NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, TO U.S. NEWSWIRE SERVICES OR FOR RELEASE, PUBLICATION OR DISSEMINATION IN OR INTO OR FROM THE UNITED STATES, CANADA, AUSTRALIA, JAPAN OR SOUTH AFRICA OR ANY OTHER JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF SUCH JURISDICTION

CHI-MED

HUTCHISON CHINA MEDITECH LIMITED

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

London: Tuesday, 1 March 2016: Further to its announcements on 16 October 2015, 13 November 2015 and 11 February 2016, Hutchison China MediTech Limited ("Chi-Med") (AIM: HCM) announces that it has publicly filed today a fourth draft of the registration statement on Form F-1 (the "Form F-1 Registration Statement") with the United States Securities and Exchange Commission (the "SEC") in relation to a potential listing of American depositary shares ("ADSs") representing its ordinary shares on the Nasdaq Stock Market (the "Offering").

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.

The fourth draft of the Form F-1 Registration Statement relating to the ADSs has been filed with the SEC but has not yet become effective. The ADSs may not be sold, nor may offers to buy be accepted, prior to the time the Form F-1 Registration Statement becomes effective. The Form F-1 Registration Statement and all subsequent amendments may be accessed through the SEC's website at www.sec.gov.

This announcement does not constitute an offer to sell or the solicitation of an offer to buy ADSs or any other securities, nor shall there be any sale of ADSs in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

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.

Financial results for the year ended 31 December 2015

The Form F-1 Registration Statement contains the audited consolidated financial statements of Chi-Med as of and for the year ended 31 December 2015, prepared in accordance with U.S. GAAP. In addition, the Form F-1 Registration Statement contains audited consolidated accounts for the three non-consolidated joint ventures of Chi-Med, namely, Shanghai Hutchison Pharmaceuticals Limited, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited and Nutrition Science Partners Limited, as of and for the year ended 31 December 2015, prepared in accordance with IFRS. Such audited consolidated financial statements, as extracted from the Form F-1 Registration Statement, are set out in the appendices to this announcement. A separate announcement in respect of Chi-Med's financial results for the year ended 31 December 2015 has been released today and the final audited consolidated financial statements will be sent to shareholders as part of Chi-Med's annual report and accounts in due course.

Ends

Enquiries:

Chi-Med Christian Hogg, CEO	Telephone: +852 2121 8200
Panmure Gordon (UK) Limited Richard Gray Andrew Potts	Telephone: +44 20 7886 2500
Citigate Dewe Rogerson Anthony Carlisle David Dible	Telephone: +44 20 7638 9571 Mobile: +44 7973 611 888 Mobile: +44 7967 566 919

Notes to Editors

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 registration statement on Form F-1 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 potential public offering of securities to be made in the United States will be made by means of a Form F-1 Registration Statement that has been declared effective by the SEC. The Form F-1 Registration Statement contains 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.

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 acquaint themselves with 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. A 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 SEC, 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.

Appendices
Audited Consolidated Financial Statements of Chi-Med prepared in accordance with U.S. GAAP
and
Audited Consolidated Accounts 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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
March 1, 2016

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

	December 31,	
	2015	**2014**
Assets		
Current assets		
Cash and cash equivalents	31,941	38,946
Short-term investments	—	12,179
Accounts receivable—third parties	33,346	22,724
Accounts receivable—related parties	l,869	2,184
Other receivables, prepayments and deposits	3,413	3,016
Amounts due from related parties	9,293	6,283
Inventories	9,555	4,405
Deferred tax assets	250	105
Total current assets	**89,667**	**89,842**
Property, plant and equipment, net	8,507	7,482
Leasehold land	1,343	1,436
Goodwill	3,332	3,430
Other intangible asset	571	666
Long-term prepayment	2,132	—
Deferred costs for initial public offering in the United States	4,446	—
Investments in equity investees	119,756	107,978
Total assets	**229,754**	**210,834**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable—third parties	20,565	18,237
Accounts payable—related parties	3,521	2,190
Other payables, accruals and advance receipts	26,177	17,159
Deferred revenue	1,171	2,394
Amounts due to related parties	6,243	8,716
Short-term bank borrowings	23,077	26,282
Deferred tax liabilities	308	321
Total current liabilities	**81,062**	**75,299**
Deferred tax liabilities	3,415	2,626
Long-term bank borrowings	26,923	26,923
Deferred revenue	3,498	4,182
Deferred income	2,132	—
Other non-current liabilities	10,447	3,853
Total liabilities	**127,477**	**112,883**
Commitments and contingencies (Note 19)		
Redeemable non-controlling interests	—	41,036
Company's shareholders' equity		
Ordinary shares; $1.00 par value; 75,000,000 shares authorized; 56,533,118 and 53,076,676 shares issued at December 31, 2015 and 2014	56,533	53,076
Additional paid-in capital	113,848	76,256
Accumulated losses	(92,040)	(100,051)
Accumulated other comprehensive income	5,015	9,870
Total Company's shareholders' equity	**83,356**	**39,151**
Non-controlling interests	18,921	17,764
Total shareholders' equity	**102,277**	**56,915**
Total liabilities and shareholders' equity	**229,754**	**210,834**

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,		
	2015	**2014**	**2013**
Revenues			
Sales of goods—third parties	118,113	59,162	8,667
Sales of goods—related parties	8,074	7,823	7,803
Revenue from license and collaboration agreements—third parties	44,060	12,336	14,546
Revenue from research and development services—third parties	2,573	3,696	1,919
Revenue from research and development services—related parties	5,383	4,312	3,612
Total revenues	**178,203**	**87,329**	**36,547**
Operating expenses			
Costs of sales of goods—third parties	(104,859)	(53,477)	(5,380)
Costs of sales of goods—related parties	(5,918)	(5,372)	(5,814)
Research and development expenses	(47,368)	(29,914)	(22,731)
Selling expenses	(10,209)	(4,112)	(3,452)
Administrative expenses	(19,620)	(12,713)	(12,366)
Total operating expenses	**(187,974)**	**(105,588)**	**(49,743)**
Loss from operations	**(9,771)**	**(18,259)**	**(13,196)**
Other (expense)/income			
Interest income	451	559	451
Gain on disposal of a business	—	—	30,000
Other income	386	20	1,221
Interest expense	(1,404)	(1,516)	(1,485)
Other expense	(202)	(761)	(69)
Total other (expense)/income	**(769)**	**(1,698)**	**30,118**
(Loss)/income before income taxes and equity in earnings of equity investees	**(10,540)**	**(19,957)**	**16,922**
Income tax expense	(1,605)	(1,343)	(1,050)
Equity in earnings of equity investees, net of tax	22,572	15,180	11,031
Net income/(loss) from continuing operations	**10,427**	**(6,120)**	**26,903**
Income/(loss) from discontinued operations, net of tax (including loss on disposal of US$97,000 for 2013)	—	2,034	(1,978)
Net income/(loss)	**10,427**	**(4,086)**	**24,925**
Less: Net income attributable to non-controlling interests	(2,434)	(3,220)	(983)
Net income/(loss) attributable to the Company	**7,993**	**(7,306)**	**23,942**
Accretion on redeemable non-controlling interests	(43,001)	(25,510)	—
Net (loss)/income attributable to ordinary shareholders of the Company	**(35,008)**	**(32,816)**	**23,942**
(Losses)/earnings per share attributable to ordinary shareholders of the Company—basic (US$ per share)			
Continuing operations	(0.64)	(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)	(0.64)	0.44
Discontinued operations	—	0.02	(0.03)
Number of shares used in per share calculation—basic	54,659,315	52,563,387	52,050,988
Number of shares used in per share calculation—diluted	54,659,315	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,		
	2015	**2014**	**2013**
Net income/(loss)	**10,427**	**(4,086)**	**24,925**
Other comprehensive (loss)/income:			
Foreign currency translation (loss)/income	(5,557)	(2,712)	3,243
Total Comprehensive income/(loss)	**4,870**	**(6,798)**	**28,168**
Less: Comprehensive income attributable to non-controlling interests	(1,732)	(2,944)	(1,296)
Total Comprehensive income/(loss) attributable to the Company	**3,138**	**(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-share options	—	—	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-share options	—	—	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**
Net income	—	—	—	7,993	—	7,993	2,434	10,427
Issuance of ordinary shares in relation to exercise of share options	243	243	1,131	—	—	1,374	—	1,374
Issuance of ordinary shares in exchange of redeemable non-controlling interest	3,214	3,214	80,823	—	—	84,037	—	84,037
Share-based compensation								
Share options	—	—	168	—	—	168	—	168
Long-term incentive plan	—	—	233	—	—	233	—	233
	—	—	401	—	—	401	—	401
Long-term incentive plan-treasury shares held by Trustee (note 22(iii))	—	—	(1,786)	—	—	(1,786)	—	(1,786)
Foreign currency translation adjustments	—	—	—	—	(4,855)	(4,855)	(702)	(5,557)
Dividend paid to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	(590)	(590)
Transfer between reserves	—	—	24	(24)	—	—	—	—
Dilution of interests in a subsidiary in relation to exercise of share options of a subsidiary	—	—	—	42	—	42	15	57
Accretion to redemption value of redeemable non-controlling interests	—	—	(43,001)	—	—	(43,001)	—	(43,001)
As of December 31, 2015	**56,533**	**56,533**	**113,848**	**(92,040)**	**5,015**	**83,356**	**18,921**	**102,277**

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, 2015	2014	2013
Operating activities			
Net income/(loss)	10,427	(4,086)	24,925
Adjustments to reconcile net income/(loss) to net cash (used in)/generated from operating activities			
Gain on disposal of a business	—	—	(30,000)
Depreciation and amortization	2,015	1,265	963
Loss on retirement of property, plant and equipment	60	36	18
Inventories written off	12	147	1,028
Provision for excess and obsolete inventories	25	15	125
Decrease in provision for excess and obsolete inventories due to sale of inventories	(33)	(106)	(954)
Allowance for doubtful accounts	1,408	185	42
Share-based compensation expense-share options	1,151	1,065	1,473
Share-based compensation expense-long-term incentive plan	308	—	—
Equity in earnings of equity investees	(22,572)	(15,180)	(11,031)
Dividend received from equity investees	6,410	15,949	11,812
Foreign currency gain/(loss)	198	173	(11)
Income taxes	1,093	497	(131)
Changes in operating assets and liabilities			
Accounts receivable—third parties	(12,030)	8,285	(5,088)
Accounts receivable—related parties	315	1,754	(1,187)
Other receivables, prepayments and deposits	(397)	454	(173)
Amounts due from related parties	(3,010)	(5,029)	(60)
Inventories	(5,154)	167	(29)
Long-term prepayment	(2,132)	—	—
Accounts payable—third parties	2,328	2,332	303
Accounts payable—related parties	1,331	(162)	677
Other payables, accruals and advance receipts	4,660	(47)	4,711
Deferred revenue	(1,907)	(697)	6,544
Deferred income	2,132	—	—
Amounts due to related parties	3,977	1,342	1,071
Net cash (used in)/generated from operating activities	(9,385)	8,359	5,028
Investing activities			
Acquisition of a subsidiary, net of cash acquired	—	689	—
Purchases of property, plant and equipment	(3,324)	(3,729)	(2,500)
Deposit in short-term investments	12,179	(12,179)	—
Net cash generated from/(used in) investing activities	8,855	(15,219)	(2,500)
Financing activities			
Proceeds from issuance of ordinary shares	1,374	2,680	7
Proceeds from exercise of share options of a subsidiary	57	121	—
Purchases of treasury shares	(1,786)	—	—
Dividends paid to a non-controlling shareholder of a subsidiary	(590)	(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	3,205	8,205	14,261
Repayment of bank borrowings	(6,410)	(11,277)	(568)
Payment for the deferred costs for initial public offering in the United States	(1,321)	—	—
Net cash (used in)/generated from financing activities	(5,471)	(641)	13,123
Net (decrease)/increase in cash and cash equivalents	(6,001)	(7,501)	15,651
Effect of exchange rate changes on cash and cash equivalents	(1,004)	(416)	445
	(7,005)	(7,917)	16,096
Cash and cash equivalents			
Cash and cash equivalents at beginning of year	38,946	46,863	30,767
Cash and cash equivalents at end of year	31,941	38,946	46,863
Supplemental disclosure for cash flow information			
Cash paid for interest	1,220	1,466	1,485
Cash paid for tax, net of refunds	510	908	1,181
Supplemental disclosure for non-cash activities			
Issuance of ordinary shares in exchange of redeemable non-controlling interests	84,037	—	—
Deferred costs for initial public offering in the United States incurred but not yet paid	3,125	—	—

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$9.8 million, US$18.3 million and US$13.2 million for the years ended December 31, 2015, 2014 and 2013 respectively. As of December 31, 2015, the Group had accumulated losses of US$92.0 million. As of December 31, 2015, the Group had cash and cash equivalents of US$31.9 million and unutilized bank borrowing facilities of US$6.9 million. Subsequently, in February 2016, the Group has established new credit facilities of US$60 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.

