



山東羅欣藥業股份有限公司

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

INTERIM REPORT 2013



* For identification purposes only



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



SUMMARY

- The Group's sales for the six months ended 30 June 2013 were approximately RMB1,143,565,000, representing an increase of approximately 13.79% when compared with those of the corresponding period of last year.
- The Group's profit attributable to Shareholders for the six months ended 30 June 2013 was approximately RMB238,917,000, representing a decrease of approximately 1.80% when compared with that of the corresponding period of last year.
- The Board does not recommend payment of any dividend for the six months ended 30 June 2013.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 (the "Period") and the comparative figures of the corresponding period of 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Turnover	3	525,028	530,571	1,143,565	1,004,977
Cost of sales		<u>(166,302)</u>	<u>(179,192)</u>	<u>(338,651)</u>	<u>(353,732)</u>
Gross profit		358,726	351,379	804,914	651,245
Other revenue	3	8,545	1,424	10,435	3,332
Other income		3,197	1,788	7,947	3,911
Selling and distribution expenses		(203,467)	(186,625)	(473,500)	(316,591)
General and administrative expenses		<u>(40,391)</u>	<u>(34,310)</u>	<u>(68,440)</u>	<u>(54,658)</u>
Profit before taxation	4	126,610	133,656	281,356	287,239
Taxation	5	<u>(17,924)</u>	<u>(19,924)</u>	<u>(42,360)</u>	<u>(44,192)</u>
Profit for the Period		108,686	113,732	238,996	243,047
Other comprehensive income for the Period, net of tax		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the Period		<u>108,686</u>	<u>113,732</u>	<u>238,996</u>	<u>243,047</u>
Profit attributable to:					
Owners of the Company		108,609	113,396	238,917	243,290
Non-controlling interests		<u>77</u>	<u>336</u>	<u>79</u>	<u>(243)</u>
		<u>108,686</u>	<u>113,732</u>	<u>238,996</u>	<u>243,047</u>
Total comprehensive income attributable to:					
Owners of the Company		108,609	113,396	238,917	243,290
Non-controlling interests		<u>77</u>	<u>336</u>	<u>79</u>	<u>(243)</u>
		<u>108,686</u>	<u>113,732</u>	<u>238,996</u>	<u>243,047</u>
Earnings per share attributable to owners of the Company (RMB) – Basic and diluted	7	<u>17.81 cents</u>	<u>18.60 cents</u>	<u>39.19 cents</u>	<u>39.91 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Non-current assets			
Available-for-sale financial assets		1,000	1,000
Purchased technical know-how	8	68	247
Prepayments to acquire technical know-how		12,802	16,245
Property, plant and equipment	9	272,785	273,695
Construction-in-progress		292,250	229,378
Prepaid lease payments	10	84,181	52,939
Deferred tax assets		1,972	1,972
Goodwill		165	165
		<u>665,223</u>	<u>575,641</u>
Current assets			
Inventories		236,171	188,344
Trade and bills receivables	11	261,827	312,882
Other receivables, deposits and prepayments		196,776	174,405
Financial assets at fair value through profit or loss	12	960,000	600,000
Pledged bank deposits		82,264	101,940
Cash and bank balances		195,616	335,335
		<u>1,932,654</u>	<u>1,712,906</u>



	Notes	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Current liabilities			
Trade and bills payables	13	251,086	217,493
Other payables and accruals		131,500	134,438
Deposits received		52,656	26,956
Dividend payable		182,880	–
Taxation payable		64,320	50,341
		<u>682,442</u>	<u>429,228</u>
Net current assets		<u>1,250,212</u>	<u>1,283,678</u>
Total assets less current liabilities		<u>1,915,435</u>	<u>1,859,319</u>
Non-current liability			
Deferred income		<u>20,380</u>	<u>20,380</u>
Net assets		<u>1,895,055</u>	<u>1,838,939</u>
Capital and reserves			
Share capital	14	60,960	60,960
Reserves		<u>1,832,119</u>	<u>1,776,082</u>
Equity attributable to owners of the Company		<u>1,893,079</u>	<u>1,837,042</u>
Non-controlling interests		<u>1,976</u>	<u>1,897</u>
Total equity		<u>1,895,055</u>	<u>1,838,939</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	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, audited	60,960	31,139	30,609	6,033	1,708,301	1,837,042	1,897	1,838,939
Total comprehensive income	-	-	-	-	238,917	238,917	79	238,996
Dividend declared	-	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 June 2013, unaudited	60,960	31,139	30,609	6,033	1,764,338	1,893,079	1,976	1,895,055

