



# 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 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 six months ended 30 June 2014 was approximately RMB1,337,820,000, representing an increase of approximately 16.99% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the six months ended 30 June 2014 was approximately RMB221,696,000, representing a decrease of approximately 7.21% 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 2014.

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2014 (the "Period") 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 six months ended 30 June 2014

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Turnover	3	694,490	525,028	1,337,820	1,143,565
Cost of sales		(232,413)	(166,302)	(437,795)	(338,651)
Gross profit		462,077	358,726	900,025	804,914
Other revenue	3	20,030	8,545	29,387	10,435
Other income		2,689	3,197	3,293	7,947
Selling and distribution expenses		(320,046)	(203,467)	(583,265)	(473,500)
General and administrative expenses		(48,369)	(40,391)	(83,803)	(68,440)
Profit before taxation	5	116,381	126,610	265,637	281,356
Taxation	6	(16,157)	(17,924)	(44,011)	(42,360)
Profit for the Period		100,224	108,686	221,626	238,996
Other comprehensive income for the Period, net of tax		–	–	–	–
Total comprehensive income for the Period		100,224	108,686	221,626	238,996
Profit attributable to:					
Owners of the Company		99,759	108,609	221,696	238,917
Non-controlling interests		465	77	(70)	79
		100,224	108,686	221,626	238,996
Total comprehensive income attributable to:					
Owners of the Company		99,759	108,609	221,696	238,917
Non-controlling interests		465	77	(70)	79
		100,224	108,686	221,626	238,996
Earnings per share attributable to owners of the Company (RMB)					
– Basic and diluted	7	16.36 cents	17.81 cents	36.36 cents	39.19 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	Unaudited At 30 June 2014 RMB'000	Audited At 31 December 2013 RMB'000
<b>Non-current assets</b>			
Available-for-sale financial assets		41,000	41,000
Purchased technical know-how	8	–	17
Prepayments to acquire technical know-how		22,980	15,405
Property, plant and equipment	9	529,820	330,740
Construction-in-progress		152,255	268,584
Prepaid lease payments	10	80,746	50,936
Deferred tax assets		1,216	1,216
Goodwill		165	165
		<u>828,182</u>	<u>708,063</u>
<b>Current assets</b>			
Inventories		286,298	223,194
Trade and bills receivables	11	249,457	278,144
Other receivables, deposits and prepayments		120,484	109,890
Financial assets at fair value through profit and loss	12	1,323,000	1,155,000
Pledged bank deposits		57,023	6,405
Cash and bank balances		110,984	187,004
		<u>2,147,246</u>	<u>1,959,637</u>



		Unaudited At 30 June 2014 RMB'000	Audited At 31 December 2013 RMB'000
	Notes		
<b>Current liabilities</b>			
Trade and bills payables	13	234,620	165,957
Other payables and accruals		339,127	298,690
Deposits received		26,607	26,718
Dividend payable		182,880	18,000
Taxation payable		46,837	51,724
		<u>830,071</u>	<u>561,089</u>
<b>Net current assets</b>		<u>1,317,175</u>	<u>1,398,548</u>
<b>Total assets less current liabilities</b>		<u>2,145,357</u>	<u>2,106,611</u>
<b>Non-current liability</b>			
Deferred income		20,380	20,380
<b>Net assets</b>		<u>2,124,977</u>	<u>2,086,231</u>
<b>Capital and reserves</b>			
Share capital	14	60,960	60,960
Reserves		2,060,603	2,021,787
Equity attributable to owners of the Company		<u>2,121,563</u>	<u>2,082,747</u>
Non-controlling interests		3,414	3,484
		<u>2,124,977</u>	<u>2,086,231</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014, audited	60,960	31,139	31,564	6,033	1,953,051	2,082,747	3,484	2,086,231
Total comprehensive income	-	-	-	-	221,696	221,696	(70)	221,626
Dividend declared	-	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 June 2014, unaudited	60,960	31,139	31,564	6,033	1,991,867	2,121,563	3,414	2,124,977