1. Organization and Nature of Business (Continued)

Liquidity (Continued)

Based on the Group's operating plan, the 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 At December 31, 2015	2014	Principal activities
Subsidiaries				
Hutchison MediPharma Limited	PRC	99.75%	99.81%	Research and development of pharmaceutical products
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Company Limited ("Hutchison Sinopharm")	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))	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	49.88%	49.91%	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 of these subsidiaries 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 99.75% and 99.81% owned subsidiary of the Group as of December 31, 2015 and 2014. The effective equity interest of the Group in NSPL is therefore 49.88% and 49.91% for 2015 and 2014 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 2015 and 2014.

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 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$79,000, 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, 2015, 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, 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, 2015 and 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 effect 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 or 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, 2015, 2014 and 2013 amounted to US$1,426,000, US$810,000 and US$672,000 respectively. Out of this total, US$237,000, nil and US$40,000 were recorded in research and development expenses for the years ended December 31, 2015, 2014 and 2013 respectively and US$1,189,000, US$810,000 and US$632,000 were recorded in administrative expenses for the years ended December 31, 2015, 2014 and 2013 respectively. Government incentives received in respect of research and development are recorded as a reduction to operating lease rentals in 2015 and 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, 2015, 2014 and 2013 amounted to US$1,653,000, US$1,370,000 and US$1,096,000 respectively.

3. Summary of Significant Accounting Policies (Continued)

Share-Based Compensation

Share options

The share options are classified as equity settled awards. 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.

Long-term Incentive Scheme

The Long-Term Incentive Plan (“LTIP”) is recognized as a liability in the consolidated balance sheets before the determination date (i.e. the achievement date of the performance conditions is known, being one business day following the publication of the annual report for the financial year to which the award relates). Following the determination dates, the LTIP are settled in a variable number of shares based on a fixed monetary amount, which is determined by the actual achievement of performance target. The LTIP are classified as equity-settled awards from this date. The amounts previously recorded in the liability will be transferred to additional paid-in capital.

The Group recognizes the expense, net of estimated forfeitures, on the LTIP based on a fixed monetary amount on a straight-line basis over the requisite 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. Prior to the determination date, the amount of LTIP that are expected to vest also takes into consideration the achievement of the non-market performance conditions and the extent to which the performance conditions are likely to be met.

Treasury shares

The Company accounted for treasury shares under the cost method. As of December 31, 2015 and 2014, the amount of treasury shares is approximately US$1,786,000 and nil, respectively, and the number of treasury shares is 40,655 and nil, respectively. The treasury shares were purchased for the purpose of the granting of conditional awards under LTIP as disclosed in Note 22. The Company expects to repurchase

3. Summary of Significant Accounting Policies (Continued)

Treasury shares (Continued)

the shares amounting to approximately US$307,000 during 2016, based on estimation of the determination of LTIP.

Ordinary shares

The Company's ordinary shares are stated at par value of $1.00 per ordinary share. The difference between the consideration received, net of issuance cost, and the par value is recorded in additional paid-in capital. Specific incremental costs directly attributable to the Company's proposed offering of shares in the United States have been deferred and will be charged against the gross proceeds of the offering upon closing of the offering.

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 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 advance are deferred and recognized in the statement of operations over the period necessary

3. Summary of Significant Accounting Policies (Continued)

Government Incentives (Continued)

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 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.

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects (Continued)

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 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

3. Summary of Significant Accounting Policies (Continued)

Revenues from research and development projects (Continued)

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 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.

3. Summary of Significant Accounting Policies (Continued)

Earnings/(losses) per share (Continued)

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.

For the years ended December 31, 2015, 2014 and 2013, profit appropriation to statutory funds for the Group's entities incorporated in the PRC was approximately US$24,000, 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

3. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

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 balance sheets, 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 balance sheets, 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, Inventory (Topic 330): 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, 2016. The Group does not expect this updated standard to have a material impact on the consolidated financial statements and associated disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes, which require the deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The adoption of ASU 2015-17 is expected to impact the presentation of the Group’s consolidated balance sheets only.

3. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 makes a number of changes to the accounting for equity investments and financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. It also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. ASU 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption of this particular guidance from ASU 2016-01 is not permitted. The Group is currently evaluating the method of adoption and impact ASU 2016-01 will have on the Group's consolidated balance sheets, results of operations, cash flows, and associated disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Group is currently evaluating the method of adoption and the impact ASU 2016-02 will have on the Group's consolidated balance sheets, results of operations, cash flows and associate 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.

4. Acquisition (Continued)

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.

(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 had 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 had 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.

	2015	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, 2015				
Cash and cash equivalents	31,941	—	—	31,941
As of December 31, 2014				
Cash and cash equivalents	38,946	—	—	38,946
Short-term investments	12,179	—	—	12,179

6. Fair Value Disclosures (Continued)

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,	
	2015	2014
	(in US$'000)	
Cash at bank and in hand	31,941	32,019
Short-term bank deposits (note (i))	—	6,927
	31,941	38,946
Denominated in:		
US$ (note (ii))	7,352	8,104
RMB (note (ii))	19,271	28,034
UK Pound Sterling	318	247
Hong Kong dollar ("HK$")	4,987	2,543
Euro	13	18
	31,941	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 December 31, 2015 and 2014 respectively, was 3.72% and 1.74% per annum as of December 31, 2015 and 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

	December 31,	
	2015	2014
	(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 are due within one year from the end of the reporting period.

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:

	2015	2014	2013
	(in US$'000)		
At January 1	1,793	1,670	1,554
Allowance	1,408	185	42
Exchange difference	(74)	(62)	74
At December 31	3,127	1,793	1,670

In December 2015, the Group recorded a provision amounting to approximately US$1,322,000 which represents the outstanding balance due from a distributor of which collection has become doubtful due to the distributor's unsatisfactory performance during the fourth quarter of 2015. The Group has terminated the distributor's exclusive distribution rights in January 2016.

As at December 31, 2015 and 2014, accounts receivable of approximately US$52,000 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:

	December 31,	
	2015	2014
	(in US$'000)	
Up to 3 months	—	—
4 to 6 months	—	24
6 to 12 months	52	2,106
	52	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. These counterparties do not have defaults in the past.

As at December 31, 2015, 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,	
	2015	2014
	(in US$'000)	
Prepayments to suppliers	1,542	1,327
Interest receivable	—	200
Prepaid general and administrative expenses	253	295
Government incentives	—	407
Deposits	309	147
Value-added tax receivables	748	441
Others	561	199
	3,413	3,016

11. Inventories

Inventories consisted of the following:

	December 31,	
	2015	2014
	(in US$'000)	
Raw materials	753	291
Finished goods	8,802	4,114
	9,555	4,405

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

	2015	2014	2013
	(in US$'000)		
At January 1	34	126	937
Provision	25	15	125
Decrease due to sale of inventories	(33)	(106)	(954)
Exchange difference	(1)	(1)	18
At December 31	25	34	126

12. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	2015	2014
Cost		
Buildings	2,392	2,491
Leasehold improvements	5,989	4,291
Plant and equipment	88	91
Furniture and fixtures, other equipment and motor vehicles	12,806	12,278
Construction in progress	567	832
Total Cost	21,842	19,983
Less: Accumulated depreciation		
As at January 1	12,501	11,860
Exchange differences	(524)	(278)
Acquisition of a subsidiary	—	112
Expense for the year	1,908	1,180
Disposals	(550)	(373)
As at December 31	13,335	12,501
	8,507	7,482

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 is approximately US$1,908,000, 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,		
	2015	2014	2013
	(in US$'000)		
Cost			
As at January 1	1,720	1,761	1,706
Exchange differences	(69)	(41)	55
As at December 31	1,651	1,720	1,761
Accumulated amortization			
As at January 1	284	253	208
Exchange differences	(13)	(6)	7
Amortization charge	37	37	38
As at December 31	308	284	253
Net book value			
As at December 31	1,343	1,436	1,508

14. Goodwill and other intangible asset

Goodwill consisted of the following:

	Commercial Platform	
	December 31,	
	2015	2014
	(in US$'000)	
As at January 1	3,430	407
Addition	—	3,023
Exchange differences	(98)	—
As at December 31	3,332	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, 2015 and concluded that goodwill was not impaired.

Other intangible asset consisted of the following:

	December 31,		
	2015	2014	2013
	(in US$'000)		
GSP License			
Cost			
As at January 1	714	—	—
Addition	—	708	—
Exchange differences	(29)	6	—
As at December 31	685	714	—
Accumulated amortization			
As at January 1	48	—	—
Amortization charge	70	48	—
Exchange differences	(4)	—	—
As at December 31	114	48	—
Net book value			
As at December 31	571	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 years ended December 31, 2015 and 2014 is approximately US$70,000 and US$48,000 respectively.

14. Goodwill and other intangible asset (Continued)

The estimated aggregate amortization expense for each of the next five years as of December 31, 2015 is as follows:

	GSP License
	(in US$'000)
2016	70
2017	70
2018	70
2019	70
2020	70

15. Investments in equity investees

Investments in equity investees comprised the following:

	December 31,	
	2015	2014
	(in US$'000)	
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited	60,762	55,753
Shanghai Hutchison Pharmaceuticals Limited	49,709	39,158
Nutrition Science Partners Limited	9,046	12,823
Other	239	244
	119,756	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 HBYS		Prescription Drugs SHPL		Drug R&D NSPL	
	December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014
	(in US$'000)					
Current assets	114,383	144,129	129,456	77,566	3,034	8,548
Non-current assets	88,263	73,042	95,513	65,608	30,000	30,000
Current liabilities	(61,467)	(84,850)	(124,617)	(52,052)	(14,941)	(12,903)
Non-current liabilities	(16,116)	(17,013)	(7,089)	(19,216)	—	—
Net assets	125,063	115,308	93,263	71,906	18,093	25,645

15. Investments in equity investees (Continued)

(ii) Summarized statement of operations

	Commercial Platform						Innovation Platform		
	Consumer Health HBYS			Prescription Drugs SHPL			Drug R&D[(a)] NSPL		
	December 31			December 31			December 31		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(in US$'000)								
Revenue	211,603	243,746	247,626	181,140	154,703	138,160	—	—	—
Gross profit	91,461	96,421	90,795	127,608	109,965	100,167	—	—	—
Depreciation and amortization	(3,274)	(3,206)	(3,037)	(2,765)	(2,651)	(2,612)	—	—	—
Interest income	628	1,322	1,126	306	257	197	—	—	—
Finance cost	(158)	(139)	(183)	—	—	—	—	—	—
Income/(loss) before taxation	25,164	24,805	20,460	37,401	31,505	26,620	(7,552)	(16,812)	(17,543)
Income tax expense and non-controlling interest	(3,788)	(4,030)	(3,295)	(6,094)	(5,103)	(4,196)	—	—	—
Net income/(loss)	21,376	20,775	17,165	31,307	26,402	22,424	(7,552)	(16,812)	(17,543)

Notes:

(a) NSPL only incurs research and development expenses in 2015, 2014 and 2013.

(b) The net income for other individual immaterial equity investees for the year ended December 31, 2015 is approximately US$12,000. The net loss for other individual immaterial equity investees for the year ended 2014 is approximately US$5,000 and the net income for the year ended December 31, 2013 is approximately US$16,000.

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		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(in US$'000)								
Opening net assets at January 1	115,308	109,986	95,592	71,906	66,476	59,358	25,645	42,457	60,000
Purchase of additional interests in a subsidiary of an equity investee	—	(468)	—	—	—	—	—	—	—
Net income/(loss)	21,376	20,775	17,165	31,307	26,402	22,424	(7,552)	(16,812)	(17,543)
Dividend declared	(6,410)	(12,820)	(6,462)	(6,410)	(19,077)	(17,162)	—	—	—
Other comprehensive income and non-controlling interests	(5,211)	(2,165)	3,691	(3,540)	(1,895)	1,856	—	—	—
Closing net assets at December 31	125,063	115,308	109,986	93,263	71,906	66,476	18,093	25,645	42,457
Group's share of net assets	62,532	57,654	54,993	46,632	35,953	33,238	9,046	12,823	21,229
Goodwill	—	—	—	3,077	3,205	3,282	—	—	—
Non-controlling interests	(1,770)	(1,901)	(1,700)	—	—	—	—	—	—
Carrying value	60,762	55,753	53,293	49,709	39,158	36,520	9,046	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,	
	2015	2014
	(in US$'000)	
Not later than one year	1,452	1,109
Later than one year and not later than five years	509	548
Total minimum lease payments	1,961	1,657

15. Investments in equity investees (Continued)

(iii) Reconciliation of summarized financial information (Continued)

(b) Capital commitments

The equity investees had the following capital commitments:

	December 31, 2015	December 31, 2014
	(in US$'000)	
Property, plant and equipment		
Contracted but not provided for	27,789	61,311

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.

