant accounting policies (Continued)

(k) Intangible assets (Continued)

Acquired in-process research and development (“IPR&D”) rights

These intangible assets are treated as indefinite-lived until completion or abandonment of the projects, at which time the assets are either written off or amortised over the remaining useful life.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

(l) Income tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Financial risk management

(a) Financial risk factors

The Group’s activities expose it to a variety of financial risks, including credit risk and liquidity risk. The Group does not use any derivative financial instruments for speculative purpose.

(i) Credit risk

The carrying amounts of cash and cash equivalents included in the consolidated statement of financial position represent the Group’s maximum exposure to credit risk of the counterparty in relation to its financial assets. The Group’s bank balance is maintained with a creditworthy bank with no recent history of default.

(ii) Liquidity risk

The Group’s objective is to maintain a balance between continuity of funding and flexibility through balances with related companies and loans from its shareholders.

As at December 31, 2014 and 2013, the Group’s current financial liabilities were due for settlement contractually within twelve months.

3. Financial risk management (Continued)

(b) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 2014 and 2013.

(c) Fair value estimation

The fair values of the financial asset and liabilities of the Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

4. Critical accounting estimates and judgements

Note 2 include a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(i) Impairment of intangible assets

The Group tests annually whether intangible assets not ready to use have suffered any impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount in accordance with the accounting policy stated in note 2(k). The recoverable amount of an asset or a cash-generating unit is determined based on the higher of the asset's or the cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value, and the growth rate assumptions in the cash flow projections which has been prepared on the basis of management's assumptions and estimates.

The Group has adopted an income approach to determine the value-in-use of the acquired IPR&D, which applies a probability weighting that considers the risk of development and commercialization to the estimated future net cash flows that are derived from projected revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, probability of success rate, expected timing of commercialization and industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. Key assumptions and sensitivities are disclosed in note 7.

5. Taxation

No Hong Kong profits tax has been provided as the Group had no assessable profit for the year (2013: Nil).

The taxation on the Group's loss before taxation differs from the theoretical account that would arise using the applicable tax rate as follows:

	2014	2013
	(US$'000)	(US$'000)
Loss before taxation	(16,812)	(17,543)
Calculated at a taxation rate of 16.5% (2013: 16.5%)	(2,774)	(2,895)
Tax effect of expenses not deductible for tax	2,774	2,895
Taxation	—	—

6. Directors' emoluments

None of the directors received any fees or emoluments from the Group in respect of their services rendered to the Group during the year (2013: Nil).

7. Intangible assets

	IPR&D projects and others
	(US$'000)
December 31, 2014	
Cost at January 1, 2014 and December 31, 2014	30,000
December 31, 2013	
Cost at January 1, 2013 and December 31, 2013	30,000

Impairment test for intangible assets

The recoverable amount of the intangible asset is determined based on value-in-use calculation. The calculation uses cash flow projections based on projected revenues and estimated costs. The projections are based on factors such as projected market size and market share, probability of success rate, timing of commercialization and estimated useful life of the underlying assets. There were no key changes in the market or stage of development of the drug between 2013 and 2014. The discount rate used of 19.76% (2013: 19.56%) is derived from a capital asset pricing model using data from markets. The budgeted revenues and costs are determined by management based on the most recent development plan of the project and its expectation of market development. Changes in any key assumptions disclosed in the sensitivity table would not cause the carrying amount of the intangible asset to exceed the recoverable amount.

7. Intangible assets (Continued)

Impairment test for intangible assets (Continued)

The key assumptions used in the value-in-use calculation are as follows:

Key assumptions	2014	2013
Projected market size	US$10 billion	US$10 billion
Projected market share	10% of projected market size	10% of projected market size
Probability of success rate (Phase III)	65%	65%
Period of projected cash flows	18 years	19 years

The sensitivity of the value-in-use of the intangible assets to the changes in key assumptions is:

	Impact on the value-in-use of the intangible assets				
	Change in assumption	Increase in assumption		Decrease in assumption	
		2014	2013	2014	2013
—Market size	5% point	Increase by 12%	Increase by 9%	Decrease by 17%	Decrease by 12%
—Probability of success rate	2% point	Increase by 17%	Increase by 12%	Decrease by 17%	Decrease by 12%
—Discount rate	1% point	Decrease by 17%	Decrease by 13%	Increase by 20%	Increase by 14%

8. Cash and cash equivalents

	2014 (US$'000)	2013 (US$'000)
Cash at bank	6,249	17,031

The carrying amounts of the cash and cash equivalents are denominated in US dollars.

