



# 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

### FIRST QUARTERLY REPORT 2014



\* 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 turnover for the three months ended 31 March 2014 was approximately RMB643,330,000, representing an increase of 4.00% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the three months ended 31 March 2014 was RMB121,937,000, representing a decrease of 6.42% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2014.

## FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2014 and the comparative figures of the corresponding period of 2013 as follows:

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

		Unaudited three months ended 31 March	
		2014	2013
		RMB'000	RMB'000
	Notes		
Turnover	3	643,330	618,537
Cost of sales		(205,382)	(172,349)
Gross profit		437,948	446,188
Other revenue	3	9,357	1,890
Other income		604	4,750
Selling and distribution expenses		(263,219)	(270,033)
General and administrative expenses		(35,434)	(28,049)
Profits before taxation		149,256	154,746
Taxation	4	(27,854)	(24,436)
Profits for the three months ended 31 March 2014		121,402	130,310
Other comprehensive income for the three months ended 31 March 2014, net of tax		–	–
Total comprehensive income for the three months ended 31 March 2014		121,402	130,310
Profit/(loss) attributable to:			
Owners of the Company		121,937	130,308
Non-controlling interests		(535)	2
		121,402	130,310
Total comprehensive income/(loss) attributable to:			
Owners of the Company		121,937	130,308
Non-controlling interests		(535)	2
		121,402	130,310
Earnings per share attributable to owners of the Company (RMB)			
– basic and diluted	6	20.00 cents	21.38 cents



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

## 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 ("China" or 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 and was granted the Enterprise Business License by Shandong Administration of Industry and Commerce on 30 November 2001 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 GEM of the Stock Exchange 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 principal activities of its subsidiaries are wholesale and manufacture of biochemical products and Chinese medicine.

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 on 7 May 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with 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 Company's audited consolidated financial statements for the year ended 31 December 2013.

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

### 3. TURNOVER AND OTHER REVENUE

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

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.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2014 RMB'000	2013 RMB'000
<b>Turnover</b>		
Sales of manufactured pharmaceutical goods	643,330	618,537
<b>Other revenue</b>		
Interest income	9,357	1,890
<b>Total revenue</b>	<u>652,687</u>	<u>620,427</u>

#### 4. TAXATION

	Unaudited three months ended 31 March	
	2014 RMB'000	2013 RMB'000
PRC enterprise income tax	27,854	24,436

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the three months ended 31 March 2014.

The Company is subjected to the PRC enterprise income tax at a rate of 15%. The subsidiaries of the Company are subjected to the PRC enterprise income tax at a rate of 25%.

#### 5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2014 is based on the unaudited net profit of approximately RMB121,937,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the three months ended 31 March 2014.

The calculation of basic earnings per share for the three months ended 31 March 2014 is based on the unaudited net profit of approximately RMB130,308,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the three months ended 31 March 2014.

Diluted earnings per share were the same as the basic earnings per share as no dilutive events occurred during the three months ended 31 March 2014 and 2013.

## 7. SHAREHOLDERS' FUND

	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 interest RMB'000	Total RMB'000
At 1 January 2014, audited	31,139	31,564	6,033	1,953,051	2,021,787	3,484	2,025,271
Profit/(loss) attributable to owners of the Company	—	—	—	121,937	121,937	(535)	121,402
At 31 March 2014, unaudited	31,139	31,564	6,033	2,074,988	2,143,724	2,949	2,146,673
At 1 January 2013, audited	31,139	30,609	6,033	1,708,301	1,776,082	1,897	1,777,979
Profit attributable to owners of the Company	—	—	—	130,308	130,308	2	130,310
At 31 March 2013, unaudited	31,139	30,609	6,033	1,838,609	1,906,390	1,899	1,908,289





## DIVIDENDS

On 18 March 2014, the Board recommended payment of a final dividend of RMB0.30 per share in respect of the year ended 31 December 2013 to the shareholders of the Company (the “Shareholders”) whose names appear in the register of members of the Company on 4 June 2014. This proposed final dividend is subjected to approval by the Shareholders at the forthcoming annual general meeting which would be held on 27 May 2014. The Board did not recommend payment of any interim dividend for the three months ended 31 March 2014 (2013: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Introduction*