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, 2015	December 31, 2014
	(in US$'000)	
Research and development expenses	3,758	5,963
Accrued salaries and benefits	5,521	4,140
Accrued expenses	11,232	3,938
Other payables	3,322	1,802
Payments in advance from customers	641	564
Deferred government incentives	1,256	580
Current tax liabilities	442	122
Accrued interest	5	50
	26,177	17,159

18. Bank borrowings

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

	December 31, 2015	December 31, 2014
	(in US$'000)	
Non-current (note (i))	26,923	26,923
Current (note (i),(ii) and (iii))	23,077	26,282
	50,000	53,205

The weighted average interest rate for bank borrowings outstanding as of December 31, 2015 and 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 1.50% over the Hong Kong Interbank Offered Rate ("HIBOR") per annum and was classified as a short-term bank borrowing as at December 31, 2013.

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

The term loan is unsecured and guaranteed by Hutchison Whampoa Limited (an indirect subsidiary of CK Hutchison) as at December 31, 2015 and 2014. A fee is paid to Hutchison Whampoa Limited for the guarantee (note 26).

(ii) As at December 31, 2015 and 2014, the Group, through its subsidiary has revolving loans of HK$180,000,000 (US$23,077,000) and HK$205,000,000 (US$26,282,000) which bears interest at 1.05% over HIBOR per annum till October 2015 and 1.25% over HIBOR per annum from November 2015 and are unsecured. The borrowing was classified as current borrowings as of December 31, 2015 and 2014.

(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:

	December 31, 2015	December 31, 2014
	(in US$'000)	
Within 1 year	23,077	26,282
Between 2 and 5 years	26,923	26,923
	50,000	53,205

18. Bank borrowings (Continued)

(v) As at December 31, 2015 and 2014, the carrying amounts of the Group's bank borrowings are all denominated in HK$.

(vi) As at December 31, 2015 and 2014, the Group has unused credit facilities in relation to revolving loan facilities of US$6,923,000, 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:

	December 31,	
	2015	2014
	(in US$'000)	
Not later than one year	1,274	980
Later than one year and not later than five years	911	1,425
Later than five years	183	329
Total minimum lease payments	2,368	2,734

(b) Capital commitments

The Group had the following capital commitments:

	December 31,	
	2015	2014
	(in US$'000)	
Property, plant and equipment		
Contracted but not provided for	593	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, the "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 represents approximately 12.24% of HMHL on a fully diluted basis.

20. Redeemable non-controlling interests (Continued)

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 Preferred Shares to Mitsui and 4,825,418 HMHL's ordinary shares to the Company for an aggregate consideration of US$25.0 million, after which Mitsui's interest in HMHL remained at 12.24% on a fully diluted basis.

On July 23, 2015, the Company entered into a subscription agreement (the "Agreement") with Mitsui under which the Company has issued 3,214,404 new ordinary shares of the Company ("Subscription Shares") valued at approximately US$84.0 million in exchange for the Preferred Shares held by Mitsui with carrying value of US$84.0 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 held 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 and additional paid-in capital amounts.

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 ratably among the preferred and ordinary shareholders.

20. Redeemable non-controlling interests (Continued)

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 years ended December 31, 2015 and 2014, HMHL recorded an accretion of US$43,001,000 and US$25,510,000 respectively to the preferred shares based on such preferred shareholder's share of the estimated valuation of HMHL.

21. Ordinary Shares

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

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

	2015	2014	2013
Balance as at January 1	53,076	52,051	52,048
Issuances of shares	3,214	—	—
Issuances in relation to exercise of options	243	1,025	3
Balance as at December 31	56,533	53,076	52,051

Each ordinary share is entitled to one vote. The holders of ordinary shares 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, 2015, the number of shares authorized but unissued was 18,466,882 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

22. Share-based Compensation (Continued)

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

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. These share option were fully vested as of December 31, 2014 and were exercised during the year ended December 31, 2015. As of December 31, 2015, no share options are held by non-employees.

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
Granted	—	—		
Exercised	(242,038)	3.77		
Cancelled	—	—		
Outstanding at December 31, 2015	442,365	5.16	6.53	10,061
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
Vested and expected to vest at December 31, 2015	333,393	4.85	6.05	7,685
Vested and exercisable at December 31, 2015	291,015	4.67	5.77	6,762

22. Share-based Compensation (Continued)

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

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.

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	
	June 24, 2011	**December 20, 2013**
Value of each share option	£1.841	£3.154
Significant inputs into the valuation model:		
Exercise price	£4.405	£6.100
Share price at effective date of grant	£4.3250	£6.1000
Expected volatility	46.6%	36.0%
Risk-free interest rate	3.130%	3.160%
Contractual life of share options	10 years	10 years
Expected dividend yield	0%	0%

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

	Years Ended December 31,		
	2015	**2014**	**2013**
	(in £'000, except per share data)		
Weighted-average grant-date fair value of share option granted during the period	—	—	3.15
Total intrinsic value of share options exercised	3,296	7,738	9
Total intrinsic value of share options exercised in US$'000	5,020	12,034	15

22. Share-based Compensation (Continued)

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

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,		
	2015	**2014**	**2013**
	(in US$'000)		
Research and development expenses	74	539	—
Administrative expenses	14	233	176
	88	772	176

As of December 31, 2015, the total unrecognized compensation cost was US$55,000, net of estimated forfeiture rates, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 1.97 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2015, 2014 and 2013 was approximately US$1,374,000, US$2,680,000 and US$7,000 respectively. The Company will issue new shares to satisfy share options exercises.

(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, 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 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.

22. Share-based Compensation (Continued)

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

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, 2015, US$0.9 million and US$0.8 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.

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		
Cancelled	(2,485,189)	1.79		
Outstanding at December 31, 2013	538,420	2.03	2.30	1,356
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	(24,400)	2.34		
Lapsed	—	—		
Cancelled	—	—		
Outstanding at December 31, 2015	1,187,372	7.82	7.97	32,292
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
Vested and expected to vest at December 31, 2015	759,918	7.82	7.97	20,667
Vested and exercisable at December 31, 2015	593,686	7.82	7.97	16,146

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.

22. Share-based Compensation (Continued)

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

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.

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	48.6%	55.4%	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,		
	2015	**2014**	**2013**
	(in US$'000, except per share data)		
Weighted-average fair value of share option granted during the period	—	3.49	—
Total intrinsic value of share options exercised	352	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,		
	2015	**2014**	**2013**
	(in US$'000)		
Research and development	1,063	293	1,297

22. Share-based Compensation (Continued)

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

As of December 31, 2015, the total unrecognized compensation cost was US$336,000, net of estimated forfeiture rate, and will be recognized on a graded vesting approach over the weighted-average remaining service period of 1.97 years.

Cash received from option exercises under the share option plan for the years ended December 31, 2015, 2014 and 2013 were US$57,000, US$121,000 and nil respectively. The subsidiary will issue new shares to satisfy share option exercises.

(iii) Long-term incentive plan

The Company granted awards under LTIP on October 19, 2015. The LTIP awards granted participating directors or employees a conditional right to receive ordinary shares in the Company (the "Ordinary Shares"), to be purchased by a trustee consolidated by the Company (the "Trustee") up to a maximum cash amount depending upon the achievement of annual performance targets for each financial year of the Company stipulated in the LTIP awards. The Trustee has been set up solely for the purpose of purchasing and holding the Ordinary Shares during the vesting period on behalf of the Group using funds provided by the Group.

On the determination date, the Company will determine the cash amount, based on the actual achievement of each annual performance target, for the Trustee to purchase the Ordinary Shares. The Ordinary Shares will then be held by the Trustee until they are vested. Vesting will occur one business day after the publication date of the annual report of the Company for the financial year falling two years after the financial year to which the LTIP award relates. Vesting will also depend upon continued employment of the award holder with the Group and will otherwise be at the discretion of the Board of Directors of the Group. The initial LTIP awards will cover a three-year period from 2014 to 2016 (the "LTIP Period"). The maximum cash amount per annum for the LTIP Period stipulated in the LTIP awards is approximately US$1.8 million.

As at December 31, 2015, the number of Ordinary Shares purchased and held by the Trustee is 40,655 amounted to approximately US$1.8 million and none of the LTIP awards have been vested or forfeited. Other than the treasury shares, the Trustee does not have any assets or liabilities as at December 31, 2015.

LTIP awards prior to the determination date

As the extent of achievement of the performance targets is uncertain prior to the determination date, a probability based on management's assessment on the achievement of the performance target has been assigned to calculate the amount to be recognized as an expense over the requisite period with corresponding entry to liability. As at December 31, 2015, approximately US$75,000 was recorded as compensation expense with a corresponding liability for LTIP awards prior to the determination date.

LTIP awards after the determination date

Upon the determination date, if the performance target is achieved, the Company will pay the fixed monetary amount to the Trustee to purchase the Ordinary Shares. If the performance target is not achieved, no Ordinary Shares of the Company will be purchased and the amount previously recorded in the liability will be reversed through profit or loss. Any cumulative compensation expense previously recognized as a liability will be transferred to additional paid-in capital, as an equity-settled award.

22. Share-based Compensation (Continued)

(iii) Long-term incentive plan (Continued)

As at December 31, 2015, approximately US$1,786,000 was paid to the Trustee and debited to the additional paid-in capital as treasury shares and approximately US$233,000 was recorded as a compensation expense with a credit to additional paid-in capital.

The following table presents the expenses recognized under the LTIP awards:

	Years Ended December 31,	
	2015	2014
	(in US$'000)	
Research and development expenses	156	—
Administrative expenses	152	—
	308	—

As of December 31, 2015, the total unrecognized compensation cost was approximately US$2,678,000 net of the estimated probability rate, and will be recognized over the requisite period.

23. Revenue from license and collaboration agreements—third parties

The Group recognized revenue from license and collaboration agreements—third parties of US$44.1 million, US$12.3 million and US$14.5 million for the years ended December 31, 2015, 2014 and 2013 respectively, which consisted of the following:

	Years Ended December 31,		
	2015	2014	2013
	(in US$'000)		
Milestone revenue	19,212	5,000	11,000
Amortization of upfront payment	1,907	701	122
Research and development services	22,941	6,635	3,424
	44,060	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

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

License and collaboration agreement with Eli Lilly (Continued)

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, 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.

For the year ended December 31, 2015, the Group recognized US$19.2 million milestone revenues in relation to the achievement of the "proof of concept" milestone for two indications in accordance with the terms of the agreement. 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$1.8 million, US$0.6 million and nil revenue from amortization of the up-front payment during the years ended December 31, 2015, 2014 and 2013. In addition, the Group recognized US$19.4 million for the provision of research and development services for the year ended December 31, 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 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. 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.

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

License and collaboration agreement with AstraZeneca (Continued)

The Group recognizes milestone revenue relating to the deliverables, in the agreement as a single unit of using the milestone method. The Group did not recognize any milestone income for the year ended December 31, 2015 but US$5.0 million and US$5.0 million for the years ended December 31, 2014 and 2013, respectively. The Group also recognized US$3.5 million, US$6.6 million and US$3.4 million for the provision of research and development services for the years ended December 31, 2015, 2014 and 2013 respectively. In addition, the Group recognized US$0.1 million, US$0.1 million and US$0.1 million as revenue from amortization of the upfront payment during the years ended December 31, 2015, 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.

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 for the years ended December 31, 2015 and 2014 but US$6.0 million was recognized during the year ended December 31, 2013.

In November 2015, Janssen terminated 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 should have been terminated upon the termination date. The Group does not have any outstanding liabilities or obligations due to/from Janssen in relation to the termination of the agreement.

