SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

(formerly known as: Shandong Luoxin Pharmacy Stock Co., Ltd.)*

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 8058)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (formerly known as: Shandong Luoxin Pharmacy Stock Co., Ltd.*) (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purposes only*

RESULTS HIGHLIGHTS

- Turnover for the year ended 31 December 2014 amounted to approximately RMB2,766,788,000 (2013: RMB2,529,464,000), representing an increase of approximately 9.38% as compared with the year ended 31 December 2013.

- Profit attributable to shareholders for the year ended 31 December 2014 amounted to approximately RMB443,553,000 (2013: RMB428,585,000), representing an increase of approximately 3.49% as compared with the year ended 31 December 2013.

- The Directors recommended the payment of a final dividend of RMB0.3 per share for the year ended 31 December 2014 (2013: RMB0.3 per share).

RESULTS

The board of Directors (the "Board") is pleased to present the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014** *RMB'000*	2013 *RMB'000*
Turnover	*5*	**2,766,788**	2,529,464
Cost of sales		**(874,060)**	(884,393)
Gross profit		**1,892,728**	1,645,071
Other revenue	*5*	**78,743**	49,838
Other income	*7*	**26,585**	12,046
Selling and distribution expenses		**(1,259,076)**	(1,066,095)
General and administrative expenses		**(211,034)**	(137,364)
Finance costs	*6*	**(21)**	(9)
Profit before taxation	*7*	**527,925**	503,487
Taxation	*8*	**(84,060)**	(74,785)
Profit for the year		**443,865**	428,702
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**443,865**	428,702
Profit for the year attributable to:			
– Owners of the Company		**443,553**	428,585
– Non-controlling interests		**312**	117
		443,865	428,702
Total comprehensive income attributable to:			
– Owners of the Company		**443,553**	428,585
– Non-controlling interests		**312**	117
		443,865	428,702
Earnings per share attributable to owners of the Company ***(RMB)***	*10*		
– Basic and diluted		**0.728**	0.703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Non-current assets			
Available-for-sale financial assets		**41,000**	41,000
Purchased technical know-how		**–**	17
Prepayments to acquire technical know-how		**17,404**	15,405
Property, plant and equipment		**544,275**	330,740
Construction-in-progress		**219,902**	268,584
Prepaid lease payments		**51,470**	50,936
Deferred tax assets		**523**	1,216
Goodwill		**165**	165
		874,739	708,063
Current assets			
Inventories		**278,283**	223,194
Trade and bills receivables	*11*	**324,797**	278,144
Other receivables, deposits and prepayments		**178,812**	109,890
Financial assets at fair value through profit and loss		**1,227,361**	1,155,000
Pledged bank deposits		**29,189**	6,405
Cash and bank balances		**160,512**	187,004
		2,198,954	1,959,637
Current liabilities			
Trade and bills payables	*12*	**179,119**	165,957
Other payables and accruals		**430,578**	298,690
Deposits received		**52,006**	26,718
Dividend payable		**2,592**	18,000
Tax payable		**41,802**	51,724
		706,097	561,089
Net current assets		**1,492,857**	1,398,548
Total assets less current liabilities		**2,367,596**	2,106,611
Non-current liability			
Deferred income		**20,380**	20,380
Net assets		**2,347,216**	2,086,231

	Notes	**2014** *RMB'000*	2013 *RMB'000*
Capital and reserves			
Share capital		**60,960**	60,960
Other reserves		**73,562**	68,736
Retained earnings			
– Proposed final dividend		**182,880**	182,880
– Others		**2,026,018**	1,770,171
Equity attributable to owners of the Company		**2,343,420**	2,082,747
Non-controlling interests		**3,796**	3,484
Total equity		**2,347,216**	2,086,231