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

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	2014	2013
	RMB'000	RMB'000
Net cash inflow from operating activities	263,509	275,309
Net cash outflow from investing activities	(270,911)	(434,704)
Net cash (outflow)/inflow from financing activities	(68,618)	19,676
Net decrease in cash and cash equivalents	(76,020)	(139,719)
Cash and cash equivalents at beginning of Period, audited	187,004	335,335
Cash and cash equivalents at end of Period, unaudited	110,984	195,616
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	110,984	195,616





# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 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 (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 liabilities 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 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 5 August 2014.

## 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 2013.

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 reported to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results reported to the chief operating decision makers are net profits of the Group and the reportable assets and liabilities reported to the chief operating decision makers are 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	
	2014 RMB'000	2013 RMB'000
<b>Turnover</b>		
Sales of manufactured pharmaceutical products	1,337,820	1,143,565
<b>Other revenue</b>		
Interest income on financial assets at fair value through profit or loss	28,528	7,945
Interest income	859	2,490
	29,387	10,435
<b>Total revenue</b>	1,367,207	1,154,000

#### 4. PROFIT FROM OPERATIONS

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Operating profit of the Group was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	589	572
Depreciation of property, plant and equipment	21,042	12,843
Loss on disposal of property, plant and equipment	–	55
Amortisation of prepaid lease payments	2,244	1,256
Amortisation of purchased technical know-how (included in cost of sales)	17	179
Employees benefit expenses (excluding Directors' and supervisors' emoluments)	146,472	195,957
Research and development costs	45,916	32,785
Advertising costs	2,411	25,095

#### 5. TAXATION

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
PRC enterprise income tax	44,011	42,360

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 (2013: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the unaudited net profit of approximately RMB221,696,000 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 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.

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 2014 and 2013.

## 8. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
<b>Cost:</b>	
At 1 January 2013, audited	17,450
Additions	—
	<hr/>
At 31 December 2013 and 1 January 2014, audited	17,450
Additions	—
	<hr/>
At 30 June 2014, unaudited	17,450
	<hr/>
<b>Accumulated amortisation and impairment:</b>	
At 1 January 2013, audited	17,203
Charge for the year	230
	<hr/>
At 31 December 2013 and 1 January 2014, audited	17,433
Charge for the Period	17
	<hr/>
At 30 June 2014, unaudited	17,450
	<hr/>
<b>Carrying amount:</b>	
At 30 June 2014, unaudited	—
	<hr/>
At 31 December 2013, audited	17
	<hr/>

## 9. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
<b>Cost:</b>	
At 1 January 2013, audited	396,824
Additions	82,093
Transfer from construction-in-progress	2,452
Disposals	(159)
	<hr/>
At 31 December 2013 and 1 January 2014, audited	481,210
Additions and transfer from construction-in-progress	220,122
Written off	(882)
	<hr/>
At 30 June 2014, unaudited	<hr/> <u>700,450</u>
<b>Accumulated depreciation and impairment:</b>	
At 1 January 2013, audited	123,129
Charge for the year	27,445
Written back on disposals	(104)
	<hr/>
At 31 December 2013 and 1 January 2014, audited	150,470
Charge for the Period	21,042
Written off	(882)
	<hr/>
At 30 June 2014, unaudited	<hr/> <u>170,630</u>
<b>Carrying amount:</b>	
At 30 June 2014, unaudited	<hr/> <u>529,820</u>
At 31 December 2013, audited	<hr/> <u>330,740</u>

As at 30 June 2014, all buildings of the Group are located in the PRC.