For the six months ended 30 June 2012

	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 2012, audited	60,960	31,139	30,562	6,033	1,390,394	1,519,088	6,662	1,525,750
Total comprehensive income	-	-	-	-	243,290	243,290	(243)	243,047
Dividend declared	-	-	-	-	(121,920)	(121,920)	-	(121,920)
At 30 June 2012, unaudited	60,960	31,139	30,562	6,033	1,511,764	1,640,458	6,419	1,646,877

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Unaudited six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Net cash inflow from operating activities	275,309	279,017
Net cash outflow from investing activities	(434,704)	(431,945)
Net cash inflow/(outflow) from financing activities	<u>19,676</u>	<u>(147,940)</u>
Net (decrease)/increase in cash and cash equivalents	(139,719)	(300,868)
Cash and cash equivalents at beginning of Period, audited	<u>335,335</u>	<u>892,877</u>
Cash and cash equivalents at end of Period, unaudited	<u>195,616</u>	<u>592,009</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>195,616</u>	<u>592,009</u>



NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 with a registered capital of Renminbi ("RMB") 46 million. 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 GEM of the Stock Exchange of Hong Kong Limited since 9 December 2005.

The Company's registered office is located at Luoqi Road, High and New Technology Experimental Zone, Linyi City, 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 accounts have been approved for issue by the Board on 6 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended 31 December 2012.

The consolidated financial statements have been prepared under historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values.

3. TURNOVER AND OTHER REVENUE

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 Decision Maker who oversees the entire business. The operating results reported to the Chief Decision Maker represents net profits of the Group and the assets and liabilities reported to the Chief Decision Maker represents the Group's assets and liabilities. Accordingly, no business segment information is presented.

Turnover and other revenue recognised are as follows:

	Unaudited Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Turnover		
Sales of manufactured pharmaceutical products	<u>1,143,565</u>	<u>1,004,977</u>
Other revenue		
Interest income on financial assets at fair value through profit or loss	7,945	—
Interest income on bank deposits	<u>2,490</u>	<u>3,332</u>
	<u>10,435</u>	<u>3,332</u>
Total revenue	<u>1,154,000</u>	<u>1,008,309</u>

4. PROFIT FROM OPERATIONS

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Operating profit of the Group was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	572	570
Depreciation of property, plant and equipment	12,843	12,078
Loss on disposal of property, plant and equipment	55	11
Amortisation of prepaid lease payments	1,256	373
Amortisation of purchased technical know-how (included in cost of sales)	179	50
Employees benefit expenses (excluding Directors' and supervisors' emoluments)	195,957	115,695
Research and development costs	32,785	22,981
Advertising costs	25,095	17,005
	<u> </u>	<u> </u>

5. TAXATION

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
PRC enterprise income tax	42,360	44,192
	<u> </u>	<u> </u>

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the Period.

6. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (2012: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2013 is based on the unaudited net profit of approximately RMB238,917,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the unaudited net profit of approximately RMB243,290,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share is the same as the basic earnings per share since there were no dilutive events existed during the period ended 30 June 2013 and 2012.

8. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
Cost:	
At 1 January 2012, audited	17,450
Additions	—
	<hr/>
At 31 December 2012 and 1 January 2013, audited	17,450
Additions	—
	<hr/>
At 30 June 2013, unaudited	17,450
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Accumulated amortisation and impairment:	
At 1 January 2012, audited	16,773
Charge for the year	430
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At 31 December 2012 and 1 January 2013, audited	17,203
Charge for the Period	179
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At 30 June 2013, unaudited	17,382
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Net book value:	
At 30 June 2013, unaudited	68
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At 31 December 2012, audited	247
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9. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
Cost:	
At 1 January 2012, audited	370,245
Additions	19,379
Transfer from construction-in-progress	8,613
Disposals	<u>(1,413)</u>
At 31 December 2012 and 1 January 2013, audited	396,824
Additions	11,866
Transfer from construction-in-progress	122
Disposals	<u>(159)</u>
At 30 June 2013, unaudited	<u>408,653</u>
Accumulated depreciation and impairment:	
At 1 January 2012, audited	99,038
Charge for the year	24,365
Written back on disposals	<u>(274)</u>
At 31 December 2012 and 1 January 2013, audited	123,129
Charge for the Period	12,843
Written back on disposals	<u>(104)</u>
At 30 June 2013, unaudited	<u>135,868</u>
Net book value:	
At 30 June 2013, unaudited	<u>272,785</u>
At 31 December 2012, audited	<u>273,695</u>

As at 30 June 2013, all buildings of the Group are located in the PRC.

Depreciation expense of RMB10,321,000 (six months ended 30 June 2012: RMB10,027,000) have been expensed in cost of sales and RMB2,522,000 (six months ended 30 June 2012: RMB2,051,000) have been included in administrative expenses for the Period.

10. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 50-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2012, audited	20,100
Addition of prepaid lease payments	33,664
Amortisation of prepaid lease payments	(413)
	<u>53,351</u>
At 31 December 2012 and 1 January 2013, audited	53,351
Addition of prepaid lease payment	36,109
Amortisation of prepaid lease payments	(1,256)
	<u>88,204</u>
At 30 June 2013, unaudited	<u>88,204</u>

Analysed for reporting purposes as:

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Current assets (included in other receivables, deposits and prepayments)	4,023	412
Non-current assets	84,181	52,939
	<u>88,204</u>	<u>53,351</u>

The Group's prepaid lease payments comprise:

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Land in the PRC		
Long-term lease	9,130	9,227
Medium-term lease	79,074	44,124
	<u>88,204</u>	<u>53,351</u>

11. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
1 to 90 days	207,931	239,001
91 to 180 days	30,991	65,020
181 to 365 days	22,572	8,681
Over 365 days	4,845	4,512
	<hr/>	<hr/>
	266,339	317,394
Less: Provision for impairment loss recognised in respect of trade receivables	(4,512)	(4,512)
	<hr/>	<hr/>
	261,827	312,882

Customers are generally granted with credit term of 180 days.

Trade and bills receivables as at 30 June 2013 are denominated in RMB.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2013, the Group has financial assets at fair value through profit and loss of RMB960,000,000 (as at 31 December 2012: RMB600,000,000). The financial assets at fair value through profit or loss represent eight principal protected financial products issued by several financial institutions in the PRC. These financial products mature within one year and are classified as current assets.

13. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
1 to 90 days	214,896	81,279
91 to 180 days	12,572	108,370
181 to 365 days	6,705	6,278
Over 365 days	16,913	21,566
	<u>251,086</u>	<u>217,493</u>

Trade and bills payables as at 30 June 2013 are denominated in RMB.

14. SHARE CAPITAL

	Number of shares '000	Nominal value		Total RMB'000
		Domestic shares RMB'000	H shares RMB'000	
At 31 December 2012, audited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>
At 30 June 2013, unaudited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>

15. BANKING FACILITIES

As at 30 June 2013, approximately RMB82,264,000 (as at 31 December 2012: RMB101,940,000) of the banking facilities were secured by pledged bank deposits of RMB82,264,000 (as at 31 December 2012: RMB101,940,000).