As the government proactively deepened medical reforms, continued to toughen regulations and intensify investments in the pharmaceuticals, and improved basic public health services in 2014, the investment into the development of the medical and healthcare sector has been increasing. As a result, medical insurance coverage was expanded, rural health services were strengthened, and new rural medical cooperation was enhanced. Besides, driven by factors such as the aging population, the accelerating urbanisation as well as the steady growth of the global pharmaceutical market, the development of the pharmaceutical industry in the PRC will maintain its promising momentum in 2014.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always centered its strategies on science and technology innovation, research and development (“R&D”) acceleration, distribution enhancement and production optimisation. Best endeavours were used to provide reliable and high-tech pharmaceutical products as well as enforce marketing and distribution systems. During the three months ended 31 March 2014 (the “period under review”), in order to fully leverage the opportunities arising from the growth in the market, the Group satisfied market demands by investing additional resources in enhancing its production capabilities and technology application, and by accelerating the implementation of technology achievement. In addition, the Group invested additional resources to form a new growth point in terms of performance, accelerated the processes of reform and team building so as to build a solid foundation for sustainable future development of the Group.



## *Business Review*

For the three months ended 31 March 2014, confronting the pressure in the market environment brought about by the commencement of public bidding for basic drugs procurement, the launching of the new GMP policy and drug-price cuts, the Group has been implementing the development strategies as formulated earlier and sparing no effort in achieving the targets of the Twelfth Five-Year Plan, maintaining a balanced, 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. In view of the current achievements, the Group will strengthen its product R&D and expand its market network to further enhance its brand recognition and competitiveness with an aim of building up a world-class pharmaceutical brand.

## *Research and development*

### *1. Building a platform for technology R&D*

Currently, the Company has established or been awarded a state-province joint engineering laboratory, the “Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical R&D and Technology (Shandong)” (國家綜合性新藥研發技術大平臺(山東)產業化示範企業), the “National Post-Doctoral Research Workstation” (國家博士後科研工作站) and “Key High-Tech Enterprise under the State Torch Program” (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 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 “Enterprise Academician Workstation of Shandong Province” (山東省企業院士工作站), which enabled the Group to build a stronger R&D platform for recruiting talents and improving technology and production techniques, further strengthening the R&D capabilities and overall competitiveness of the Group.



2. *New products, patents and achievements*

During the period under review, the Group filed 65 invention patent applications in the PRC. As at 31 March 2014, the Group had 85 invention patents registered in the PRC.

As at 31 March 2014, the Group had 288 manufacturing approvals.

The Group had 46 new drug certificates as at 31 March 2014.

As at 31 March 2014, the Group had 4 projects listed in the State Torch Program and 2 in State Key New Products Program.

*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. Since 2006, the Company has consecutively been named as one of the “Top 100 Pharmaceutical Companies in China”(中國製藥工業百強企業). Since 2011, the Company was consecutively awarded the title of “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 demonstrate the growth in the overall corporate strength of the Group.

2. *Construction of Production Facilities*

(1) Pharmaceutical preparations: Shandong Yuxin Pharmacy Co., Ltd. was granted the Drug Manufacturing Certificate (藥品生產許可證), and the construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed while the pre-filling injection workshop is under construction.



- (2) Pharmaceutical raw materials: in respect of the first phase of the construction of pharmaceutical raw materials project of Shandong Hengxin Pharmacy Co., Ltd. (山東恒欣藥業有限公司), the synthetic raw materials workshop is in operation.
- (3) Preparations passing the new GMP certification include lyophilized powder injection, powder injection, tablets, capsules, low-volume injections, granules, dry suspension agent and bulk pharmaceuticals (including sterile bulk medicines).

### 3. *External Investment*

In cooperation with the People's Hospital of Fei County and Linyi People's Hospital, the Company established the Second Hospital of Fei County, which was put into trial operation in September 2013.

### *Sales and marketing*

The Group continued to integrate marketing resources and build up an outstanding sales team to increase 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. The Group also accelerated the development of the rural market, and formed an OTC sales network, aiming to build a third end-user direct sales network.