Depreciation expense of approximately RMB16,937,000 (six months ended 30 June 2013: RMB10,321,000) have been expensed in cost of sales and approximately RMB4,105,000 (six months ended 30 June 2013: RMB2,522,000) 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 2013, audited	53,351
Amortisation of prepaid lease payments	<u>(1,303)</u>
At 31 December 2013 and 1 January 2014, audited	52,048
Addition	35,665
Amortisation of prepaid lease payments	<u>(2,244)</u>
<b>At 30 June 2014, unaudited</b>	<b><u>85,469</u></b>

Analysed for reporting purposes as:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Current assets (included in other receivables, deposits and prepayments)	4,723	1,112
Non-current assets	<u>80,746</u>	<u>50,936</u>
	<u>85,469</u>	<u>52,048</u>

The Group's prepaid lease payments comprise:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Land in PRC		
Long-term lease	8,433	9,087
Medium-term lease	<u>77,036</u>	<u>42,961</u>
	<u>85,469</u>	<u>52,048</u>

## 11. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
1 to 90 days	200,667	219,494
91 to 180 days	33,680	44,876
181 to 365 days	12,459	13,774
Over 365 days	4,182	1,651
	<hr/>	<hr/>
	250,988	279,795
Less: Provision of impairment loss recognised in respect of trade receivables	(1,531)	(1,651)
	<hr/>	<hr/>
	249,457	278,144

Customers are generally granted with credit term of 180 days.

Trade and bills receivables as at 30 June 2014 are denominated in RMB.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2014, the Group has financial assets at fair value through profit and loss of RMB1,323,000,000 (31 December 2013: RMB1,155,000,000). The financial assets at fair value through profit or loss represent six (31 December 2013: five) participation notes linked to certain bonds, beneficial rights of trusts and currencies 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:

	A 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
1 to 90 days	184,880	90,721
91 to 180 days	14,603	18,775
181 to 365 days	12,947	9,322
Over 365 days	22,190	20,196
	<hr/> 234,620	<hr/> 139,014

Trade and bills payables as at 30 June 2014 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 2013, audited (nominal value of RMB0.10 each)	<hr/> 609,600	<hr/> 44,504	<hr/> 16,456	<hr/> 60,960
At 30 June 2014, unaudited (nominal value of RMB0.10 each)	<hr/> 609,600	<hr/> 44,504	<hr/> 16,456	<hr/> 60,960

### 15. BANKING FACILITIES

As at 30 June 2014, approximately RMB57,023,000 (31 December 2013: RMB6,405,000) of the banking facilities were secured by pledged bank deposits of RMB57,023,000 (31 December 2013: RMB6,405,000).



## 16. COMMITMENTS

As at 30 June 2014, the Group had the following significant capital commitments:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	2,930	2,930
– Purchase of property, plant and machinery	172,307	327,260

## 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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Sales of finished goods to Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group") (note (i))	124,385	207,477
Sales of finished goods to Shandong Luosheng Pharmacy Co., Limited ("Shandong Luosheng") (note (ii))	17,930	25,661
Sales of finished goods to Shandong Mingxin Pharmacy Co., Limited ("Shandong Mingxin") (note (iii))	23,371	16,862

Notes:

- (i) Luoxin Pharmacy Group is the shareholder (up to 21 May 2014) 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. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from input other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	At 30 June 2014 (Unaudited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial assets</b>				
Financial assets designated as at fair value through profit or loss	–	1,323,000	–	1,323,000

	At 31 December 2013 (Audited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial assets</b>				
Financial assets designated as at fair value through profit or loss	–	1,155,000	–	1,155,000

Level 2 fair value of financial products classified as financial assets designated as at fair value through profit or loss have been determined based on quotes from those financial institutions. The most significant input is market value of the underlying assets.

There were no transfers between Level 1 and 2 in both periods.