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve fund *RMB'000*	Statutory public welfare fund *RMB'000*	Retained earnings *RMB'000*	Attributable to owners of the Company *RMB'000*	Non–controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2013	60,960	31,139	30,609	6,033	1,708,301	1,837,042	1,897	1,838,939
Profit for the year	–	–	–	–	428,585	428,585	117	428,702
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	428,585	428,585	117	428,702
Transfer from retained earnings to statutory surplus reserve fund	–	–	955	–	(955)	–	–	–
Capital injection by non–controlling interests	–	–	–	–	–	–	1,470	1,470
Dividend paid	–	–	–	–	(182,880)	(182,880)	–	(182,880)
At 31 December 2013 and 1 January 2014	60,960	31,139	31,564	6,033	1,953,051	2,082,747	3,484	2,086,231
Profit for the year	–	–	–	–	443,553	443,553	312	443,865
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	443,553	443,553	312	443,865
Transfer from retained earnings to statutory surplus reserve fund	–	–	4,826	–	(4,826)	–	–	–
Dividend paid	–	–	–	–	(182,880)	(182,880)	–	(182,880)
At 31 December 2014	**60,960**	**31,139**	**36,390**	**6,033**	**2,208,898**	**2,343,420**	**3,796**	**2,347,216**
Representing:								
Proposed 2014 final dividends					**182,880**			
Others					**2,026,018**			
Retained earnings as at 31 December 2014					**2,208,898**			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company by way of promotion with a registered capital of Renminbi ("RMB") 46,000,000. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd*. The H-Shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2005. Pursuant to the Extraordinary General Meeting held on 12 August 2014, the name of the Company change to Shandong Luoxin Pharmaceutical Group Stock Co., Ltd*.

The Company's registered office is located at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC.

The principal activities of the Company are manufacturing and selling of pharmaceutical products.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 10 March 2015.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

The Group has applied HK (IFRIC) – Int 21 Levies for the first time in the current year. HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 11 Amendments	Accounting for Acquisitions of Interests in Joint Operations[5]
HKAS 16 and HKAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
HKAS 16 and HKAS 41 Amendments	Agriculture: Bearer Plants[5]
HKAS 19 Amendments	Defined Benefit Plans: Employee Contributions[4]
HKAS 27 Amendments	Equity Method in Separate Financial Statements[5]
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Annual to HKFRSs	Annual Improvements to HKFRS 2010-2012 Cycle[6]
Annual to HKFRSs	Annual Improvements to HKFRS 2011-2013 Cycle[4]
Annual to HKFRSs	Annual Improvements to HKFRS 2012-2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 14 Regulatory Deferral Accounts

HKFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS/HKFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate regulated goods or services.

The amendments to HKFRS 14 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 14 will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer
– Step 2: Identify the performance obligations in the contract
– Step 3: Determine the transaction price
– Step 4: Allocate the transaction price to the performance obligations in the contract
– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

– At cost,

– In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or

– Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First time Adoption of Hong Kong Financial Reporting Standards.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

– The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

– A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

– A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

– An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

– New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

– The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. BASIS OF PREPARATION

The consolidated financial statements has been prepared under the historical cost convention excepted for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. The Financial Information is presented in RMB and all values are rounded to the nearest thousand except when otherwise stated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group currently operates in one business segment in the manufacturing and selling of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the net profit of the Group and the reportable assets and liabilities report to the chief operating decision makers are the Group's assets and liabilities.

Revenue from major products

The Group's revenue from its major product is as follows:

	2014	2013
	RMB'000	*RMB'000*
Pharmaceutical products	**2,766,788**	2,529,464

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB2,766,788,000 (2013: RMB2,529,464,000) are revenues of approximately RMB206,829,000 (2013: RMB326,789,000) which arose from sales to the Group's largest customer. No individual customer contributed over 10% of the total revenue of the Group.

Geographical information

The Group mainly operates in the PRC. During the year ended 31 December 2014, except for revenue of approximately RMB2,790,000 (2013: RMB2,278,000) is generated from external customers located in overseas, all of the Group's revenue is derived from external customers located in the PRC. The non-current assets of the Group are all located in the PRC in each of the year ended 31 December 2014 and 2013.

5. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised are as follows:

	2014	2013
	RMB'000	*RMB'000*
Turnover		
Sales of manufactured pharmaceutical products	**2,766,788**	2,529,464
Other revenue		
Interest income on bills receivables	**40**	1,096
Interest income on bank deposits	**2,099**	5,119
Gain on financial assets at fair value through profit or loss	**71,070**	41,256
Sundry income	**5,534**	2,367
	78,743	49,838
Total revenue	**2,845,531**	2,579,302

The sale of product mix of the Group as follows:

	2014	2013
	RMB'000	*RMB'000*
System Specified Medicine	**1,188,868**	956,226
Anti-biotic medicine	**1,045,736**	1,084,839
Other System Specified Medicine	**532,184**	488,399
	2,766,788	2,529,464

6. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Bills payables wholly repayable within six months	**21**	9

7. PROFIT FROM OPERATIONS

Operating profit of the Group was determined after charging/(crediting) the following:

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**834,627**	848,019
Depreciation of property, plant and equipment	**57,173**	27,445
Amortisation of purchased technical know-how	**17**	230
Amortisation of prepaid lease payments	**1,110**	1,303
Write-down of obsolete inventories	**–**	292
Impairment loss recognised in respect of trade receivables	**1,359**	1,510
Impairment loss recognised in respect of other receivables	**815**	57
Employees benefit expenses (excluding Directors' and supervisors' remuneration)	**870,240**	651,907
Loss on disposal of property, plant and equipment	**392**	55
Research and development costs	**121,997**	70,616
Rental expenses	**602**	216
Advertising costs	**4,345**	28,052
Auditors' remuneration	**1,000**	800

and after crediting:

Other income		
Waiver of trade payables	**965**	1,495
Government grant	**21,362**	2,090
Penalty income	**1,613**	4,152
Reversal of obsolete inventories written-down	**37**	–
Reversal of impairment loss recognised in respect of trade receivables	**1,512**	4,309
Reversal of impairment loss recognised in respect of other receivables	**1,096**	–
	26,585	12,046

8. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Group did not carry on any business in Hong Kong during the year (2013: Nil).

(ii) As described in the paragraph below, the Company is subjected to the PRC enterprise income tax at a rate of 15% (2013: 15%). The subsidiaries of the Group are subject to the PRC enterprise income tax at a rate of 25% (2013: 25%).

The Company received confirmation from the recognition authority that the Company has been recognised as the High and New Technology Enterprise. Pursuant to the new Enterprise Income Tax Law, the enterprise income tax applicable to the High and New Technology Enterprise is reduced to be levied at 15%. The Company has since been enjoying the tax concession rate of 15% for three years effective from 1 January 2012.

(iii) The PRC value-added tax

The Group is subjected to the PRC value-added tax ("VAT") at 17% (2013: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(iv) The amount of taxation charged to the consolidated statement of comprehensive income represents:

	2014	2013
	RMB'000	*RMB'000*
Current taxation – Enterprise income tax	**83,367**	74,029
Deferred taxation	**693**	756
	84,060	74,785

9. DIVIDENDS

A dividend in respect of 2014 of RMB0.3 per share (2013: RMB0.3 per share), amounting to a total dividend of RMB182,880,000 (2013: RMB182,880,000) is to be proposed at the annual general meeting of the Company on 8 June 2015. These consolidated financial statements do not reflect this dividend payable.

	2014	2013
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.3 (2013: final dividend declared and approved of RMB0.3 per ordinary share) per ordinary share	**182,880**	182,880

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to owners of the Company *(RMB'000)*	**443,553**	428,585
Weighted average number of ordinary shares in issue *('000)*	**609,600**	609,600
Basic and diluted earnings per share *(RMB)*	**0.728**	0.703

11. TRADE AND BILLS RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**307,210**	260,093
Bills receivables	**18,902**	19,702
	326,112	279,795
Less: Provision for impairment loss recognised in respect of trade receivables	**(1,315)**	(1,651)
	324,797	278,144

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

	2014	2013
	RMB'000	*RMB'000*
1 to 90 days	**264,058**	219,494
91 to 180 days	**50,829**	44,876
181 to 365 days	**9,910**	13,774
	324,797	278,144

Customers are generally granted with credit term of 180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2014 and 2013 are denominated in RMB.

12. TRADE AND BILLS PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**149,930**	159,552
Bills payables	**29,189**	6,405
	179,119	165,957

The following is an analysis of trade and bills payables by age based on the invoice date:

	2014	2013
	RMB'000	*RMB'000*
1 to 90 days	**139,080**	116,267
91 to 180 days	**14,425**	18,952
181 to 365 days	**4,181**	10,491
Over 365 days	**21,433**	20,247
	179,119	165,957

Trade and bills payables as at 31 December 2014 and 2013 are denominated in RMB.