16. COMMITMENTS

As at 30 June 2013, the Group had the following significant capital commitments:

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	3,130	3,130
– Purchase of property, plant and machinery	173,509	217,023

17. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim consolidated financial statements, the Company had the following material transactions with related parties during the Period:

	Unaudited Six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Sales of finished goods to Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group") (note (i))	207,477	188,015
Sales of finished goods to Shandong Luosheng Pharmacy Co., Limited ("Shandong Luosheng") (note (ii))	25,661	27,738
Sales of finished goods to Shandong Mingxin Pharmacy Co., Limited ("Shandong Mingxin") (note (iii))	16,862	13,049

Notes:

- (i) Luoxin Pharmacy Group is the shareholder and promoter of the Company. Mr. Liu Baoqi is the Director for both Luoxin Pharmacy Group and the Company.
- (ii) Shandong Luosheng is the fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Luosheng.
- (iii) Shandong Mingxin is the fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Mingxin.

18. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were approved by the Board on 6 August 2013.



DIVIDENDS

On 19 March 2013, the Board recommended payment of a final dividend of RMB0.30 per share in respect of the year ended 31 December 2012 to the shareholders of the Company (the "Shareholders") whose names appear in the register of members of the Company on 14 June 2013. This proposed final dividend was approved by the Shareholders at the annual general meeting which was held on 10 June 2013.

The Board does not recommend payment of any interim dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

In 2013, 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 steadily growing global pharmaceutical market, will contribute to the bright prospects of the pharmaceutical industry in the PRC.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to its core strategies, i.e. enhancing capabilities in technology innovations, speeding up research and development, distribution and boosting production, and striving to provide reliable, high-technology and high value-added pharmaceutical products. During the Period, the Group fully leveraged on the opportunities arising from market expansion and adjusted to market demands by investing additional resources to enhance its production capacity and technologies and expedite new product development. At the same time, the Group has been keen on tapping into a broader market to increase its market share so as to boost its growth both in turnover and earnings, with a view to laying a solid foundation for sustainable development in the future.



Business Review

For the six months ended 30 June 2013, amid pressure lingered in the market environment brought by the complete implementation of policies, such as the tendering of essential drugs, full launch of the new Good Manufacturing Practice (“GMP”) guidelines, the drug price reduction and the restriction of the use of antibiotics, the Group has consistently implemented its established development strategies and the targets of the Twelfth Five-Year Plan, and sustained the balanced and healthy development of the research and development, management, production, human resources and market network of the Group. The outstanding results achieved were the results of 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. Capitalising on the current achievements, the Group will further strengthen its research and development capabilities and expand its market network to enhance its brand awareness and the Group’s competitiveness so as to build the most noteworthy pharmaceutical brand worldwide.

Research and Development

1. Building a platform for technology research and development

Currently, the Company has established or been recognised as 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), the “National Post-Doctoral Research Workshop” (國家博士後科研工作站), “Key High-Tech Enterprise under the State Torch Program” (國家火炬計劃重點高新技術企業), the “Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory” (山東省凍乾粉針劑藥物重點實驗室), the “Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory” (山東省凍乾粉針劑藥物工程實驗室), the position of “Taishan Scholar – Pharmaceutical expert consultant” (泰山學者—藥學特聘專家) and the “Enterprise Academician Workstation of Shandong Province” (山東省企業院士工作站), which have built a strong platform for talent introduction, research and development and technology improvement, which in turn strengthens the research and development capabilities and overall competitiveness of the Group.

2. New products, patents and achievements

During the period under review, the Group had 71 invention patents pending in the PRC. As at 30 June 2013, the Group had 72 patents, of which 62 were invention patents registered in the PRC.



During the Period, the Group had obtained 3 manufacturing approvals, bringing the number of manufacturing approvals to 285 as at 30 June 2013.

As at 30 June 2013, the Group had 46 new drug certificates.

As at 30 June 2013, the Group had 3 projects listed in the State Torch Program.

During the Period, the Company had obtained the manufacturing approvals for lamivudine tablet (an anti-viral drug) and ambroxol hydrochloride injection (a respiratory drug), both developed by the Company. Such new products will be made available to the market together with the 3 drugs which were granted manufacturing approvals in the fourth quarter last year, namely, oxaliplatin injection and its active pharmaceutical ingredients (an antineoplastic drug), gemcitabine hydrochloride injection and its active pharmaceutical ingredients (an antineoplastic drug) and fasudil hydrochloride injection and its active pharmaceutical ingredients (a cardiovascular drug). These new drugs will become a new growth driver for the Group.