## 19. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were approved by the Board on 5 August 2014.



## 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 dividends have been approved by the Shareholders at the annual general meeting which was held on 27 May 2014. The dividends for the year ended 31 December 2013 were paid on 11 July 2014. The Board did not recommend payment of any interim dividends for the six months ended 30 June 2014 (2013: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Introduction*

In 2014, the development of the pharmaceutical industry in the PRC remains promising, underpinned by the advanced medical reforms actively implemented by the government and the tightening of regulations, coupling with the escalating efforts of investing in the pharmaceutical industry, basic public health services and perennial growth in fiscal input in medical health services. The industry was also driven by the 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 and high-technology pharmaceutical products as well as enhancing the marketing and distribution systems. 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 by accelerating the implementation of technology achievement, formation of new growth point in terms of performance and the reform and team building process, thus building a solid foundation for sustainable future development of the Group.



## *Business Review*

For the period ended 30 June 2014, 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”) and the drug price reduction, 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 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), and the “Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory” (山東省凍乾粉針劑藥物工程實驗室), and has been recognised as “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 recruiting talent, 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*

As at 30 June 2014, the Group had:

1. 60 invention patents pending for registration in the PRC;
2. 92 invention patents registered in the PRC;
3. obtained 288 manufacturing approvals;
4. 46 new drug certificates; and
5. 4 projects listed in the State Torch Program and 2 in the State Key New Products Program.

## *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. Since 2011, the Company has also been 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 demonstrated 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) The dosage types passed the new GMP certification include lyophilized powder injection, powder injection, tablets, capsules, low-volume injection, 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 has been put into trial operation since September 2013.

The Company established a wholly-owned subsidiary named Luoxin Biological Technology (Shanghai) Co., Ltd.\* (羅欣生物科技(上海)有限公司) in ZJ Innopark in Shanghai, which is under construction.

## *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 six months ended 30 June 2014 was approximately RMB1,337,820,000, representing an increase of approximately 16.99% from approximately RMB1,143,565,000 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 six months ended 30 June 2014 was approximately RMB437,795,000, representing an increase of approximately 29.28% from approximately RMB338,651,000 for the corresponding period of last year.

The unaudited gross profit margin for the six months ended 30 June 2014 was 67.28%, representing a decrease of 3.11% from 70.39% 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 six months ended 30 June 2014 was approximately RMB667,068,000, representing an increase of 23.09% from approximately RMB541,940,000 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 six months ended 30 June 2014 was approximately RMB221,696,000, representing a decrease of approximately 7.21% from approximately RMB238,917,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.36 for the six months ended 30 June 2014.

### *Liquidity and Financial Resources*

The Group's working capital is generally financed by its internally generated cash flow. As at 30 June 2014, the Group's cash and cash equivalents amounted to approximately RMB168,007,000 (as at 30 June 2013: RMB277,880,000). As at 30 June 2014, the Group did not have any borrowings (as at 30 June 2013: nil).

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

As at 30 June 2014, the Group had bank deposits of approximately RMB57,023,000 pledged as security for remittance under acceptance (as at 30 June 2013: RMB82,264,000).

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

As at 30 June 2014, the Group has financial assets at fair value through profit or loss of approximately RMB1,323,000,000 (as at 30 June 2013: RMB960,000,000). Such financial assets comprised six investments in wealth management products, offered by licensed banks in the PRC.

Summary of the financial assets as at 30 June 2014 are as follows:

<b>Investment Amount (RMB)</b>	<b>Investment period</b>	<b>Fixed investment return % per annum</b>
203,000,000	6/2014 – 7/2014	4.95%
50,000,000	6/2014 – 9/2014	5.00%
470,000,000	4/2014 – 10/2014	5.60%
280,000,000	5/2014 – 11/2014	5.00%
60,000,000	6/2014 – 12/2014	4.70%
260,000,000	5/2014 – 5/2015	5.85%

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 six months ended 30 June 2014, the Group did not have any major acquisition or disposal.

### *Significant Investment*

For the six months ended 30 June 2014, the Group did not make any significant investment.