The average credit period on trade and bills payables is 90 days. Bills payables are all due to mature within 180 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. COMMITMENTS AND CONTINGENCIES

The Group had the following significant capital commitments:

(a) Operating leases

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2014	2013
	RMB'000	*RMB'000*
Within one year	**867**	100
In the second to fifth year, inclusive	**398**	–
	1,265	100

The Group leases office premises under operating lease arrangements which are negotiated and fixed for an average term of a year. The lease payments are fixed and pre-determined.

(b) Capital commitments

Capital commitments outstanding at 31 December 2014, not provided for in the consolidated financial statements were as follows:

	2014	2013
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Purchase of technical know-how	**39,056**	2,930
– Purchase of property, plant and equipment	**301,805**	327,260

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

In 2014, the development of the pharmaceutical industry in the PRC remains promising, underpinned by the advanced medical reforms actively implemented by the government and the tightening of regulations. Other boosts to the industry include escalating efforts of investing in the pharmaceutical industry, basic public health services and perennial growth in fiscal input in medical health services. The industry also witnessed improvements in the expansion of medical insurance coverage, rural health services and new rural cooperative medical services model. These, along with rapid aging of population, urbanisation and the steady growth of the global pharmaceutical market, will contribute to the bright prospects of the PRC's pharmaceutical industry in 2015.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always focused on the strategies of strengthening science and technology innovation, expediting research and development ("R&D"), distribution capability and production optimisation; striving to provide reliable and high-tech pharmaceutical products as well as strengthening marketing and distribution systems. During the period under review, the Group took full advantage from opportunities arisen from growth in the market and satisfied market demands by investing additional resources in enhancing its production capabilities and technology application, and gearing up the implementation of technological achievement, securing new spots of growth and pressing the reform and team building process, thereby laying a solid foundation for sustainable future development of the Group.

BUSINESS REVIEW

For the year ended 31 December 2014, amid the pressure from the market environment brought by the commencement of bidding system for basic drugs procurement, surging production costs and drug-price cuts, the Group upheld its underlying development strategies and endeavoured to achieve the targets of the 12th Five-Year Plan. It managed to maintain stable and healthy development in R&D, management, production, human resources and market network. The outstanding results were attributable to the support and cooperation of all shareholders, customers, suppliers, business partners and the public, as well as the concerted and unremitting efforts of the management and staff of the Group. Riding on the success obtained, the Group will speed up product development and further expand its marketing channels to accelerate corporate brand enhancement and strengthen the overall competitiveness of the enterprise, with an aim of building a world-class pharmaceutical brand.

Research and Development

1. *Building platform for technology research and development*

During the period under review, the enterprise technology centre of the Company was recognised as a "State-Accredited Enterprise Technology Centre" by National Development and Reform Commission, Ministry of Science and Technology, Ministry of Finance, General Administration of Customs and State Administration of Taxation; and was approved as "Model Engineering Technology Research Centre of Shandong Province" by Department of Science & Technology of Shandong province. Currently, the Company has obtained approval to establish several scientific research platforms which included a state-accredited enterprise technology centre, a state-province joint engineering laboratory, an "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)" (國家綜合性新藥研發技術大平台(山東)產業化示範企業), "National Post-Doctoral Research Workshop" (國家博士後科研工作站), "Key High-Tech Enterprise under the State Torch Programme" (國家火炬計劃重點高新技術企業), "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory" (山東省凍乾粉針劑藥物重點實驗室), "Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory"(山東省凍乾粉針劑藥物工程實驗室)，"Taishan Scholar – Pharmaceutical expert consultant" (泰山學者－藥學特聘專家) and "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站). Together they form an even stronger platform for talent accumulation, research and development and technology advancement, and in turn strengthen the research and development capabilities and overall competitiveness of the Group.

2. *New products*

During the period under review, Shandong Yuxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Yuxin Pharmacy Co., Ltd.*") (山東裕欣藥業有限公司) obtained one pharmaceutical production approval and five antiseptic germicide production approvals, while the Company obtained three pharmaceutical production approvals. As at 31 December 2014, the Group had obtained 291 pharmaceutical production approvals and five antiseptic germicide production approvals.