9. Share capital

	2014		2013	
	Number of shares	(US$'000)	Number of shares	(US$'000)
Authorised: (note (i))				
Ordinary shares of HK$1 each (note (ii))	—	—	20,000	2
Issued and fully paid:				
Ordinary shares				
At January 1	20,000	2	10,000	1
Issue of shares (note (iii))	—	—	10,000	1
Translation to no-par value regime on March 3, 2014 (note (iv))	—	59,998	—	—
At December 31	20,000	60,000	20,000	2
Share premium account at December 31 (note (iv))		—		59,998
Share capital as at December 31, 2014/share capital and share premium as at December 31, 2013 (note (iv))		60,000		60,000

Notes:

(i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on March 3, 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from March 3, 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders of the Company as a result of this transition.

(iii) On March 25, 2013, 10,000 additional ordinary shares of HK$1 each were issued at a total cash consideration of US$30,000,000 to NHS in accordance with the terms of the JV Agreement.

(iv) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) on March 3, 2014, the amounts standing to the credit of the share premium account have become part of the Company's share capital.

10. Amounts due to related companies

The amounts due to related companies are unsecured, interest-free and repayable on demand.

11. Shareholders' loans

The loans from shareholders, HMPHK and NHS, of US$5,000,000 each are unsecured, interest-bearing (with wavier of interest) and with an original maturity date of June 9, 2015, which is subject to extension from time to time by written consent from shareholders at the request of the Company.

12. Significant related party transactions

(a) Save as disclosed above, the Group has the following significant transactions during the years with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

	2014	2013
	(US$'000)	(US$'000)
Service fees charged by a subsidiary of Chi-Med (note)	4,191	3,612
Service fees charged by an affiliate of NHS	403	140
	4,594	3,752

Note:

On March 25, 2013, Hutchison MediPharma Limited ("HMP"), a subsidiary of Chi-Med, and NHS entered into a research and development collaboration agreement as contemplated by the JV Agreement for the exclusive rights to conduct research to evaluate and develop products from HMP's extensive botanical library and well established botanical research and development platform in the field of gastrointestinal disease.

The Company will own the right to any products arising from the future research and development. HMP and NHS will provide the necessary services and employees in order to facilitate the Company with the on-going research activities. HMP and NHS will be remunerated by a fee paid by the Company for the services and staff provided.

The agreement will end on December 31, 2022, until which time the Company is required to spend a minimum of US$500,000 in each calendar year on the research activities.

(b) Other transaction with related party:

On March 25, 2013, the Company and Nestec Ltd., an affiliate of NHS, entered into an option agreement for the exclusive option to obtain exclusive royalty-bearing licenses to commercialise certain products in certain territories. The exercise price of the option is either fixed or subject to negotiate upon the receipt of the exercise notice, depend on territories. The value of the option is considered as negligible.

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

No compensation was paid by the Group to the key management personnel of the Group in respect of their services rendered to the Group during the year (2013: Nil).

13. Financial instruments by category

Financial asset

The carrying amount of the Group's financial asset, comprising cash and cash equivalents, which is categorised as loans and receivables, amounted to US$6,249,000 as at December 31, 2014 (2013: US$17,031,000).

13. Financial instruments by category (Continued)

Financial liabilities

The aggregate carrying amount of the Group's financial liabilities, including other payables and accruals, shareholders' loans and amounts due to related companies, which are categorised as financial liabilities at amortised cost, amounted to US$12,903,000 as at December 31, 2014 (2013: US$5,398,000).

14. Subsidiary

Name	Place of establishment and operation	Nominal value of issued ordinary share capital in GBP As at December 31		Equity interest attributable to the Group As at December 31		Type of legal entity	Principal activity
		2014	2013	2014	2013		
Nutrition Science Partners (UK) Limited	UK	1	1	100%	100%	Limited liability company	Inactive

15. Subsequent events (Unaudited)

The loan agreements covering shareholder loans of US$5,000,000 each, as disclosed in note 11, were renewed on August 24, 2015, with an effective date of June 9, 2015, and the maturity date extended to June 9, 2016. Before the renewed loan agreements were executed, the directors had obtained confirmation that the shareholders would not demand immediate repayment of the loans from shareholders.