Production and Management

1. The Group continued to implement effective strategies in its 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 competence. The Company has been awarded the “Top 100 Pharmaceutical Companies in China” (中國製藥工業百強企業) consecutively since 2006, and was once again awarded the “2013 Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China” (2013年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 Pharmacy Co., Ltd. obtained the Drug Manufacturing Certificate (藥品生產許可證). The construction of its infusion workshop and ancillary facilities was completed.



2 solid preparation workshops and 1 lyophilised powder injection workshop were constructed in accordance with the national new GMP standards, have passed the certification of the new GMP standards. The Group has also renovated certain facilities in compliance with the new GMP standards, namely, 1 bacteria-free active pharmaceutical ingredient workshop, 1 powder injection packaging workshop, 1 lyophilised powder injection workshop and 1 small volume injection workshop. They have all passed the certification of the new GMP standards.

- (2) Active pharmaceutical ingredients: the construction of Shandong Hengxin Pharmacy Co., Ltd., an active pharmaceutical ingredient project, is speeding up, in which the first phase of the synthetic active pharmaceutical ingredient workshop of the project is already in operation.

3. *External Investment*

Cooperating with the People's Hospital of Fei County and Linyi People's Hospital, the Company is establishing the Second Hospital of Fei County during the period under review. With the investment of RMB40 million injected under the relevant cooperation agreement, the construction of the hospital is progressing rapidly.

Sales and Marketing

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

Financial Review

The Group's unaudited turnover for the Period was approximately RMB1,143,565,000, representing an increase of approximately 13.79% from approximately RMB1,004,977,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added-values, an upgrade of the Group's product portfolio and the acceleration of sales network development to increase the market share of its products.



The unaudited cost of sales for the Period was approximately RMB338,651,000, representing a decrease of 4.26% from approximately RMB353,732,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was 70.39%, representing an increase of 5.59% from 64.80% for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added-values, an upgrade of the Group's product portfolio and upgrade of the Group's production craft and effective cost control.

The unaudited operating expenditure for the Period was approximately RMB541,940,000, representing an increase of 45.98% from approximately RMB371,249,000 for the corresponding period of last year. The increase of operating expenditure was due to an increase in research and development expenses for future products and expansion of the Third Terminal Sales forces in certain geographical area.

The unaudited profit attributable to the Shareholders for the Period was approximately RMB238,917,000, representing a decrease of 1.80% from approximately RMB243,290,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.39 for the Period.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 30 June 2013, the Group's cash and cash equivalents amounted to approximately RMB277,880,000 (as at 30 June 2012: RMB677,390,000). As at 30 June 2013, the Group did not have any borrowing (as at 30 June 2012: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2013, the Group had bank deposits of approximately RMB82,264,000 pledged as security for remittance under acceptance (as at 30 June 2012: RMB85,381,000).

Financial Assets at Fair Value through Profit or Loss

As at 30 June 2013, the Group has financial assets at fair value through profit or loss of approximately RMB960,000,000 (as at 30 June 2012: RMB350,000,000). Such financial assets comprised eight investments in wealth management products, offered by licensed banks in the PRC. Summary of the financial assets as at 30 June 2013 are as follows:

Investment Amount (RMB)	Investment period	Fixed investment return % per annum
100,000,000	9/2012 to 9/2013	4.8%
200,000,000	10/2012 to 10/2013	4.7%
180,000,000	5/2013 to 11/2013	4.6%
200,000,000	5/2013 to 11/2013	4.6%
100,000,000	5/2013 to 11/2013	4.6%
50,000,000	6/2013 to 7/2013	3.0%
50,000,000	6/2013 to 7/2013	4.5%
80,000,000	6/2013 to 9/2013	5.5%

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 Acquisition and Disposal

The Group did not have any major acquisition or disposal during the Period.

Significant Investment

Save as the investment in certain financial assets disclosed in this report above, the Group did not make any significant investment during the Period.

Contingent Liabilities

The Group did not have any substantial contingent liabilities during the Period.