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., 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 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 2015, 2014 and 2013, the Group received government grants of US$4,898,000, 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, 2015, 2014 and 2013 was US$3,664,000, 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:

	2015	2014	2013
		(in US$'000)	
Sales of goods to			
—Indirect subsidiaries of CK Hutchison	8,074	7,823	7,803
Income from provision of research and development services			
—Equity investees	5,383	4,312	3,612
Purchase of goods from			
—A non-controlling shareholder of a subsidiary	11,894	6,727	6,304
—Equity investees	3,701	2,480	—
	15,595	9,207	6,304
Providing consultancy services to			
—An equity investee	—	38	325
Rendering of marketing services from			
—Indirect subsidiaries of CK Hutchison	751	480	569
—An equity investee	5,093	—	—
	5,844	480	569
Rendering of management service from			
—An indirect subsidiary of CK Hutchison	845	989	951
Interest paid to			
—An immediate holding company	144	113	92
—A non-controlling shareholder of a subsidiary	85	19	—
	229	132	92
Guarantee fee on bank loan to			
—An indirect subsidiary of CK Hutchison	471	471	471
Dividend paid to			
—A non-controlling shareholder of a subsidiary	590	1,179	577

26. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	2015	2014
	(in US$'000)	
Accounts receivable from related parties:		
—Indirect subsidiaries of CK Hutchison (note (i))	1,379	1,922
—An equity investee (note (i))	490	262
	1,869	2,184
Accounts payable due to a related party:		
—A non-controlling shareholder of a subsidiary (note (i))	3,521	2,190
Amounts due from related parties:		
—Indirect subsidiaries of CK Hutchison (note (i))	136	107
—Equity investees (note (i))	2,157	1,176
—Loan to an equity investee (note (ii))	7,000	5,000
	9,293	6,283
Amounts due to related parties:		
—Immediate holding company (note (iii))	1,775	8,694
—An indirect subsidiary of CK Hutchison (note (i))	20	22
—An equity investee	1,898	—
—Loan from a non-controlling shareholder of a subsidiary (note (iv))	2,550	—
	6,243	8,716
Non-controlling shareholders:		
—Loan from a non-controlling shareholder of a subsidiary (note (iv))	—	2,550
—Loan from a non-controlling shareholder of a subsidiary (note (v))	579	579
—Interest payable due to a non-controlling shareholder of a subsidiary	105	19
	684	3,148
Deferred income:		
—An equity investee (note (vi))	2,132	—
Other non-current liabilities		
—Immediate holding company (note (iii))	9,000	—

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 and interest-bearing (with waiver of interest).

26. Significant related party transactions (Continued)

(b) Balances with related parties included in: (Continued)

(iii) Amount due to immediate holding company is unsecured, interest-bearing. As of December 31, 2015, approximately US$1,775,000 is repayable within one year or repayable on demand and approximately US$9,000,000 is repayable within three years from December 2017. As of December 31, 2014, the balance is repayable on demand. The carrying value of amount due to immediate holding company approximates its fair value.

(iv) Loan from a non-controlling shareholder of a subsidiary is unsecured and interest-bearing and is repayable in December 2016. The balance is recorded in current liabilities as at December 31, 2015 and non-current liabilities as at December 31, 2014. US$2,250,000 was repaid during the year ended December 31, 2014.

(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.

(vi) Deferred income represents amount recognized from granting of promotion and marketing rights. 50% of the amount is received during the year ended December 31, 2015 and the remaining 50% balance to be received is recorded in amounts due from related parties: equity investees.

27. Income Taxes

	2015	2014	2013
	(in US$'000)		
Continuing operations:			
Current tax			
—HK	150	131	—
—PRC	415	51	21
Deferred income tax—PRC	1,040	1,161	1,029
Income tax expense	1,605	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, 2015, 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

27. Income Taxes (Continued)

provide for deferred tax liabilities on retained earnings which are anticipated to be distributed. As of December 31, 2015 and 2014, 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:

	2015	2014	2013
		(in US$'000)	
(Loss)/Income before income taxes and equity in earnings of equity investees	(10,540)	(19,957)	16,922
Tax calculated at the statutory tax rate of the Company	(1,739)	(3,293)	2,792
Effects of different tax rates available to different jurisdictions	(2,953)	3,551	(4,077)
Tax valuation allowance	4,505	783	802
Expenses not deductible for tax purposes	253	399	3,670
Utilization of previously unrecognized tax losses	(34)	(1,055)	(2,662)
Withholding tax on undistributed earnings of equity investees	1,216	1,161	1,029
Others	357	(203)	(504)
Income tax expense	1,605	1,343	1,050

Deferred income tax as at December 31 is as follows:

	December 31,	
	2015	2014
	(in US$'000)	
Deferred tax assets	250	105
Deferred tax liabilities	(3,723)	(2,947)
Net deferred tax liabilities	(3,473)	(2,842)

27. Income Taxes (Continued)

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

	2015	2014	2013
		(in US'000)	
At January 1	(2,842)	(2,267)	(2,403)
Exchange differences	88	4	—
Acquisition of a subsidiary (Note 4)	—	(98)	—
Utilization of previously recognized withholding tax on undistributed earnings	321	797	1,165
(Charged)/Credited to the consolidated statement of operations			
—withholding tax on undistributed earnings of equity investees	(1,216)	(1,161)	(1,029)
—deferred tax on amortization of intangible assets	24	11	—
—deferred tax on provision of assets	152	—	—
—utilization of previously recognized tax losses	—	(128)	—
At December 31	(3,473)	(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,		
	2015	2014	2013
		(in US$'000)	
Deferred income tax assets:			
Tax losses	9,297	7,468	9,600
Depreciation allowances	—	49	—
Others	250	43	—
Total deferred income tax assets	9,547	7,560	9,600
Less: Valuation allowance	(9,297)	(7,455)	(9,470)
Deferred income tax assets	250	105	130
Deferred income tax liabilities:			
Undistributed earnings from equity investees	3,560	2,760	2,397
Others	163	187	—
Deferred income tax liabilities	3,723	2,947	2,397

27. Income Taxes (Continued)

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

	December 31,		
	2015	2014	2013
	(in US$'000)		
No expiry date	28,699	21,063	18,269
2014	—	—	8,647
2015	—	10,098	10,341
2016	—	—	336
2017	3,982	4,097	5,672
2018	865	1,148	1,347
2019	4,298	633	—
2020	33,735	—	—
	71,579	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,		
	2015	2014	2013
	(in US$'000)		
Deferred income tax valuation allowance:			
At January 1	7,455	9,470	10,802
Exchange differences	(235)	(135)	242
Charged to statement of operations	4,505	783	802
Utilization of previously unrecognized tax losses	(34)	(1,055)	(2,662)
Write-off of expired tax losses	(1,493)	(1,169)	—
Others	(901)	(439)	286
At December 31	9,297	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, 2015, 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 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.

	2015	2014	2013
Weighted average number of outstanding ordinary shares in issue	54,659,315	52,563,387	52,050,988
Net income/(loss) from continuing operations	10,427	(6,120)	26,903
Net income attributable to non-controlling interests	(2,434)	(2,203)	(1,553)
Accretion on redeemable non-controlling interests	(43,001)	(25,510)	—
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000)	(35,008)	(33,833)	25,350
Income/(loss) from discontinued operations, net of tax	—	2,034	(1,978)
Net (income)/loss attributable to non-controlling interests	—	(1,017)	570
Net income/(loss) for the year attributable to ordinary shareholders of the Company—Discontinued operations (US$'000)	—	1,017	(1,408)
	(35,008)	(32,816)	23,942
(Losses)/earnings per share attributable to ordinary shareholders of the Company			
—Continuing operations (US$ per share)	(0.64)	(0.64)	0.49
—Discontinued operations (US$ per share)	—	0.02	(0.03)
	(0.64)	(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

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

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

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.

	2015	2014	2013
Weighted average number of outstanding ordinary shares in issue	54,659,315	52,563,387	52,050,988
Adjustment for share options	—	—	827,438
	54,659,315	52,563,387	52,878,426
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000) (Basic)	(35,008)	(33,833)	25,350
Net income attributable to preferred shares and share options of HMHL	—	—	(1,971)
Net (loss)/income for the year attributable to ordinary shareholders of the Company—Continuing operations (US$'000) (Diluted)	(35,008)	(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$'000)	—	1,017	(1,408)
	(35,008)	(32,816)	21,971
(Losses)/earnings per share attributable to ordinary shareholders of the Company			
—Continuing operations (US$ per share)	(0.64)	(0.64)	0.44
—Discontinued operations (US$ per share)	—	0.02	(0.03)
	(0.64)	(0.62)	0.41

For the years ended December 31, 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 years ended December 31, 2015 and 2014 was the same as the basic loss per share from continuing operations.

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

29. Segment reporting (Continued)

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.

The segment information for the reportable segments is as follows:

Continuing operations

	As at and for the year ended December 31, 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	52,016	105,478	3,028	17,681	178,203	—	178,203
EBIT/(LBIT)	(119)	676	(169)	1,211	1,599	(11,186)	(9,587)
Interest income	79	114	29	1	223	228	451
Equity in earnings of equity investees, net of tax	(3,770)	15,653	10,689	—	22,572	—	22,572
Operating profit/(loss)	(3,810)	16,443	10,549	1,212	24,394	(10,958)	13,436
Finance costs	—	—	—	85	85	1,319	1,404
Additions to non-current assets (other than financial instrument and deferred tax assets)	3,218	88	5	4	3,315	9	3,324
Depreciation/amortization	1,864	94	11	5	1,974	41	2,015
Income tax expense	—	239	—	148	387	1,218	1,605

	As at December 31, 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	49,545	97,572	66,552	8,651	222,320	7,434	229,754
Property, plant and equipment	8,312	122	27	7	8,468	39	8,507
Leasehold land	1,343	—	—	—	1,343	—	1,343
Goodwill	—	2,925	407	—	3,332	—	3,332
Intangible asset	—	571	—	—	571	—	571
Investments in equity investees	9,285	49,709	60,762	—	119,756	—	119,756

29. Segment reporting (Continued)

Continuing operations (Continued)

	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

	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

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

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 business and Consumer Health business within the PRC of US$1,187,000, US$271,000 and nil; (b) sales within Consumer Health business from Hong Kong to the PRC of US$2,874,000, US$105,000 and US$628,000 for the years ended December 31, 2015, 2014 and 2013.

Sales between segments are carried out at mutually agreed terms.

There was one customer under Innovation Platform who accounted for 23% of the Group's revenue for the year ended December 31, 2015. There was one customer under Innovation Platform who accounted for 13% of the Group's revenue for the year ended December 31, 2014. There were two customers under Innovation 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 EBIT/(LBIT) for reportable segments to net income/(loss) from continuing operations is provided as follows:

	2015	2014	2013
		(in US$'000)	
EBIT/(LBIT)	1,599	(11,999)	24,501
Unallocated expenses	(11,186)	(7,001)	(6,545)
Interest income	451	559	451
Equity in earnings of equity investees, net of tax	22,572	15,180	11,031
Finance costs	(1,404)	(1,516)	(1,485)
Income taxes	(1,605)	(1,343)	(1,050)
Net income/(loss) from continuing operations	10,427	(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 position 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$80,040,000 and US$79,441,000 as at December 31, 2015 and 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 undistributed earnings amounted to US$74,715,000 and US$51,244,000 as at December 31, 2015 and 2014 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. Hutchison Chinese Medicine Holdings Limited declared dividends of US$1,923,000 and US$2,564,000 during the years ended December 31, 2015 and 2014 respectively. Hutchison Chinese Medicine (Shanghai) Investment Limited declared dividends of US$2,949,000 and US$15,385,000 during the years ended December 31, 2015 and 2014 respectively. These dividends were settled by off-setting against amounts due to the same subsidiaries.

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,	
	2015	2014
Assets		
Current assets		
Cash and cash equivalents	1	1
Prepayments	19	1
Amounts due from related parties	76	76
Total current assets	96	78
Non-current asset		
Investments in subsidiaries	93,396	90,004
Deferred costs for initial public offering in the United States	4,446	—
Total assets	97,938	90,082
Liabilities and shareholders' equity		
Current liabilities		
Other payables and accruals	5,224	599
Amounts due to subsidiaries	9,029	9,055
Amounts due to immediate holding company	329	241
Total liabilities	14,582	9,895
Redeemable non-controlling interests	—	41,036
Company's shareholders' equity		
Ordinary share; $1.00 par value; 75,000,000 shares authorized; 56,533,118 and 53,076,676 shares issued at December 31, 2015 and 2014	56,533	53,076
Other shareholders' equity	26,823	(13,925)
Total Company's shareholders' equity	83,356	39,151
Total liabilities and shareholders' equity	97,938	90,082

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,		
	2015	2014	2013
Operating expenses			
Administrative	(4,658)	(1,146)	(1,770)
Other (expense)/income			
Interest expense	(4)	(3)	(1)
Other (expense)/income	(7)	(98)	12
Total other (expenses)/income	(11)	(101)	11
Equity in earnings of subsidiaries, net of tax	12,662	(6,059)	25,701
Net income/(loss)	7,993	(7,306)	23,942

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

	Years Ended December 31,		
	2015	2014	2013
Operating activities			
Net income/(loss)	7,993	(7,306)	23,942
Adjustments to reconcile net income/(loss) to net cash used in operating activities			
Equity in earnings of subsidiaries, net of tax	(12,662)	6,059	(25,701)
Loss on dilution of interest in a subsidiary	3	98	—
Changes in operating assets and liabilities			
Prepayments	(18)	(1)	1
Amounts due from related parties	—	—	130
Amounts due to subsidiaries	3,171	1,379	987
Other payables and accruals	1,425	(318)	512
Amounts due to immediate holding company	88	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	1
Cash and cash equivalents at end of year	1	1	1

33. Subsequent events

The Group evaluated subsequent events through March 1, 2016, which is the date when the consolidated financial statements were issued.