Newly granted pharmaceutical production approvals during the period under review were as follows:

(1) The Lansoprazole for injection (with enhanced indications) developed by the Group obtained supplemental production approval from China Food and Drug Administration ("CFDA") on 1 August 2014.

Lansoprazole is the upgraded product of Omeprazole, and a national healthcare product. It was developed by the Group and included in the State Key New Products Programme, the National Major Innovative Drug Projects of Major Science and Technology projects of the 12th Five-Year Plan, and obtained 3 invention patents registered in the PRC in 2011. It was also being honoured with an Award of Excellence of National Patents and the 3rd prize of Science and Technology Award by Chinese Pharmaceutical Association in 2013. The Group took the initiative to establish a national standard for the product, and made a huge investment since 2011 to launch clinical research for three indications namely "gastric ulcer with hemorrhage (伴有出血的胃潰瘍), acute stress ulcer (急性應激性潰瘍) and acute gastric mucosal lesions (急性胃粘膜病變)" based on existing indications. In August 2014, the Group obtained exclusive production approvals in respect of three indications namely "gastric ulcer with hemorrhage, acute stress ulcer and acute gastric mucosal lesions" from CFDA, offering pharmaceutical products with broader treatment for clinical trials.

(2) The raw material of Biapenem developed by the Group obtained production approval from CFDA on 8 December 2014.

(3) The Biapenem for injection developed by the Group obtained production approval from CFDA on 8 December 2014. The product is chiefly for treatment of septicemia caused by sensitive bacteria, pneumonia, pulmonary abscess, secondary infections caused by chronic respiratory diseases, refractory interstitial cystitis, pyelonephritis, peritonitis and pelvic inflammatory disease etc.

(4) The Doxofylline and glucose injection developed by Shandong Yuxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Yuxin Pharmacy Co., Ltd.*")(山東裕欣藥業有限公司) (a Group's subsidiary) obtained production approval from CFDA on 25 May 2014. The product is chiefly for treatment of bronchial asthma, chronic asthmatic bronchitis and dyspnoea caused by other bronchial spasms.

3. *Patents and achievements*

(1) During the period under review, the Group had 63 invention patents pending for registration in the PRC. As at 31 December 2014, the Group had 102 invention patents registered in the PRC.

(2) As at 31 December 2014, the Group had 46 certificates of new drug.

(3) During the period under review, the Group had one product being admitted to the National Major Innovative Drug Projects of the 12th Five-Year Plan, one product being admitted to the State Torch Programme and 33 research projects being admitted to various major construction projects at national, provincial and municipal

levels and independent innovation projects, and won certain science and technology awards.

As at 31 December 2014, the Group had five products being admitted to the State Torch Programme and two products to the State Key New Products Programme.

Production and Management

1. The Group continued to implement effective strategies in seven integral systems, namely management, culture, corporate organisation, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk resistance capacities and overall competencies. The Company has been named as one of the "Top 100 Pharmaceutical Companies in China" (中國製藥工業百強企業) since 2006. From 2011 onward, the Company has been named as the "Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China" (中國醫藥研發產品線最佳工業企業). These recognitions demonstrated the growth in the overall corporate strength of the Group.

2. *Construction of Production Facilities*

(1) Pharmaceutical preparations: Shandong Yuxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Yuxin Pharmacy Co., Ltd.*") (山東裕欣藥業有限公司) was granted the Drug Manufacturing Certificate, Sanitation License of Disinfectant Manufacturers. The construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed and put into operation. It has also been expediting the construction of the new lyophilized powder injection workshop.

(2) Pharmaceutical raw materials: the synthetic raw materials workshop in respect of the phase 1 of the pharmaceutical raw materials project of Shandong Hengxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Hengxin Pharmacy Co., Ltd.*") (山東恒欣藥業有限公司) has been put into operation.

(3) Preparations that passed the new GMP certification included lyophilized powder injection, powder injection, tablets, capsules, low-volume injections, granules, dry suspension agent, large-volume injections and bulk pharmaceuticals (including sterile bulk medicines).