Exchange Risk

The Group operates and conducts business in the PRC, and all of 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 in 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 national policies, thus enjoys optimistic prospects. Being one of the key industries favoured by the Twelfth Five-Year Plan, the pharmaceutical industry will enjoy more resources allocated by the Central Government to the pharmaceutical and medical equipment sectors, and a modern market system for the circulation of pharmaceutical products will be established during the Twelfth 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 the State Food and Drug Administration 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 provide 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. Our production capacity will be enhanced upon completion and commencement of production of its new plants of “Yuxin” and “Hengxin” to satisfy the ever growing market demands for pharmaceutical products. The new plants will also increase the number of new dosage types and effectively expanding the R&D scope of new drugs, thus facilitating the Group’s overall business development. The Group will also accelerate 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.

It is the expectation of the Group that “Luoxin” will be built into a pharmaceutical enterprise with worldwide recognition through the above strategies. With the rapid growth in productivity and the launch of more high value-added products, the Group is confident in maintaining a steady business growth and bringing satisfactory returns to its Shareholders.

APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Period were approved by the Board on 6 August 2013.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2013, the interests and short positions of each of the Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of domestic shares of the Company ("Domestic Shares"), as at 30 June 2013

Name of director	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) (Note 1)	Interest of controlled corporation	325,639,949	73.17%	53.42%

Note: These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group Co., Ltd. ("Luoxin Pharmacy Group", previously known as Linyi Luoxin Pharmacy Company Limited). Liu Baoqi (劉保起) ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmacy Group. Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 30 June 2013 was 325,639,949 (representing 73.17% of total issued Domestic Shares and 53.42% of the Company's total issued share capital). On 30 June 2012, Luoxin Pharmacy Group held 320,639,949 Domestic Shares, representing 72.05% of the total issued Domestic Shares and 52.60% of the Company's total issued share capital. On 17 September 2012, Luoxin Pharmacy Group acquired 3,000,000 domestic shares from Mr. Li Xue Liang (李學良) and 2,000,000 domestic shares from Mr. Wang Jian (王健), a supervisor of the Company.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 30 June 2013, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors of the Company.

Long position of Domestic Shares, as at 30 June 2013

Name	Capacity/ Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Luoxin Pharmacy Group	Beneficial Owner	325,639,949	73.17%	53.42%
Zuo Hongmei (左洪梅)	Family interest (Note)	325,639,949	73.17%	53.42%

Note: These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group is owned as to approximately 51.73% by Mr. Liu. As Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group, for the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 325,639,949 Domestic Shares that Mr. Liu is interested in.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in the prevailing Appendix 15 of the GEM Listing Rules (the "New CG Code") which was put into effect on 1 April 2012.



AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) on 20 November 2005 with written terms of reference which was revised on 13 March 2012 in compliance with the New CG Code. The duties of the Audit Committee are to review and supervise the financial reporting process and the internal control policies and procedures of the Group. 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 unaudited results of the Company for the Period have been reviewed by the Audit Committee.

DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES


Neither the Company nor any of its subsidiaries redeemed, purchased or sold any of the Company’s listed securities during the Period.

COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 11.04 of the GEM Listing Rules:

Luoxin Pharmacy Group

Luoxin Pharmacy Group is the controlling shareholder of the Company which holds 53.42% of the Company’s total issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmacy Group and a controlling shareholder holding 51.73% of the registered capital of Luoxin Pharmacy Group.



Before a non-competition undertaking in favour of the Company was signed by Luoxin Pharmacy Group on 7 November 2002, Luoxin Pharmacy Group was engaged in the sales of chemical medicines, Chinese medicines, medical equipment and health and beauty products. Since the execution of the said non-competition undertaking, Luoxin Pharmacy Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmacy Group signed a supplementary non-competition undertaking whereby it will carry out its sales activities in Linyi City only and confirmed that its customers are small and medium-sized medical institutions, i.e. hospitals below county-level. The Company received from Luoxin Pharmacy Group an annual confirmation in respect of the compliance with these undertakings.

Save as disclosed above, none of the Directors, the substantial Shareholders or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

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

PRC, 6 August 2013

As at the date of this report, 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.

* *For identification purposes only*