In February 2016, the Group established additional new credit facilities with Bank of America N.A. and Deutsche Bank AG, Hong Kong Branch totalling an aggregate amount of HK$468.0 million (equivalent to US$60.0 million). These facilities are unsecured with certain financial covenant requirements, with a range of 12 and 18 month terms, and were established in order to give the Group additional flexibility in the context of execution of the proposed listing in the United States.

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, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2015.

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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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
March 1, 2016

Shanghai Hutchison Pharmaceuticals Limited
Consolidated Income Statement
For the Years Ended December 31, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Revenue		181,140	154,703	138,160
Cost of sales		(53,532)	(44,738)	(37,993)
Gross profit		127,608	109,965	100,167
Selling expenses		(78,429)	(70,239)	(64,933)
Administrative expenses		(12,317)	(8,932)	(9,524)
Other net operating income	5	539	711	910
Operating profit	6	37,401	31,505	26,620
Finance costs		—	—	—
Profit before taxation		37,401	31,505	26,620
Taxation charge	7	(6,094)	(5,103)	(4,196)
Profit for the year		31,307	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, 2015, 2014 and 2013

	2015	2014	2013
	US$'000	US$'000	US$'000
Profit for the year	31,307	26,402	22,424
Other comprehensive (loss)/income that has been or may be reclassified subsequently to profit or loss:			
Exchange translation differences	(3,540)	(1,895)	1,856
Total comprehensive income for the year (net of tax)	27,767	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, 2015 and 2014

	Note	2015	2014
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	84,791	52,954
Leasehold land	10	7,932	11,989
Other intangible asset	11	2,096	—
Deferred tax assets	12	4,509	2,788
		99,328	67,731
Current assets			
Inventories	13	40,685	35,136
Trade and bills receivables	14	23,174	18,938
Other receivables, prepayments and deposits		2,139	2,495
Cash and cash equivalents	15	43,141	16,575
Bank deposits maturing over three months	15	3,767	2,299
		112,906	75,443
Non-current assets classified as held for sales	16	12,735	—
		125,641	75,443
Total assets		224,969	143,174
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	33,382	33,382
Reserves		59,881	38,524
Total equity		93,263	71,906
LIABILITIES			
Current liabilities			
Trade payables	18	4,407	9,937
Other payables, accruals and advance receipts	19	91,358	33,031
Bank borrowing	20	25,577	7,476
Current tax liabilities		3,275	1,608
		124,617	52,052
Non-current liabilities			
Deferred income	21	7,089	4,703
Bank borrowing	20	—	14,513
		7,089	19,216
Total liabilities		131,706	71,268
Net current assets		1,024	23,391
Total assets less current liabilities		100,352	91,122
Total equity and liabilities		224,969	143,174

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, 2015, 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 17)	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 loss that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	(1,895)	—	—	(1,895)
Total comprehensive (loss)/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

	Share capital	Exchange reserve	General reserves	Retained earnings	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000
As at January 1, 2015	33,382	5,781	925	31,818	71,906
Profit for the year	—	—	—	31,307	31,307
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:					
Exchange translation differences	—	(3,540)	—	—	(3,540)
Total comprehensive (loss)/income for the year (net of tax)	—	(3,540)	—	31,307	27,767
Dividend paid	—	—	—	(6,410)	(6,410)
As at December 31, 2015	33,382	2,241	925	56,715	93,263

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, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Cash flows from operating activities				
Net cash generated from operations	22	51,007	20,114	28,869
Interest received		300	257	197
Income tax paid		(6,199)	(5,494)	(4,290)
Net cash generated from operating activities		45,108	14,877	24,776
Cash flows from investing activities				
Purchase of property, plant and equipment		(44,899)	(27,655)	(6,608)
Government grants received relating to property, plant and equipment		2,816	559	3,428
Receipt in advance from government authority	16	31,146	—	—
Proceeds from disposal of property, plant and equipment		1	19	36
Increase in bank deposits maturing over three months		(1,468)	(2,299)	—
Net cash used in investing activities		(12,404)	(29,376)	(3,144)
Cash flows from financing activities				
Interest expense paid		(1,934)	(691)	(9)
Dividend paid to shareholders		(6,410)	(19,077)	(17,162)
New bank borrowings		16,764	21,169	820
Repayment of bank borrowings		(13,176)	—	—
Net cash (used in)/generated from financing activities		(4,756)	1,401	(16,351)
Net increase/(decrease) in cash and cash equivalents		27,948	(13,098)	5,281
Cash and cash equivalents at January 1		16,575	30,331	24,196
Exchange differences		(1,382)	(658)	854
Cash and cash equivalents at December 31		43,141	16,575	30,331
Analysis of cash and bank balances				
—Cash and cash equivalents	15	43,141	16,575	30,331
—Bank deposits maturing over three months	15	3,767	2,299	—
	15	46,908	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 traditional Chinese medicine ("TCM"). 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 30, 2001 as a Chinese-Foreign Equity joint venture 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, 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, 2015. 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.

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)(1)	Disclosure Initiative
IAS 7 (Amendments)(2)	Disclosure Initiative
IAS 12 (Amendments)(2)	Recognition of Deferred Tax Assets for Unrealised Losses
IAS 16 and IAS 38 (Amendments)(1)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)(1)	Agriculture: Bearer Plants
IAS 27 (Amendments)(1)	Equity Method in Separate Financial Statements
IFRS 9(3)	Financial Instruments
IFRS 10 and IAS 28 (Amendments)(5)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)(1)	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)(1)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14(1)	Regulatory Deferral Accounts
IFRS 15(3)	Revenue from Contracts with Customers
IFRS 16(4)	Lease
Annual improvements 2012-2014 cycle(1)	Improvements to IFRSs

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

(2) Effective for the Group for annual periods beginning on or after January 1, 2017.

2. Summary of significant accounting policies (Continued)

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

(4) Effective for the Group for annual periods beginning on or after January 1, 2019.

(5) In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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, 2015, 2014 and 2013.

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) Subsidiaries

The 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 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 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.

(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 subsidiaries 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 subsidiaries 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.

2. Summary of significant accounting policies (Continued)

(d) Property, plant and equipment (Continued)

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(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) Other intangible asset

The Group's other intangible asset represents promotion and marketing rights. 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.

2. Summary of significant accounting policies (Continued)

(h) 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.

(i) 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.

(j) Non-current assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, are stated at the lower of carrying amount and fair value less costs to sell. Property, plant and equipment and leasehold land are classified as held for sale are not depreciated and amortised.

(k) 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.

(l) 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.

2. Summary of significant accounting policies (Continued)

(m) 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.

(n) 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.

(o) 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.

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.

(p) 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.

2. Summary of significant accounting policies (Continued)

(p) Current and deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

2. Summary of significant accounting policies (Continued)

(u) 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.

(v) 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) Other service income

Other service income is recognised when services are rendered.

(iii) Interest income

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

(w) Segment information

The Group has one reporting segment which is manufacturing and selling of prescription TCM. 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.

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(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 15. 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 20. 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 December 31, 2015 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.

3. Financial risk management (Continued)

(b) Capital risk management (Continued)

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, 2015 and 2014 were as follows:

	2015	2014
	(US$'000)	(US$'000)
Total liabilities	131,706	71,268
Total assets	224,969	143,174
Liabilities to assets ratio	58.5%	49.8%

The increase in the liabilities to assets ratio was primarily resulted from the receipt in advance of land compensation during 2015.

(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.

4. Critical accounting estimates and judgements (Continued)

(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

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Interest income	306	257	197
Net foreign exchange (losses)/ gains	(25)	(15)	24
Other operating income	258	469	689
	539	711	910

6. Operating profit

Operating profit is stated after charging the following:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Auditor's remuneration	71	47	45
Amortisation of leasehold land	271	276	277
Amortisation of other intangible asset	217	—	—
Cost of inventories recognised as expense	36,887	27,504	22,584
Depreciation of property, plant and equipment	2,277	2,375	2,335
Provision for inventories (note)	1,569	263	902
Loss on disposal of property, plant and equipment	34	38	70
Operating lease rentals in respect of land and buildings	670	599	570
Research and development expense	1,442	(69)	1,403
Employee benefit expenses (note 8)	49,398	42,605	38,580

Note:

Provision for inventories amounted to US$1,569,000 (2014: US$263,000; 2013: US$902,000) mainly related to obsolete or damaged inventories.

7. Taxation charge

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Current tax	7,928	5,279	4,708
Deferred income tax (Note 12)	(1,834)	(176)	(512)
Taxation charge	6,094	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% up to 2016 (2014: 15.0%; 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:

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Profit before taxation	37,401	31,505	26,620
Tax calculated at the domestic tax rates of respective companies	9,351	7,876	6,655
Expenses not deductible for tax purposes	389	873	1,108
Temporary differences	—	(195)	(784)
(Over)/under provision in prior years	(98)	(17)	38
Tax losses for which no deferred tax assets was recognised	553	—	—
Tax effect on concession	(4,101)	(3,434)	(2,821)
Taxation charge	6,094	5,103	4,196

The weighted average tax rate calculated at the domestic tax rates of the respective companies for the year was 25.0% (2014: 25.0%; 2013: 25.0%).

The effective tax rate for the year was 16.3% (2014: 16.2%; 2013: 15.8%).

8. Employee benefit expenses

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Wages, salaries and bonuses	32,776	28,910	24,734
Pension costs—defined contribution plans	3,837	3,377	2,946
Staff welfare	12,785	10,318	10,900
	49,398	42,605	38,580

Approximately US$19,585,000 (2014: 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	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, 2015	23,065	2,156	13,660	4,266	39,346	82,493
Exchange differences	(922)	(86)	(547)	(181)	(2,762)	(4,498)
Additions	—	5	71	470	46,287	46,833
Disposals	—	(41)	(47)	(163)	—	(251)
Transfers	—	—	—	34	(34)	—
Transfer to non-current assets classified as held for sale	(22,143)	(1,716)	(11,734)	(501)	—	(36,094)
As at December 31, 2015	—	318	1,403	3,925	82,837	88,483
Accumulated depreciation and impairment						
As at January 1, 2015	16,385	1,368	9,199	2,587	—	29,539
Exchange differences	(677)	(59)	(384)	(115)	—	(1,235)
Charge for the year	851	244	610	572	—	2,277
Disposals	—	(37)	(34)	(145)	—	(216)
Transfer to non-current assets classified as held for sale	(16,559)	(1,237)	(8,493)	(384)	—	(26,673)
As at December 31, 2015	—	279	898	2,515	—	3,692
Net book value						
As at December 31, 2015	—	39	505	1,410	82,837	84,791

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, 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

	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 2015, the finance cost of US$981,000 (2014: US$650,000; 2013: US$8,000) of bank borrowing was capitalised.

9. Property, plant and equipment (Continued)

Construction in progress are mainly related to the construction of new factory in Fengpu District, Shanghai.

10. Leasehold land

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

	2015	2014	2013
	(US$’000)	(US$’000)	(US$’000)
Cost			
As at January 1	13,729	14,057	13,618
Exchange differences	(550)	(328)	439
Additions	—	—	—
Transfer to non-current assets classified as held for sale	(4,665)	—	—
As at December 31	8,514	13,729	14,057
Accumulated amortisation			
As at January 1	1,740	1,500	1,181
Exchange differences	(78)	(36)	42
Amortisation charge	271	276	277
Transfer to non-current assets classified as held for sale	(1,351)	—	—
As at December 31	582	1,740	1,500
Net book value			
As at December 31	7,932	11,989	12,557

11. Other intangible asset

	2015	2014	2013
	(US$’000)	(US$’000)	(US$’000)
Cost			
As at January 1	—	—	—
Exchange differences	(96)	—	—
Additions	2,404	—	—
As at December 31	2,308	—	—
Accumulated amortisation			
As at January 1	—	—	—
Exchange difference	(5)	—	—
Amortisation charge	217	—	—
As at December 31	212	—	—
Net book value			
As at December 31	2,096	—	—

12. Deferred income tax

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Deferred tax assets		
—to be recovered within 12 months	3,815	2,123
—to be recovered after 12 months	694	665
	4,509	2,788

The movements in deferred income tax assets are as follows:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
At January 1	2,788	2,676	2,089
Exchange differences	(113)	(64)	75
Credited to the consolidated income statement			
—accrued expenses, provisions and depreciation allowances	1,834	176	512
At December 31	4,509	2,788	2,676

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$553,000 (2014: US$4,000).