### *Financial Review*

The Group's unaudited turnover for the three months ended 31 March 2014 was approximately RMB643,330,000, representing an increase of approximately 4.00% from approximately RMB618,537,000 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 three months ended 31 March 2014 was approximately RMB205,382,000, representing an increase of 19.17% from approximately RMB172,349,000 for the corresponding period of last year.



The unaudited gross profit margin for the three months ended 31 March 2014 was 68.08%, representing a decrease of 4.06 percentage points from 72.14% for the corresponding period of last year. The decrease was attributable to the Company's products which were facing general price control and increase in cost of sales, particularly in the area of direct labour cost and increasing direct depreciation.

The unaudited operating expenditure for the three months ended 31 March 2014 was approximately RMB298,653,000, representing an increase of 0.19% from approximately RMB298,082,000 for the corresponding period of last year. The increase of operating expenditure was due to an increase in selling and distribution expenses in particular an expansion of the third terminal sales forces in certain geographical area.

The unaudited profit attributable to the Shareholders for the three months ended 31 March 2014 was approximately RMB121,937,000, representing a decrease of 6.42% from approximately RMB130,308,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.2 for the three months ended 31 March 2014.

#### *Liquidity and Financial Resources*

The Group's working capital is generally financed by its internally generated cash flow. As at 31 March 2014, the Group's cash and cash equivalents amounted to approximately RMB136,084,000 (as at 31 March 2013: RMB501,973,000).

As at 31 March 2014, the Group did not have any borrowing (as at 31 March 2013: nil).

#### *Pledged Bank Deposits/Cash and Cash Equivalents*

As at 31 March 2014, the Group had bank deposits of approximately RMB57,023,000 pledged as security for remittance under acceptance (as at 31 March 2013: RMB32,726,000).

### *Financial Assets at Fair Value through Profit or Loss*

As at 31 March 2014, the Group has financial assets at fair value through profit or loss of approximately RMB1,235,000,000 (as at 31 March 2013: RMB600,000,000). Such financial assets comprised seven investments in wealth management products, offered by licensed banks in the PRC. Summary of the financial assets as at 31 March 2014 are as follows:

<b>Investment Amount (RMB)</b>	<b>Investment period</b>	<b>Fixed investment return % per annum</b>
200,000,000	10/2013 to 4/2014	5.35%
160,000,000	12/2013 to 4/2014	6.20%
305,000,000	12/2013 to 4/2014	6.20%
280,000,000	2/2014 to 5/2014	5.50%
200,000,000	3/2014 to 6/2014	5.30%
60,000,000	3/2014 to 6/2014	5.00%
30,000,000	3/2014 to 6/2014	4.30%

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 three months ended 31 March 2014, the Group did not have any major acquisition or disposal.

### *Significant Investment*

For the three months ended 31 March 2014, the Group did not make any significant investment.

### *Contingent Liabilities*

For the three months ended 31 March 2014, 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, as the development of pharmaceutical industry is one of the key priorities in future national policies, it 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 establish its competitiveness in economies of scale, low production costs and differentiation. Our capacity will increase 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 new dosage types and enhance the effectiveness of 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.





## APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the three months ended 31 March 2014 were approved by the Board on 7 May 2014.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2014, the interests and short positions of the Chief Executive and 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 31 March 2014*

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 Chief Executive of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2014, 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 31 March 2014*

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.

#### *Long position of H Shares, as at 31 March 2014*

Name	Capacity/ Nature of Interest	Number of H Shares	% of total issued H Shares	% of Company's Share Capital
Morgan Stanley	Beneficial Owner	8,303,200	5.04%	1.36%

#### *Short position of H Shares, as at 31 March 2014*

Name	Capacity/ Nature of Interest	Number of H Shares	% of total issued H Shares	% of Company's Share Capital
Morgan Stanley	Beneficial Owner	514,000	0.31%	0.08%

## 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 Company. 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 three months ended 31 March 2014 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 three months ended 31 March 2014.

## 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 three months ended 31 March 2014.

## 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, 7 May 2014

*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*