



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

THIRD QUARTERLY 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 nine months ended 30 September 2013 was approximately RMB1,768,456,000, representing an increase of 9.52% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the nine months ended 30 September 2013 was RMB336,371,000, representing an decrease of 7.24% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2013.

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2013

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Turnover, net	3	624,891	609,706	1,768,456	1,614,683
Cost of sales		(248,219)	(191,278)	(586,870)	(545,010)
Gross profit		376,672	418,428	1,181,586	1,069,673
Other revenue	3	8,814	6,149	19,249	9,481
Other income		2,160	7,945	10,107	11,856
Selling and distribution expenses		(238,471)	(257,187)	(711,971)	(573,778)
General and administrative expenses		(35,006)	(34,618)	(103,446)	(89,276)
Profit before taxation		114,169	140,717	395,525	427,956
Taxation	4	(16,581)	(21,156)	(58,941)	(65,348)
Profit for the Period		97,588	119,561	336,584	362,608
Other comprehensive income for the Period, net of tax		—	—	—	—
Total comprehensive income for the Period		97,588	119,561	336,584	362,608
Profit attributable to:					
Owners of the Company		97,454	119,323	336,371	362,613
Non-controlling interests		134	238	213	(5)
		97,588	119,561	336,584	362,608
Total comprehensive income attributable to:					
Owners of the Company		97,454	119,323	336,371	362,613
Non-controlling interests		134	238	213	(5)
		97,588	119,561	336,584	362,608
Earnings per share attributable to Owners of the Company (RMB)					
– Basic and diluted	6	15.99 cents	19.57 cents	55.18 cents	59.48 cents



NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 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 RMB46 million by way of promotion. 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 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 unaudited consolidated third quarterly financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These unaudited consolidated third quarterly financial statements have been approved for issue by the Board on 5 November 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated third quarterly 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 ("the HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2012.

The unaudited consolidated third quarterly financial statements have been prepared under historical cost basis except 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 sales of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The operating results reported to the chief operating decision makers represent the Group's assets and liabilities. Accordingly, the Group does not have separate reportable business segment.

Turnover and other revenue recognised are as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Turnover, net				
Sales of manufactured pharmaceutical products	624,891	609,706	1,768,456	1,614,683
Other revenue				
Interest income on financial assets at fair value through profit or loss	7,846	–	15,791	–
Interest income on bank deposits	968	6,149	3,458	9,481
	8,814	6,149	19,249	9,481
Total revenue	633,705	615,855	1,787,705	1,624,164

4. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
PRC enterprise income tax	16,581	21,156	58,941	65,348

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.

The Group is subject to the PRC enterprise income tax at a rate of 15% to 25%.

5. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the nine months ended 30 September 2013 (2012: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2013 is based on the unaudited net profit of approximately RMB336,371,000 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 nine months ended 30 September 2012 was based on the unaudited net profit of approximately RMB362,613,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share were the same as basic earning per share as there were no dilutive events existed during the nine months ended 30 September 2013 and 2012.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 September 2013, the Group has financial assets at fair value through profit or loss of approximately RMB880,000,000. The financial assets at fair value through profit or loss represent seven principal protected financial products issued by several financial institution in the PRC. These financial products mature within one year and are classified as current assets.

8. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012, audited	31,139	30,562	6,033	1,390,394	1,458,128	6,662	1,464,790
Total comprehensive income	-	-	-	362,613	362,613	(5)	362,608
Dividend declared	-	-	-	(121,920)	(121,920)	-	(121,920)
At 30 September 2012, unaudited	<u>31,139</u>	<u>30,562</u>	<u>6,033</u>	<u>1,631,087</u>	<u>1,698,821</u>	<u>6,657</u>	<u>1,705,478</u>
At 1 January 2013, audited	31,139	30,609	6,033	1,708,301	1,776,082	1,897	1,777,979
Total comprehensive income	-	-	-	336,371	336,371	213	336,584
Dividend declared	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 September 2013, unaudited	<u>31,139</u>	<u>30,609</u>	<u>6,033</u>	<u>1,861,792</u>	<u>1,929,573</u>	<u>2,110</u>	<u>1,931,683</u>



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 did 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 steady growth of the 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, with a view to laying a solid foundation for sustainable development in the future.



Business Review

For the nine months ended 30 September 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 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, and in turn strengthens the research and development capabilities and overall competitiveness of the Group.



2. *New products, patents and achievements*

During the Period, the Group had 72 invention patents pending in the PRC. As at 30 September 2013, the Group had 76 patents, of which 66 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 September 2013.


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

During the Period, the Company's project "Guacetisal and Guacetisal for Oral Suspension" was listed in the State Torch Program, and another project "Cefazedone sodium salt and Cefazedone sodium salt for injection" was included in State Key New Products Program. As at 30 September 2013, the Group had 4 projects listed in the State Torch Program and 2 in State Key New Products 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 newly developed by the Company. Such products will be made available to the market together with the new 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), which the Company believes will become new growth drivers 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).
- (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 established the Second Hospital of Fei County, which has been put into trial operation in September 2013.

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 RMB1,768,456,000, representing an increase of approximately 9.52% from approximately RMB1,614,683,000 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 RMB586,870,000, representing an increase of 7.68% from approximately RMB545,010,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was 66.81%, representing an increase of 0.56% from 66.25% 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 RMB815,417,000, representing an increase of 22.98% from approximately RMB663,054,000 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 RMB336,371,000, representing a decrease of 7.24% from approximately RMB362,613,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.55 for the Period.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 30 September 2013, the Group's cash and cash equivalents excluding pledged bank deposit amounted to approximately RMB316,450,000 (as at 30 September 2012: RMB1,125,718,000). The change in cash and cash equivalents was due to the utilisation of part of the cash balance to purchase financial assets at fair value through profit or loss during the Period. As at 30 September 2013, the Group did not have any borrowing (as at 30 September 2012: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2013, the Group had bank deposits of approximately RMB79,932,000 pledged as security for remittance under acceptance (as at 30 September 2012: RMB85,381,000).



Financial Assets at Fair Value through Profit or Loss

As at 30 September 2013, the Group has financial assets at fair value through profit or loss of approximately RMB880,000,000 (as at 30 September 2012: RMB200,000,000). Such financial assets comprised seven investments in wealth management products, offered by licensed banks in the PRC. Summary of the financial assets as at 30 September 2013 are as follows:

Investment Amount (RMB)	Investment period	Fixed investment return % per annum
200,000,000	10/2012 to 10/2013	4.7%
200,000,000	5/2013 to 11/2013	4.6%
180,000,000	5/2013 to 11/2013	4.6%
100,000,000	5/2013 to 11/2013	4.6%
30,000,000	9/2013 to 10/2013	4.0%
70,000,000	9/2013 to 10/2013	4.55%
100,000,000	9/2013 to 12/2013	4.45%

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

For the nine months ended 30 September 2013, the Group did not have any major acquisition or disposal.

Significant Investment

For the nine months ended 30 September 2013, the Group did not make any significant investment.

Contingent Liabilities

For the nine months ended 30 September 2013, the Group did not have any substantial contingent liabilities.



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 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. With the commencement of the early stages of production in the Group’s new plants of “Yuxin” and “Hengxin”, our production capacity has been increased to satisfy the growing market demands for pharmaceutical products. The new plants are expected to increase 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 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 production capacity 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 5 November 2013.

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

As at 30 September 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 September 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 31 December 2012 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 September 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 September 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, 8 November 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*