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

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
2019	16	17	—
2020	2,151	—	—
	2,167	17	—

13. Inventories

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Raw materials	22,008	18,188
Work in progress	8,562	8,540
Finished goods	10,115	8,408
	40,685	35,136

14. Trade and bills receivables

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from third parties	10,916	8,661
Trade receivables from related parties ((Note 24(b))	4,102	1,844
Bills receivables	8,156	8,433
	23,174	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.

Movements on the provision for trade receivables are as follows:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
At January 1	137	140	136
Exchange difference	(6)	(3)	4
At December 31	131	137	140

The impaired and provided receivables of US$131,000 (2014: US$137,000; 2013: US$140,000) are aged over 6 months.

15. Cash and bank balances

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Cash at bank and in hand (note (a))	42,662	16,094
Short-term bank deposits (note (b))	479	481
Bank deposits maturing over three months (note (b))	3,767	2,299
	46,908	18,874

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 2015 bank deposits, with maturity ranging from 90 to 365 days, was 2.0% (2014: 3.0%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

16. Non-current assets classified as held for sales

The current manufacturing facilities and the factory site ("the Site") of the Company are located in Putuo District, Shanghai, an area of Shanghai 12 kilometres from the city centre. The area was re-zoned in 2014 from industrial usage into a new science and technology, commercial and residential development area called Smart City.

On December 9, 2015, the Company entered into an agreement ("the Agreement") with the relevant Shanghai government authorities for the surrender of its remaining 36 years land-use right in respect of the Site.

Under the Agreement, the Company will receive total cash compensation of approximately US$105 million (the "Compensation"). The Compensation, which is expected to be received in three stages, is intended to compensate the Company for the land use rights and manufacturing facilities surrendered, certain relocation expenses, and capital expenditure at the new site.

As at December 31, 2015, the Company has received approximately US$ 31 million of the Compensation. The remaining portion of the Compensation is targeted to be received in approximately one year when all the obligations in the Agreement are fulfilled, and when legal title of the Site is transferred back to the relevant Shanghai government authorities.

Therefore, the Company reclassified the following assets from non-current assets to non-current assets classified as held for sales.

	December 31, 2015
	(US$'000)
Buildings situated in the PRC	5,584
Leasehold improvements	479
Plant and equipment	3,241
Furniture and fixtures, other equipment	117
Leasehold land	3,314
	12,735

17. 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; December 31, 2014; January 1, 2015 and December 31, 2015	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).

18. Trade payables

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade payables due to third parties	3,121	4,652
Trade payable due to a related party (Note 24(b))	1,286	5,285
	4,407	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.

19. Other payables, accruals and advance receipts

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Other payables and accruals		
Accrued operating expenses	27,172	15,047
Accrued salaries	8,400	7,177
Other payables	23,722	10,008
	59,294	32,232
Advance receipts		
Payments in advance from customers	918	799
Payments in advance from government authority (note (i))	31,146	—
	91,358	33,031

Notes:

(i) As at December 31, 2015, the Company has received approximately US$31 million of the Compensation (Note 16).

20. Bank borrowings

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Bank borrowings		
Non-current (note (i))	—	14,513
Current (note (i))	25,577	7,476
Total borrowings	25,577	21,989
Weighted average effective interest rate (notes (ii))	6.25%	6.25%

Notes:

20. Bank borrowings (Continued)

(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:

	2015	2014
	(US$'000)	(US$'000)
Within 1 year	25,577	7,476
Between 2 and 5 years	—	14,513
	25,577	21,989

21. Deferred income

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Deferred government incentives		
—Property, plant and equipment	7,017	4,552
—Research and development projects	72	151
	7,089	4,703

Deferred income represents government incentives of approximately US$7,017,000 (2014: US$4,552,000) received by the Group mainly in relation to property, plant and equipment.

22. Notes to the consolidated statement of cash flows

Reconciliation of profit for the year to net cash generated from operations:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Profit for the year	31,307	26,402	22,424
Adjustments for:			
Taxation charge	6,094	5,103	4,196
Amortisation of other intangible asset	217	—	—
Amortisation of leasehold land	271	276	277
Provision for inventories	1,569	263	902
Depreciation on property, plant and equipment	2,277	2,375	2,335
Loss on disposal of property, plant and equipment	34	38	70
Interest income	(306)	(257)	(197)
Exchange differences	1,720	(291)	21
Operating profit before working capital changes	43,183	33,909	30,028
Changes in working capital:			
—increase in inventories	(7,118)	(11,013)	(7,853)
—(increase)/decrease in trade and bills receivables	(4,236)	355	(1,450)
—decrease/(increase) in other receivables, prepayments and deposits	361	(1,346)	(502)
—(decrease)/increase in trade payables	(5,530)	(805)	2,537
—increase/(decrease) in other payables, accruals and advance receipts	25,979	(105)	6,365
—decrease in deferred income	(430)	(881)	(256)
—payment of other intangible asset	(1,202)	—	—
Net cash generated from operations	51,007	20,114	28,869

23. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	9,979	30,897

Capital commitment for property, plant and equipment contracted is mainly for the construction in progress of new plant of the Company.

23. 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:

	2015 (US$'000)	2014 (US$'000)
Not later than one year	393	410
Later than one year and not later than five years	405	340
	798	750

24. 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:

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Sales of goods to			
—A fellow subsidiary of SHTCML	17,478	17,880	17,458
—A fellow subsidiary of SHCM(HK)IL	3,549	2,408	—
	21,027	20,288	17,458
Purchase of goods from			
—A fellow subsidiary of SHTCML	11,151	13,035	12,428
Rendering of marketing services from			
—A fellow subsidiary of SHTCML	389	358	349
Rendering of research and development services from			
—A fellow subsidiary of SHCM(HK)IL	286	121	—
Rendering of consultancy services from			
—A fellow subsidiary of SHCM(HK)IL	—	38	325
Provision of marketing services to			
—A fellow subsidiary of SHCM(HK)IL	5,093	—	—

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended December 31, 2015 (2014 and 2013: nil).

24. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from related parties:		
—A fellow subsidiary of SHTCML (Note 14)(note)	2,204	1,844
—A fellow subsidiary of SHCM(HK)IL	1,898	—
	4,102	1,844
Trade payable due to a related party:		
—A fellow subsidiary of SHTCML (Note 18)(note)	1,286	5,285
Amounts due to related parties:		
—SHTCML (note)	—	137
—Fellow subsidiaries of SHCM(HK)IL (note)	1,965	641
	1,965	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.

25. 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, 2015	2014	Type of legal entity	Principal activities
Hutchison Heze Bio Resources & Technology Co., Limited	The PRC	RMB1,500,000	100%	100%	Limited liability company	Agriculture & sales of Chinese herbs
Shanghai Shangyao Hutchison Whampoa GSP Company Limited	The PRC	RMB20,000,000	100%	—	Limited liability company	Distribution of drug products

Note:

As at December 31, 2014, Shanghai Shangyao Hutchison Whampoa GSP Company Limited had obtained its business license, while its paid-in capital was not yet injected by the Company. As at December 31, 2015, the paid-in capital has been injected by the Company.

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
(incorporated in the People's Republic of China with limited liability)

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, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2015.

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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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
March 1, 2016

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Income Statement
For the Years Ended December 31, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Revenue	5	211,603	243,746	247,626
Cost of sales		(120,142)	(147,325)	(156,831)
Gross profit		91,461	96,421	90,795
Selling expenses		(45,325)	(51,303)	(49,214)
Administrative expenses		(23,722)	(23,488)	(22,885)
Other net operating income	6	2,902	3,344	1,940
Operating profit	7	25,316	24,974	20,636
Share of profits less losses after tax of:				
Joint venture		7	4	7
Associated companies		(1)	(34)	—
Finance costs	8	(158)	(139)	(183)
Profit before taxation		25,164	24,805	20,460
Taxation charge	9	(3,948)	(3,940)	(3,099)
Profit for the year		21,216	20,865	17,361
Attributable to:				
Equity holders of the Company		21,376	20,775	17,165
Non-controlling interests		(160)	90	196
		21,216	20,865	17,361

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

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Comprehensive Income
For the Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
	US$'000	US$'000	US$'000
Profit for the year	21,216	20,865	17,361
Other comprehensive (loss)/income that has been or may be reclassified subsequently to profit or loss:			
Exchange translation differences	(5,097)	(2,647)	3,301
Total comprehensive income for the year (net of tax)	16,119	18,218	20,662
Attributable to:			
Equity holders of the Company	16,427	18,208	20,357
Non-controlling interests	(308)	10	305
	16,119	18,218	20,662

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

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Financial Position
As at December 31, 2015 and 2014

	Note	2015	2014
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	54,691	35,195
Leasehold land	12	11,037	11,772
Goodwill	13	9,010	9,385
Other intangible asset	14	708	865
Investment in a joint venture		178	178
Investments in associated companies		213	222
Other non-current assets	15	11,768	14,733
Deferred tax assets	16	1,009	1,034
		88,614	73,384
Current assets			
Inventories	17	39,393	43,570
Trade and bills receivables	18	37,033	43,102
Other receivables, prepayments and deposits		6,189	5,278
Cash and cash equivalents	19	31,155	31,004
Bank deposits maturing over three months	19	262	20,833
		114,032	143,787
Total assets		202,646	217,171
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	24,103	24,103
Reserves		97,420	87,403
		121,523	111,506
Non-controlling interests		3,540	3,802
Total equity		125,063	115,308

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Financial Position (Continued)
As at December 31, 2015 and 2014

	Note	2015	2014
		US$'000	US$'000
LIABILITIES			
Current liabilities			
Trade payables	21	17,444	29,868
Other payables, accruals and advance receipts	22	42,513	53,068
Bank borrowing	23	923	625
Current tax liabilities		587	1,289
		61,467	84,850
Non-current liabilities			
Deferred income	24	15,774	16,585
Deferred tax liabilities	16	342	428
		16,116	17,013
Total liabilities		77,583	101,863
Net current assets		52,565	58,937
Total assets less current liabilities		141,179	132,321
Total equity and liabilities		202,646	217,171

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

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Changes in Equity
For the Years Ended December 31, 2015, 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)
Changes in ownership interests in a subsidiary without change of control	—	—	—	—	—	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

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Changes in Equity (Continued)
For the Years Ended December 31, 2015, 2014 and 2013

	Attributable to equity holders of the Company					Non-	
	Share capital	**Exchange reserve**	**General reserves**	**Retained earnings**	**Total**	**controlling interests**	**Total equity**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
As at January 1, 2015	24,103	12,592	131	74,680	111,506	3,802	115,308
Profit/(loss) for the year	—	—	—	21,376	21,376	(160)	21,216
Other comprehensive loss that has been or may be reclassified subsequently to profit or loss:							
Exchange translation differences	—	(4,949)	—	—	(4,949)	(148)	(5,097)
Total comprehensive (loss)/ income for the year (net of tax)	—	(4,949)	—	21,376	16,427	(308)	16,119
Dividend paid	—	—	—	(6,410)	(6,410)	—	(6,410)
Capital contribution from a non-controlling shareholder of a subsidiary	—	—	—	—	—	46	46
As at December 31, 2015	24,103	7,643	131	89,646	121,523	3,540	125,063

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

Hutchison Whampoa Guangzhou Baiyuanshan Chinese Medicine Company Limited
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Cash flows from operating activities				
Net cash generated from operations	25(a)	12,278	22,148	38,642
Interest received		628	1,322	1,126
Finance costs paid		(36)	(37)	(40)
Income tax paid		(4,703)	(3,481)	(3,277)
Net cash generated from operating activities		8,167	19,952	36,451
Cash flows from investing activities				
Purchase of property, plant and equipment		(21,698)	(11,597)	(4,070)
Proceeds from disposal of property plant and equipment		—	122	33
Decrease/(increase) in bank deposits maturing over three months		20,571	(1,141)	(19,692)
Acquisition of a subsidiary	25(b)	—	—	21
Purchase of leasehold land		—	(6,798)	(14,408)
Increase in government grant		451	11,589	1,199
Net cash used in investing activities		(676)	(7,825)	(36,917)
Cash flows from financing activities				
Dividend paid		(6,410)	(12,820)	(6,462)
New short-term bank borrowing		923	625	—
Repayment of short-term bank borrowing		(625)	—	(620)
Capital contribution from a non-controlling shareholder of a subsidiary		46	—	194
Purchase of additional interests in a subsidiary	25(c)	—	(76)	—
Net cash used in financing activities		(6,066)	(12,271)	(6,888)
Net increase/(decrease) in cash and cash equivalents		1,425	(144)	(7,354)
Cash and cash equivalents at January 1,		31,004	31,895	38,121
Exchange differences		(1,274)	(747)	1,128
Cash and cash equivalents at December 31,		31,155	31,004	31,895
Analysis of cash and bank balances				
—Cash and cash equivalents	19	31,155	31,004	31,895
—Bank deposits maturing over three months	19	262	20,833	19,692
		31,417	51,837	51,587

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

Hutchison Whampoa Guangzhou Baiyuanshan 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 drug 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 venture. The Company is jointly controlled by Guangzhou Hutchison Chinese Medicine (HK) Investment Limited (“GZHCMHK”) and Guangzhou Baiyunshan Pharmaceuticals Holdings Co., Ltd (“GBPHCL”).