Nutrition Science Partners Limited
Condensed Consolidated Income Statement
For the six months ended June 30, 2015 and June 30, 2014

	Note	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
		(unaudited)	
Turnover		—	—
Service fee charged by related parties	11	(2,854)	(2,583)
Clinical trials expenses		(252)	(7,436)
Other research and development costs		(845)	(1,311)
Other expenses		(23)	(31)
Operating loss		(3,974)	(11,361)
Loss before taxation		(3,974)	(11,361)
Taxation charge	5	—	—
Loss for the period		(3,974)	(11,361)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nutrition Science Partners Limited
Condensed Consolidated Statement of Comprehensive Income
For the six months ended June 30, 2015 and June 30, 2014

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
	(unaudited)	
Loss for the period	(3,974)	(11,361)
Total comprehensive loss for the period	(3,974)	(11,361)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nutrition Science Partners Limited
Condensed Consolidated Statement of Financial Position
As at June 30, 2015 and December 31, 2014

	Note	June 30, 2015 (US$'000) (unaudited)	December 31, 2014 (US$'000)
ASSETS			
Non-current asset			
Intangible assets	7	30,000	30,000
Current assets			
Prepayments		675	2,299
Cash and cash equivalents		2,818	6,249
		3,493	8,548
Total assets		33,493	38,548
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	60,000	60,000
Accumulated losses		(38,329)	(34,355)
Total equity		21,671	25,645
LIABILITIES			
Current liabilities			
Other payables and accruals	9	752	2,393
Amounts due to related companies		1,070	510
Shareholders' loans	10	10,000	10,000
Total liabilities		11,822	12,903
Net current liabilities		(8,329)	(4,355)
Total assets less current liabilities		21,671	25,645
Total equity and liabilities		33,493	38,548

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nutrition Science Partners Limited
Condensed Consolidated Statement of Changes in Equity
For the six months ended June 30, 2015 and June 30, 2014

	Share capital	Share premium	Accumulated losses	Total equity
	(US$'000)	(US$'000)	(US$'000) (unaudited)	(US$'000)
At January 1, 2014	2	59,998	(17,543)	42,457
Loss for the period and total comprehensive loss for the period	—	—	(11,361)	(11,361)
Transition to no-par value regime on March 3, 2014 (note 9)	59,998	(59,998)	—	—
At June 30, 2014	60,000	—	(28,904)	31,096

	Share capital	Accumulated losses	Total equity
	(US$'000)	(US$'000) (unaudited)	(US$'000)
At January 1, 2015	60,000	(34,355)	25,645
Loss for the period and total comprehensive loss for the period	—	(3,974)	(3,974)
At June 30, 2015	60,000	(38,329)	21,671

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nutrition Science Partners Limited
Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2015 and June 30, 2014

	Six months ended June 30, 2015 (US$'000)	Six months ended June 30, 2014 (US$'000)
	(unaudited)	
Cash flows from operating activities		
Loss before taxation	(3,974)	(11,361)
Operating loss before working capital changes	(3,974)	(11,361)
Changes in working capital:		
Decrease/(Increase) in prepayments	1,624	(991)
(Decrease)/increase in other payables and accruals	(1,641)	994
Increase/(decrease) in amounts due to related companies	560	(737)
Net cash used in operating activities	(3,431)	(12,095)
Cash flows from financing activities		
Increase in shareholders' loans	—	10,000
Net cash from financing activities	—	10,000
Net decrease in cash and cash equivalents	(3,431)	(2,095)
Cash and cash equivalents at the beginning of the period	6,249	17,031
Cash and cash equivalents at the end of the period	2,818	14,936
Analysis of cash and bank balances		
—Cash and cash equivalents	2,818	14,936

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nutrition Science Partners Limited
Notes To The Unaudited Condensed Accounts

1. General information

Nutrition Science Partners Limited (the "Company") and its subsidiary (together, the "Group") are principally engaged in the research and development of pharmaceutical products. The Company was incorporated in Hong Kong on May 28, 2012 as a limited liability company. The registered office of the Company is located at 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

On November 27, 2012, Hutchison MediPharma (Hong Kong) Limited ("HMPHK"), a subsidiary of Hutchison China MediTech Limited ("Chi-Med", which together with its subsidiaries, hereinafter collectively referred to as the "Chi-Med Group") and Nestlé Health Science S.A. ("NHS"), a subsidiary of Nestlé S.A. ("Nestlé"), entered into a joint venture agreement ("JV Agreement"). Pursuant to the JV agreement, Nestlé agreed to contribute cash of US$30,000,000 and the Chi-Med Group agreed to contribute certain of its assets and business processes including (i) the global development and commercial rights of a novel, oral therapy for Inflammatory Bowel Disease for a drug candidate and (ii) the exclusive rights to its extensive botanical library and well established botanical research and development platform in the field of gastrointestinal disease into the Company. The Company would be jointly owned by HMPHK and NHS having 50% equity interest each.