3. *External Investment*

(1) The Company established a wholly-owned subsidiary named Luoxin Biological Technology (Shanghai) Co., Ltd.* (羅欣生物科技(上海)有限公司) in ZJ Innopark in Shanghai with registered capital of RMB30 million, which would be responsible for R&D of the Group's high-tech solution and high-tech talents training, that formed a trio-partnership with the headquarter and further strengthened the development in new medicines.

(2) During the period under review, the Group made a RMB3.71 million investment on the acquisition of a pharmaceutical trading company in Jinan, namely Shandong Jinke Pharmaceutical Co., Ltd.* (山東金訶藥業有限公司). That company had been renamed to Jinan Luoxin Pharmacy Company Limited (濟南羅欣醫藥有限公司). The acquisition would be an effective way to facilitate the development of product marketing and expansion of pharmaceutical distribution network. The investment was completed on 9 February 2015.

Sales and Marketing

The Group continued to integrate marketing resources and contemplated to form a competent, 10,000-people strong sales team to increase the market share and competitiveness of its products. At present, the Group has an extensive and seamless sales network throughout the PRC under a well-established marketing management system and has accelerated the development in the rural market and formed an OTC (over-the-counter) sales network, aiming to build the third terminal direct sales network.

During the period under review, the Group's turnover was RMB2,766,788,000, representing an increase of 9.38% from RMB2,529,464,000 in the corresponding period of last year. The increase was mainly attributable to the production approvals for new system specified medicines and the market development of our key products. For instance, since the addition of three indications of Lansoprazole, market demand had substantially increased and the market coverage of our products had also been expanded so that the market share of our products had gradually increased.

A breakdown of segmental turnover by pharmaceutical indications and usage for the years ended 31 December is shown as follows:

Indications and usage	**Turnover for 2014** *(RMB'000)*	**Percentage of total turnover**	**Turnover for 2013** *(RMB'000)*	**Percentage of total turnover**	**Change**
System specified medicine	1,188,868	42.97%	956,226	37.80%	24.33%
Anti-biotic medicine	1,045,736	37.80%	1,084,839	42.89%	(3.60%)
Other system specified medicine	532,184	19.23%	488,399	19.31%	8.97%
Total	2,766,788	100%	2,529,464	100.00%	9.38%

Turnover growth in the system specified medicine and other system specified medicine segments were mainly attributable to newly granted production approvals and new products being launched to the market and becoming new spots of growth within these product categories, as well as that extra effort had been spent by the Company to explore market for key products, resulting in their gradual gain in market share. The fall in turnover of the anti-biotic medicine was mainly as a result of the adverse effect from the State's policy to restrict the usage of anti-biotic.

Financial Review

For the year ended 31 December 2014, the Group's audited turnover was approximately RMB2,766,788,000, representing an increase of approximately 9.38% from approximately RMB2,529,464,000 for the corresponding period of last year. The increase was attributable to the Group's launch of high value-added products, upgrade of product portfolio and acceleration of the development of its sales network to increase the market share of its products thereby boosting its turnover.

For the year ended 31 December 2014, the audited cost of sales was approximately RMB874,060,000, representing a decrease of 1.17% from approximately RMB884,393,000 for the corresponding period of last year.

For the year ended 31 December 2014, the audited gross profit margin was 68.41%, representing an increase of 3.37% from 65.04% for the corresponding period of last year. The increase was attributable to the Company's launch of high value-added products and upgrade of product portfolio.

For the year ended 31 December 2014, the audited operating cost was approximately RMB1,470,110,000, representing an increase of 22.16% from approximately RMB1,203,459,000 for the corresponding period of last year. The increase in operating cost was due to the change of sales portfolio which was related to a different cost model of sales and marketing expenditure, and an increase in R&D expenses on products that might be launched in future.

For the year ended 31 December 2014, the audited profit attributable to the shareholders was approximately RMB443,553,000, representing an increase of 3.49% from approximately RMB428,585,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.73 for the year ended 31 December 2014.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB160,512,000 (as at 31 December 2013: RMB187,004,000). As at 31 December 2014, the Group did not have any borrowings (as at 31 December 2013: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 December 2014, the Group's bank deposits of approximately RMB29,189,000 were pledged as security for remittance under acceptance (as at 31 December 2013: bank deposits of approximately RMB6,405,000 were pledged as security for remittance under acceptance).