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, 2015. 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.

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)(1)	Disclosure Initiative
IAS 7 (Amendments)(2)	Disclosure Initiative
IAS 12 (Amendments)(2)	Recognition of Deferred Tax Assets for Unrealised Losses
IAS 16 and IAS 38 (Amendments)(1)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)(1)	Agriculture: Bearer Plants
IAS 27 (Amendments)(1)	Equity Method in Separate Financial Statements
IFRS 9(3)	Financial Instruments
IFRS 10 and IAS 28 (Amendments)(5)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)(1)	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)(1)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14(1)	Regulatory Deferral Accounts
IFRS 15(3)	Revenue from Contracts with Customers
IFRS 16(4)	Leases
Annual improvements 2012-2014 cycle(1)	Improvements to IFRSs

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

(2) Effective for the Group for annual periods beginning on or after January 1, 2017.

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

2. Summary of significant accounting policies (Continued)

(4) Effective for the Group for annual periods beginning on or after January 1, 2019.

(5) In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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)

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 the 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 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 life 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 life 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) Borrowing

Borrowing is recognised initially at fair value, net of transaction costs incurred. Borrowing is 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 is 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. It is considered that adequate provision for uncollectible receivables has been made.

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 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 December 31, 2015 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, 2015 and 2014 were as follows:

	2015	2014
	(US$'000)	(US$'000)
Total liabilities	77,583	101,863
Total assets	202,646	217,171
Liabilities to assets ratio	38.3%	46.9%

(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, 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

3. Financial risk management (Continued)

(c) Fair value estimation (Continued)

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 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, 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").

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, 2015		
	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	144,510	67,093	211,603
EBIT	24,152	536	24,688
Interest income	496	132	628
Operating profit	24,648	668	25,316
Share of profits less losses after tax of joint venture and associated companies	6	—	6
Finance costs	(158)	—	(158)
Additions to non-current assets (other than financial instrument and deferred tax assets)	21,698	—	21,698
Depreciation/amortisation	3,221	53	3,274
Total assets	169,659	32,987	202,646

	As at and for the year ended December 31, 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)

	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$33,657,000 for 2015 (2014: US$51,353,000; 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:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
EBIT for reportable segments	24,688	23,652	19,510
Interest income	628	1,322	1,126
Share of profits less losses after tax of joint venture and associated companies	6	(30)	7
Finance costs	(158)	(139)	(183)
Profit before taxation	25,164	24,805	20,460

6. Other net operating income

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Interest income	628	1,322	1,126
Other operating income	2,574	2,541	1,131
Other operating expenses	(300)	(519)	(317)
	2,902	3,344	1,940

7. Operating profit

Operating profit is stated after charging/(crediting) the following:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Auditor's remuneration	53	39	35
Amortisation of leasehold land	271	239	140
Amortisation of other intangible asset	126	129	129
Impairment of goodwill	—	—	1,352
Cost of inventories recognised as expense	111,064	138,213	145,031
Depreciation of property, plant and equipment	2,877	2,838	2,768
Provision for inventories (note)	340	—	13
Inventories provision written back	—	(14)	—
Provision for receivables	77	62	17
Loss on disposal of property, plant and equipment	54	191	82
Operating lease rentals in respect of land and buildings	1,022	700	521
Research and development expense	1,284	1,421	2,391
Employee benefit expenses (Note 10)	31,838	30,914	29,230

Note:

No provision for inventories for the year ended December 31, 2014 and the provision of inventories for the years ended December 31, 2015 and 2013 amounted to US$340,000 and US$13,000 mainly related to obsolete or damaged inventories.

8. Finance costs

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Interest expense on short-term bank borrowing	36	37	40
Interest expense on other payable due to an affiliate company of GBPHCL	122	102	143
	158	139	183

9. Taxation charge

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Current tax	4,034	4,203	3,328
Deferred income tax (Note 16)	(86)	(263)	(229)
Taxation charge	3,948	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 (2014: 15%; 2013: 15%) and is renewable subject to the approval by the relevant tax 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:

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Profit before taxation	25,164	24,805	20,460
Tax calculated at the domestic tax rates of respective companies	6,291	6,201	5,115
Tax effect of JV's and associated companies' result	—	8	(2)
Expenses not deductible for tax purposes	207	222	43
Tax effect on concession	(2,699)	(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	131	241	—
Others	18	(202)	(200)
Taxation charge	3,948	3,940	3,099

The weighted average tax rate calculated at the domestic tax rates of respective companies for the year was 25.0% (2014: 25.0%).

The effective tax rate for the year was 15.7% (2014: 15.9%; 2013: 15.1%).

10. Employee benefit expenses

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Wages, salaries and bonuses	22,902	22,922	21,248
Pension costs—defined contribution plans	7,695	7,193	7,288
Staff welfare	1,241	799	694
	31,838	30,914	29,230

Approximately US$8,611,000 (2014: 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	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, 2015	22,677	4,295	13,275	7,842	9,989	58,078
Exchange differences	(910)	(190)	(535)	(323)	(941)	(2,899)
Additions	65	573	663	352	22,541	24,194
Disposals	(13)		(609)	(53)	—	(675)
Transfers	72	188	—	70	(330)	—
As at December 31, 2015	21,891	4,866	12,794	7,888	31,259	78,698
Accumulated depreciation						
As at January 1, 2015	5,313	1,665	10,276	5,629	—	22,883
Exchange differences	(232)	(73)	(583)	(244)	—	(1,132)
Charge for the year	836	265	949	827	—	2,877
Disposals	—	—	(572)	(49)	—	(621)
As at December 31, 2015	5,917	1,857	10,070	6,163		24,007
Net book value						
As at December 31, 2015	15,974	3,009	2,724	1,725	31,259	54,691

	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, 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	9,761	5,554	—	21,691
Exchange differences	(116)	(37)	(226)	(133)	—	(512)
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

11. 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	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, 2015, the net book value of buildings pledged as security for the short-term bank borrowing amounted to US$136,000 (2014: 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.

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Cost			
As at January 1	13,168	6,886	6,423
Exchange differences	(526)	(191)	210
Acquisition of a subsidiary (Note 25(b))	—	—	253
Addition		6,473	—
As at December 31	12,642	13,168	6,886
Accumulated amortisation			
As at January 1	1,396	1,187	975
Exchange differences	(62)	(30)	34
Acquisition of a subsidiary (Note 25(b))		—	38
Amortisation charge	271	239	140
As at December 31	1,605	1,396	1,187
Net book value			
As at December 31	11,037	11,772	5,699

As at December 31, 2015, the net book value of leasehold land pledged as security for the short-term bank borrowing amounted to US$133,000 (2014: US$142,000; 2013: nil).

13. Goodwill

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Cost			
As at January 1	9,385	9,610	9,310
Exchange difference	(375)	(225)	300
Acquisition of a subsidiary (Note 25(b))	—	—	1,352
Impairment (Note 25(b)(i))	—	—	(1,352)
As at December 31	9,010	9,385	9,610

The Company was set up with cash and non-cash assets (which constitutes a business) contributed by GZHCMHK and GBPHCL respectively. Upon formation, the Company accounted for the businesses contributed by GBPHCL 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:

	2015	2014	2013
Expected growth in revenue	3%	5%	5%
Pre-tax discount rate	13%	11%	11%
Long-term growth rate	3%	3%	3%

Management prepared the financial budgets taking into account actual and prior years' performances 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

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Cost			
As at January 1	1,282	1,313	1,272
Exchange differences	(51)	(31)	41
As at December 31	1,231	1,282	1,313
Accumulated amortisation			
As at January 1	417	295	160
Exchange difference	(20)	(7)	6
Amortisation charge	126	129	129
As at December 31	523	417	295
Net book value			
As at December 31	708	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, 2015	December 31, 2014
	(US$'000)	(US$'000)
Deferred tax assets		
—to be recovered after 12 months	658	692
—to be recovered within 12 months	351	342
Deferred tax liabilities		
—to be recovered after 12 months	(342)	(428)
—to be recovered within 12 months	—	—
Net deferred tax assets	667	606

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

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
At January 1	606	352	351
Exchange differences	(25)	(9)	11
Acquisition of a subsidiary (Note 25(b))	—	—	(239)
Credited to the consolidated income statement			
—accrued expenses, provisions, depreciation allowances	86	263	229
At December 31	667	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$385,000 (2014: US$251,000; 2013: nil).

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

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
2019	963	1,003	—
2020	578	—	—
	1,541	1,003	—

17. Inventories

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Raw materials	7,018	6,580
Work in progress	9,979	15,539
Finished goods	22,396	21,451
	39,393	43,570

18. Trade and bills receivables

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade receivables from third parties	18,650	22,105
Trade receivables from related parties (Note 27(b))	—	33
Bills receivables	18,383	20,964
	37,033	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.

Movements on the provision for trade and bills receivables are as follows:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
At 1 January	285	228	205
Exchange difference	(12)	(5)	6
Provision	77	62	17
Amount written off as uncollectible	(185)	—	—
At December 31	165	285	228

The impaired and provided receivables of US$165,000 (2014: US$285,000; 2013: US$228,000) are aged over 1 year.

19. Cash and bank balances

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Cash at bank and in hand	31,155	26,196
Short-term bank deposits (note (a))	—	4,808
Bank deposits maturing over three months (note (a))	262	20,833
	31,417	51,837

Notes:

(a) The weighted average effective interest rate on bank deposits as at December 31, 2015 with maturity ranging from 90 days to 360 days (2014: 90 days to 360 days) was 2.1% (2014: 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 December 31, 2013, January 1, 2014, December 31, 2014, January 1, 2015 and December 31, 2015	24,103

21. Trade payables

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Trade payables due to third parties	13,293	27,067
Trade payables due to related parties (Note 27(b))	4,151	2,801
	17,444	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.

22. Other payables, accruals and advance receipts

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Other payables and accruals		
Accrued operating expenses	7,492	21,303
Accrued salaries	4,552	2,471
Other payables	16,331	12,624
	28,375	36,398
Advance receipts		
Payments in advance from customers	11,952	14,054
Deferred government incentives (note)	2,186	2,616
	14,138	16,670
	42,513	53,068

Note:

The deferred government incentives are related to the research and development projects which are expected to be completed within one year.

23. Bank borrowing

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Short-term bank borrowing	923	625
Weighted average effective interest rate	7%	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, 2015	December 31, 2014
	(US$'000)	(US$'000)
Deferred government incentives:		
Buildings and other non-current assets	10,578	11,017
Others	5,196	5,568
	15,774	16,585

25. Notes to the consolidated statement of cash flows

(a) Reconciliation of profit for the year to net cash generated from operations:

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Profit for the year	21,216	20,865	17,361
Adjustments for:			
Taxation charge	3,948	3,940	3,099
Amortisation of leasehold land	271	239	140
Amortisation of other intangible asset	126	129	129
Impairment of goodwill	—	—	1,352
Inventories provision written back	—	(14)	—
Provision for inventories	340	—	13
Provision for receivables	77	62	17
Depreciation on property, plant and equipment	2,877	2,838	2,768
Loss on disposal of property, plant and equipment	54	191	82
Amortisation of deferred income	(1,262)	(628)	(1,812)
Interest income	(628)	(1,322)	(1,126)
Share of profits less losses after tax of:			
Joint venture	(7)	(4)	(7)
Associated companies	1	34	—
Gain on acquisition of an associated company	—	(194)	—
Finance costs	158	139	183
Exchange differences	(710)	(800)	862
Operating profit before working capital changes	26,461	25,475	23,061
Changes in working capital:			
—Decrease/(increase) in inventories	3,837	(5,772)	(7,743)
—Decrease in trade and bills receivables	5,992	1,880	7,084
—(Increase)/decrease in other receivables, prepayments and deposits	(911)	6,004	(7,272)
—(Decrease)/increase in trade payables	(12,424)	(983)	7,229
—(Decrease)/increase in other payables, accruals and advance receipts	(10,677)	(4,456)	16,283
Net cash generated from operations	12,278	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 a new production base for the Company for the manufacturing of drugs products.