During the year ended December 31, 2013, all regulatory approvals regarding the formation of the Company were received and NHS has injected cash of US$30,000,000 in accordance with the JV agreement.

These consolidated accounts are presented in United States dollars ("US$"), which is the Company's functional and presentation currency, unless otherwise stated.

2. Summary of significant accounting policies

(a) Basis of preparation

The Company has a financial year end date of December 31. These unaudited condensed interim accounts for the six months ended June 30, 2015 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended December 31, 2014 (the "2014 annual accounts"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The financial statements have been prepared on the going concern basis, notwithstanding that the Group had net current liabilities as at June 30, 2015, as the Company's shareholders have agreed not to demand the repayment of their loans to the Company until the Company is in a position to do so and, in the opinion of the directors, to provide adequate funds for the Group to meet its liabilities as and when they fall due, so as to maintain it as a going concern for the foreseeable future. In the opinion of the directors, the Company's shareholders will continue to provide the necessary funding to the Group for its development plans; and the Company's shareholders have the willingness and ability to provide such funding to the Group for the foreseeable future.

(b) Significant accounting policies

The condensed interim accounts have been prepared under the historical cost convention.

2. Summary of significant accounting policies (Continued)

(b) Significant accounting policies (Continued)

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the 2014 annual accounts, except for the adoption of the amendments and interpretations issued by the International Accounting Standards Board that are the mandatory for annual periods beginning January 1, 2015.

The effect of the adoption of these amendments and interpretations was not material to the Group's results and financial position.

3. Financial risk management and accounting estimates

The Group's activities expose it to a variety of financial risks: credit risk and liquidity risk. There have been no changes in any risk management policies since last year end.

The preparation of interim accounts required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. In preparing these interim accounts, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2014 annual accounts.

4. Segment information

The Group has one reporting segment which is research and development. All segment assets are located in Hong Kong. The Group's chief operating decision-makers review the consolidated results of the Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

5. Taxation

No Hong Kong profits tax has been provided as the Group had no assessable profit for the period (June 30, 2014: Nil).

6. Directors' emoluments

None of the directors received any fees or emoluments from the Group in respect of their services rendered to the Group during the period (June 30, 2014: Nil).

7. Intangible assets

	IPR&D projects (note) and others
	(US$'000)
June 30, 2015	
Cost at January 1, 2015 and June 30, 2015	30,000
December 31, 2014	
Cost at January 1, 2014 and December 31, 2014	30,000

Note:

IPR&D projects represent for acquired in-process research and development projects

8. Share capital

	2015		2014	
	Number of shares	(US$'000)	Number of shares	(US$'000)
Issued and fully paid:				
Ordinary shares				
At January 1,	20,000	60,000	20,000	2
Translation to no-par value regime on March 3, 2014 (note)	—	—	—	59,998
At June 30,	20,000	60,000	20,000	60,000

Note:

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622) on March 3, 2014, the amounts standing to the credit of the share premium account have become part of the Company's share capital.

9. Other payables and accruals

Other payables and accruals comprise mainly accrued research and development expenses.

10. Shareholders' loans

The loans from shareholders of US$5,000,000 each are unsecured, interest-bearing (with waiver of interest) and with an original maturity date of June 9, 2015, which is subject to extension from time to time by written consent from shareholders at the request of the Company.

The loan agreement was renewed on August 24, 2015, with an effective date of June 9, 2015, and the maturity date extended to June 9, 2016.

11. Significant related party transactions

(a) Save as disclosed above, the Group has the following significant transactions during the period with related parties which were carried out in the normal course of business at terms determined and agreed by the relevant parties:

	Six months ended June 30,	
	2015	2014
	(US$'000)	(US$'000)
Service fees charged by a subsidiary of Chi-Med	2,241	2,463
Service fees charged by an affiliate of NHS	613	120
	2,854	2,583

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

No compensation was paid by the Group to the key management personnel of the Group in respect of their services rendered to the Group during the period (June 30, 2014: Nil).

12. Subsidiary

	Place of establishment and operation	Nominal value of issued ordinary share capital in GBP		Equity interest attributable to the Group		Type of legal entity	Principal activity
		As at		As at			
Name		June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014		
Nutrition Science Partners (UK) Limited	UK	1	1	100%	100%	Limited liability company	Inactive