Financial Assets at Fair Value through Profit or Loss

As at 31 December 2014, the Group had financial assets at fair value through profit or loss of investment amount of approximately RMB1,210,000,000 (as at 31 December 2013: RMB1,155,000,000). Such financial assets comprised six investments in wealth management products, offered by licensed banks in the PRC. A summary of the financial assets as at 31 December 2014 is as follows:

Investment Amount *(RMB)*	**Investment period**	**Fixed investment return per annum**
260,000,000	5/2014 – 5/2015	5.85%
80,000,000	9/2014 – 3/2015	5.00%
450,000,000	10/2014 – 1/2015	4.70%
50,000,000	10/2014 – 1/2015	4.60%
280,000,000	11/2014 – 5/2015	4.50%
90,000,000	12/2014 – 2/2015	5.50%

The relevant amounts of the financial assets, being the Group's operating cash flow surplus, were previously held by the Group as cash or bank deposits prior to making the said investments with an aim to optimise utilisation of the Group's operating cash flow surplus.

Major Acquisitions and Disposals

For the year ended 31 December 2014, the Group did not have any major acquisitions or disposals.

Significant Investments

For the year ended 31 December 2014, the Group did not make any significant investments.

Contingent Liabilities

As at 31 December 2014, the Group did not have any substantial contingent liabilities.

Exchange Risk

The Group operates and conducts business in the PRC, and all the Group's transactions, assets and liabilities are denominated in RMB. Most of the Group's cash and cash equivalents and pledged deposits are denominated in RMB, while bank deposits are placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government.

Employees and Remuneration Policy

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Group and in raising its profitability. The Group determines its employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and fringe benefits are maintained at an appropriate level. The Group has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

PROSPECTS

Looking ahead, the development of pharmaceutical industry is one of the key priorities in future state policies, thus making the prospects of the industry very optimistic. Being one of the key industries favoured by the 12th Five-Year Plan, pharmaceutical industry will share more resources from the Central Government in pharmaceutical and medical equipment, and a modern market system for circulation of pharmaceutical products will also be established during the 12th Five-Year Plan period so as to enhance industry concentration. The Group is confident in maintaining its sustained and healthy development.

In addition, the "Guiding Opinions on Speeding up of the Restructuring of the Pharmaceutical Industry" (關於加快醫藥行業結構調整的指導意見) (the "Opinions") jointly published by the Ministry of Industry and Information Technology and the Ministry of Health and CFDA of the PRC in November 2010 sets out the goals of speeding up the restructuring of the pharmaceutical industry, cultivating independent innovation capabilities and enhancing production concentration. The Opinions are beneficial to the development of innovative enterprises as a whole and provides more room for the growth of competitive enterprises.

In the future, the Group will continue to pursue the strategic direction of a "technology driven enterprise with determination and efforts" under the favourable operating environment. By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investments in scientific researches to consolidate its standing in scientific researches and technologies, and to enhance the capabilities of its R&D team. The Group strives for developing more products of higher technology, better quality and higher added-value. The Group also aims at reducing production costs and expanding production scale so as to create its competitiveness in economies of scale, low production costs and differentiation. With the completion and commencement of production in the Group's new production bases of "Yuxin" (裕欣) and "Hengxin" (恒欣), our production capacity will be enhanced to satisfy growing market demands for pharmaceutical products. The new production bases are capable of increasing the number of new dosage types and effectively expand the R&D scope of new drugs, thus facilitating the Group's overall business development. The Group will also speed up the establishment of its sales teams and proactively broaden its sales network so as to enhance the market share of its products and continue to improve its core competitiveness.

The Group expects that "Luoxin" will be built into a pharmaceutical enterprise with worldwide recognition through the above strategies.

CORPORATE GOVERNANCE

The Board considers that good corporate governance of the Company is the key to safeguarding the interests of shareholders and enhancing the performance of the Company. The Board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

In the opinion of the Directors, the Company complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (the "CG Code") for the year ended 31 December 2014, except the following:

Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Owing to overseas engagement, the two non-executive Directors and four independent non-executive Directors were unable to attend the EGM of the Company held on 12 August 2014 in person. However, in order to understand the view of the shareholders, they joined the EGM by telephone.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 20 November 2005 with written terms of reference which were revised on 13 March 2012 in compliance with the CG Code. The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (傅天忠) (Chairman), Mr. Fu Hongzheng (付宏征), Prof. Chen Yun Zhen (陳允震) and Prof. Du Guanhua (杜冠華).