25. Notes to the consolidated statement of cash flows (Continued)

(b) Acquisition of a subsidiary (Continued)

The following table summarises the amount invested in Bozhou and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	(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 the change in strategic plan by the Group.

(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 addition, the Company acquired an additional 3.3806%

25. Notes to the consolidated statement of cash flows (Continued)

(c) Changes in ownership interests in a subsidiary without change of control (Continued)

interest for a consideration of approximately US$76,000. FYBYS has become a 75% owned subsidiary of the Group after the transaction.

26. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	December 31, 2015	December 31, 2014
	(US$'000)	(US$'000)
Property, plant and equipment		
Contracted but not provided for	17,810	30,414

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:

	2015	2014
	(US$'000)	(US$'000)
Not later than one year	1,059	699
Later than one year end not later than five years	104	208
	1,163	907

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:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Sales of goods to			
—Fellow subsidiaries of GBPHCL	25,688	24,973	26,722
—A fellow subsidiary of GZHCMHK	152	73	—
	25,840	25,046	26,722
Other services income from			
—Fellow subsidiaries of GBPHCL	875	1,295	786
Purchase of goods from			
—Fellow subsidiaries of GBPHCL	32,156	25,613	29,800
Rental expenses to			
—A fellow subsidiary of GBPHCL	—	—	491
Advertising expenses to			
—A fellow subsidiary of GBPHCL	6,353	—	—

No transactions have been entered into with the directors of the Company (being the key management personnel) during the years ended December 31, 2015 (2014 and 2013: nil).

27. Significant related party transactions (Continued)

(b) Balances with related parties included in:

	December 31, 2015 (US$'000)	December 31, 2014 (US$'000)
Trade receivables from related parties:		
—Fellow subsidiaries of GBPHCL (Note 18 and note (i))	—	33
Trade payables due to related parties:		
—Fellow subsidiaries of GBPHCL (Note 21 and note (i))	4,151	2,801
Other receivables from related parties		
—Fellow subsidiaries of GBPHCL (note (i))	968	683
Other payable, accruals and advanced receipts due to related parties		
—Non-controlling shareholders of subsidiaries (note (i))	—	213
—Fellow subsidiaries of GZHCMHK (note (i))	193	535
—Fellow subsidiaries of GBPHCL (note (i))	1,703	1,770
—A fellow subsidiary of GBPHCL (note (ii))	2,403	2,809
	4,299	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.

28. Particulars of principal subsidiaries, joint venture and associated companies

Name	Place of establishment and operation	Nominal value of registered capital in RMB As at December 31, 2015	2014	Equity interest attributable to the Group As at December 31, 2015	2014	Type of legal entity	Principal activity
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Company Limited	PRC	3,650,000	3,650,000	75%	75%	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	100,000,000	100%	100%	Limited liability company	Manufacture, sales and distribution of drugs products
Hutchison Whampoa Guangzhou Baiyunshan Pharmaceuticals Limited	PRC	10,000,000	10,000,000	100%	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
Hutchison Whampoa Baiyunshan Laida Pharmaceutical (Shantou) Co. Ltd.	PRC	1,000,000	—	70%	—	Limited liability company	Manufacture, sales and distribution of drugs products
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%	30%	Limited liability company	Agriculture and sales of Chinese herbs

NUTRITION SCIENCE PARTNERS LIMITED

Independent Auditor's Report

To the Board of Directors and Shareholders of Nutrition Science Partners Limited
(incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated financial statements of Nutrition Science Partners Limited and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2015.

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 audit 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 subsidiary at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers
Hong Kong
March 1, 2016

Nutrition Science Partners Limited
Consolidated Income Statement
For the Years Ended December 31, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Turnover		—	—	—
Service fee charged by related parties	12	(5,712)	(4,594)	(3,752)
Clinical trials expenses		(427)	(8,778)	(11,025)
Other research and development costs		(1,371)	(3,381)	(2,652)
Other expenses		(42)	(59)	(114)
Operating loss		(7,552)	(16,812)	(17,543)
Loss before taxation		(7,552)	(16,812)	(17,543)
Taxation	5	—	—	—
Loss for the year		(7,552)	(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, 2015, 2014 and 2013

	2015	2014	2013
	US$'000	US$'000	US$'000
Loss for the year	(7,552)	(16,812)	(17,543)
Total comprehensive loss for the year	(7,552)	(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, 2015 and 2014

	Note	2015	2014
		US$'000	US$'000
ASSETS			
Non-current assets			
Intangible assets	7	30,000	30,000
Current assets			
Prepayments		410	2,299
Cash and cash equivalents	8	2,624	6,249
		3,034	8,548
Total assets		33,034	38,548
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	60,000	60,000
Accumulated losses		(41,907)	(34,355)
Total equity		18,093	25,645
LIABILITIES			
Current liabilities			
Other payables and accruals		451	2,393
Amounts due to related companies	10	490	510
Shareholders' loans	11	14,000	10,000
Total liabilities		14,941	12,903
Net current liabilities		(11,907)	(4,355)
Total assets less current liabilities		18,093	25,645
Total equity and liabilities		33,034	38,548

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, 2015, 2014 and 2013

	Share capital	Share premium	Accumulated losses	Total equity
	US$'000	US$'000	US$'000	US$'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	2	59,998	(17,543)	42,457

	Share capital	Share premium	Accumulated losses	Total equity
	US$'000	US$'000	US$'000	US$'000
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

	Share capital	Accumulated losses	Total equity
	US$'000	US$'000	US$'000
At January 1, 2015	60,000	(34,355)	25,645
Loss for the year and total comprehensive loss for the year	—	(7,552)	(7,552)
At December 31, 2015	60,000	(41,907)	18,093

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, 2015, 2014 and 2013

	Note	2015	2014	2013
		US$'000	US$'000	US$'000
Cash flows from operating activities				
Loss before taxation		(7,552)	(16,812)	(17,543)
Operating loss before working capital changes		(7,552)	(16,812)	(17,543)
Changes in working capital:				
Decrease/(increase) in prepayments		1,889	(1,475)	(824)
(Decrease)/increase in other payables and accruals		(1,942)	(1,905)	4,298
(Decrease)/increase in amounts due to related companies		(20)	(590)	1,100
Net cash used in operating activities		(7,625)	(20,782)	(12,969)
Cash flows from financing activities				
Proceeds from issue of shares	9	—	—	30,000
Increase in shareholders' loans	11	4,000	10,000	—
Net cash generated from financing activities		4,000	10,000	30,000
Net (decrease)/increase in cash and cash equivalents		(3,625)	(10,782)	17,031
Cash and cash equivalents at January 1,		6,249	17,031	—
Cash and cash equivalents at December 31,		2,624	6,249	17,031
Analysis of balance of cash and cash equivalents				
Bank balance		2,624	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 (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$"), 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, 2015, the Group has net current liabilities of US$11,907,000. 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, and potential sources of new funds. HMPHK and NHS have confirmed their intention 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, 2015. 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)[1]	Disclosure Initiative
IAS 7 (Amendments)[2]	Disclosure Initiative
IAS 12 (Amendments)[2]	Recognition of Deferred Tax Assets for Unrealised Losses
IAS 16 and IAS 38 (Amendments)[1]	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)[1]	Agriculture: Bearer Plants
IAS 27 (Amendments)[1]	Equity Method in Separate Financial Statements
IFRS 9[3]	Financial Instruments
IFRS 10 and IAS 28 (Amendments)[5]	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 10, IFRS 12 and IAS 28 (Amendments)[1]	Investment Entities: Applying the Consolidated Exception
IFRS 11 (Amendments)[1]	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14[1]	Regulatory Deferral Accounts
IFRS 15[3]	Revenue from Contracts with Customers
IFRS 16[4]	Leases
Annual improvements 2012-2014 cycle[1]	Improvements to IFRSs

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

(2) Effective for the Group for annual periods beginning on or after January 1, 2017.

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

(4) Effective for the Group for annual periods beginning on or after January 1, 2019.

(5) In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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, 2015, 2014 and 2013. The account of the subsidiary is 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

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 returns from its involvement with the entity and has the

2. Summary of significant accounting policies (Continued)

(b) Subsidiary (Continued)

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.

The subsidiary is fully consolidated from the date on which control is transferred to the Group. It is 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 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;

2. Summary of significant accounting policies (Continued)

(e) Related parties (Continued)

(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).

(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 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

2. Summary of significant accounting policies (Continued)

(g) Impairment of financial assets (Continued)

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).

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

In the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank.

(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.

2. Summary of significant accounting policies (Continued)

(k) Intangible assets (Continued)

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.

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 asset. 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.

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) Liquidity risk (Continued)

As at December 31, 2015 and 2014, the Group's current financial liabilities were due for settlement contractually within twelve months.

(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 December 31, 2015 and 2014.

(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.

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

4. Critical accounting estimates and judgements (Continued)

Impairment of intangible assets (Continued)

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 (2014 and 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:

	2015	2014	2013
	(US$'000)	(US$'000)	(US$'000)
Loss before taxation	(7,552)	(16,812)	(17,543)
Calculated at a taxation rate of 16.5% (2014 and 2013: 16.5%)	(1,246)	(2,774)	(2,895)
Tax effect of expenses not deductible for tax	1,246	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 (2014 and 2013: Nil).

7. Intangible assets

	IPR&D projects and others
	(US$'000)
December 31, 2015	
Cost at January 1, 2015 and December 31, 2015	30,000
December 31, 2014	
Cost at January 1, 2014 and December 31, 2014	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 are no key changes in the

7. Intangible assets (Continued)

Impairment test for intangible assets (Continued)

expected market for the drug between 2014 and 2015. However, based on latest management decision, the Company expects one year delay for the commercialization. The discount rate used of 19.53% (2014: 19.76%) 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. Reasonably probable changes in any key assumptions disclosed in the sensitivity table would not cause the carrying amount of the intangible assets to exceed the recoverable amount.

The key assumptions used in the value-in-use calculation are as follows:

Key assumptions	2015	2014
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	17 years	18 years
Headroom	US$7 million	US$14 million

The Company prepared the financial budgets taking into account actual and prior years' performances and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections.

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	
		2015	2014	2015	2014
—Market size	5% point	Increase by 13%	Increase by 12%	Decrease by 19%	Decrease by 17%
—Probability of success rate	2% point	Increase by 13%	Increase by 17%	Decrease by 12%	Decrease by 17%
—Discount rate	1% point	Decrease by 18%	Decrease by 17%	Increase by 20%	Increase by 20%

8. Cash and cash equivalents

	2015	2014
	(US$'000)	(US$'000)
Cash at bank	2,624	6,249

The carrying amounts of the cash and cash equivalents are denominated in US dollars.

9. Share capital

	2015		2014		2013	
	Number of shares	**(US$'000)**	**Number of shares**	**(US$'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	60,000	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	60,000	20,000	2
Share premium account at December 31, (note (iv))		—		—		59,998
Share capital as at December 31, 2015 and 2014/share capital and share premium as at December 31, 2013 (note (iv))		60,000		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 of US$5,000,000 each, totalling US$10,000,000 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.

On August 24, 2015, the shareholders have provided a further loan of US$2,000,000 each, totalling US$4,000,000. The loans are unsecured, interest-bearing (with waiver of interest) and with a maturity date of August 23, 2016, 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:

	2015 (US$'000)	2014 (US$'000)	2013 (US$'000)
Service fees charged by a subsidiary of Chi-Med (note)	5,099	4,191	3,612
Service fees charged by an affiliate of NHS	613	403	140
	5,712	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 be ended 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 negotiation upon the receipt of the exercise notice, dependent 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 (2014 and 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$2,624,000 as at December 31, 2015 (2014: US$6,249,000).

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$14,941,000 as at December 31, 2015 (2014: US$12,903,000).

14. Subsidiary

Name	Place of establishment and operation	Nominal value of issued ordinary share capital in GBP As at December 31, 2015	2014	Equity interest attributable to the Group As at December 31, 2015	2014	Type of legal entity	Principal activity
Nutrition Science Partners (UK) Limited............................	United Kingdom	1	1	100%	100%	Limited liability company	Inactive