The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures and relationship with the Company's auditors. The appointments of the Audit Committee members are based on their broad experience in the medicinal field and professional knowledge in financial reporting and management.

The Audit Committee meets regularly to review financial reporting matters and the Company's internal control policies and procedures issues; and sees how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The audited results of the Group for the year ended 31 December 2014 have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group has not redeemed, purchased or sold any of its listed securities during the year ended 31 December 2014.

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

The registers of members of the Company to attend the annual general meeting (the "AGM") will be closed from 8 May 2015 to 8 June 2015 (both days inclusive). All properly completed H-Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H-shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 7 May 2015, for registration.

Entitlement to Final Dividend

The Board has recommended the payment of a final dividend of RMB0.3 per share in respect of the year ended 31 December 2014. Subject to the approval of shareholders at the forthcoming AGM, the dividend cum-date and ex-date will be 9 June 2015 and 10 June 2015 respectively. The registers of members of the Company for entitlement of dividend will be closed from 12 June 2015 to 17 June 2015 (both days inclusive). All properly completed H-Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H-Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 June 2015, for registration.

WITHHOLDING OF INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS AND NON-RESIDENT INDIVIDUAL SHAREHOLDERS IN RESPECT OF THE PROPOSED FINAL DIVIDEND

Non-resident Corporate Shareholders

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Group is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident corporate shareholders whose names appear on the H-Share register of members on 17 June 2015. The Group will distribute the final dividend to such non-resident corporate shareholders after withholding a 10% income tax. In order to determine the list of holders of H-Shares who are entitled to receive the final dividend, the H-Share register of members of the Group will be closed from 12 June 2015 to 17 June 2015, both days inclusive, during which period no transfer of the Group's H-Shares will be effected. In order for holders of H-Shares to be qualified for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Group's H-share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 June 2015, for registration.

Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No. 348), the Group is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between mainland China and Hong Kong or Macau. The Group would withhold and pay the individual income tax at a rate of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates of 10% in respect of dividends. For nonresident individual H shareholders who are residents of those countries having agreements with China for personal income tax rates of lower than 10% in respect of dividends, the Group would make applications on their behalf to seek entitlement to the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)). For non-resident individual H shareholders who are residents of those countries having double tax treaties with China for personal income tax rates in respect of dividends of higher than 10% but lower than 20%, the Group would withhold the individual income tax at the agreed-upon effective tax rate. For non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividends of 20% and other situations, the Group would withhold the individual income tax at a tax rate of 20%.

In order to determine the list of holders of H-Shares of the Group who are entitled to receive the final dividend, the H-share register of members of the Group will be closed from 12 June 2015 to 17 June 2015, both days inclusive, during which period no transfer of the Group's H-Shares will be effected. The Group will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Group (the "Registered Address') on 17 June 2015 and will withhold and pay the individual income tax based on the register of members of the Group as at 17 June 2015. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Group's H-share registrar and provide relevant supporting documents to the Group's H-share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 June 2015, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Group's H-Shares within the time period stated above, the Group will determine the country of domicile of the individual H shareholders based on the recorded Registered Address on 17 June 2015.

The Group will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate income tax and the final dividend will only be payable to the shareholders whose names appear on the Group's H-share register of members on 17 June 2015.

The Group will have no liability in respect of any claims arising from any delay in or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

By order of the Board
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*
Liu Baoqi
Chairman

The PRC, 10 March 2015

As at the date of this announcement, the Board comprises 11 Directors, of which Mr. Liu Baoqi (劉保起), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生), Mr. Chen Yu (陳雨) and Mr. Liu Zhenteng (劉振騰) are executive Directors, Mr. Yin Chuangui (尹傳貴) and Mr. Liu Zhenhai (劉振海) are non-executive Directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征), Prof. Chen Yun Zhen (陳允震) and Prof. Du Guanhua (杜冠華) are independent non-executive Directors.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from its date of publication and on the Group's designated website at: http://shandongluoxin.quamir.com.