### *Contingent Liabilities*

For the six months ended 30 June 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, 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 research and development team. The Group strives for developing more products of more advanced 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 Shandong Yuxin Pharmacy Co., Ltd.\* (山東裕欣藥業有限公司) and Shandong Hengxin Pharmacy Co., Ltd.\* (山東恒欣藥業有限公司) 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 research and development 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 we 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 six months ended 30 June 2014 were approved by the Board on 5 August 2014.

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

As at 30 June 2014, 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 were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(i) *Long position of domestic shares of the Company ("Domestic Shares"), as at 30 June 2014*

Name of director	Capacity/Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Liu Baoqi (Note 1)	Interest of controlled corporation	325,639,949	73.17%	53.42%

(ii) *Interest in Luoxin Holdings*

Name of director	Capacity/Nature of Interest	Number of shares in Luoxin Holdings	% of issued share capital of Luoxin Holdings
Liu Baoqi (Note 1)	beneficial owner	25,865,000	51.73%
Li Minghua (Note 2)	beneficial owner	7,450,000	14.90%
Liu Zhenhai (Note 3)	beneficial owner	5,000,000	10.00%
Han Fengsheng (Note 4)	beneficial owner	1,000,000	2.00%



Note 1:

As at 31 March 2014, 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 ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmacy Group.

On 21 May 2014, these 325,639,949 Domestic Shares were sold to Shandong Luoxin Holdings Co., Ltd.\* (山東羅欣控股有限公司) ("Luoxin Holdings"). Mr. Liu is interested in 51.73% of the registered share capital of Luoxin Holdings and is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Holdings.

Note 2:

On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings which is considered an associated corporation of the Company. Li Minghua ("Ms. Li") was interested in 16.00% of the registered share capital of Luoxin Holdings. On 23 June 2014, Ms. Li has sold 550,000 shares of Luoxin Holdings to another independent third party. As at 30 June 2014, Ms. Li is interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3:

On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings which is considered an associated corporation of the Company. Liu Zhenhai is interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4:

On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings which is considered an associated corporation of the Company. Han Fengsheng is interested in 2.00% of the registered share capital of Luoxin Holdings.



## 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 30 June 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 30 June 2014*

Name	Capacity/ Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Luoxin Holdings (Note 5)	Beneficial Owner	325,639,949	73.17%	53.42%

#### Note 5:

As at 31 March 2014, these 325,639,949 Domestic Shares was registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group was owned as to approximately 51.73% by Mr. Liu.

On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings. Mr. Liu is interested in 51.73% if the registered share capital of Luoxin Holdings and is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Holdings.

*Long position of H Shares, as at 30 June 2014*

Name	Capacity/ Nature of Interest	Number of H Shares	% of	
			total issued H Shares	% of Company's Share Capital
GL Capital Management GP Limited (Note 6)	Interest of controlled corporation	11,548,000	7.02%	1.89%
Lion River I N.V. (Note 6)	Interest of controlled corporation	11,548,000	7.02%	1.89%
Assicurazioni Generali S.p.A (Note 6)	Interest of controlled corporation	11,548,000	7.02%	1.89%
GL Partners Capital Management Limited (Note 6)	Interest of controlled corporation	11,548,000	7.02%	1.89%
Li Zhenfu (Note 7)	Interest of controlled corporation	11,548,000	7.02%	1.89%

Note 6:

On 29 May 2014, GL Trade Investment Limited ("GL Trade Investment") acquired 11,548,000 H-Shares of the Company. GL Trade Investment is a company incorporated in the Cayman Islands and is an indirect wholly-owned subsidiary of GL Capital Management GP Limited ("GL Capital Management"). GL Capital Management is owned as to 51% by GL Partners Capital Management Limited ("GL Partners") and 49% by Lion River I N.V. Lion River I N.V. is wholly-owned by Assicurazioni Generali, S.p.A. ("Assicurazioni"). By virtue of the SFO, GL Partners and Assicurazioni are each deemed to be interested in 11,548,000 H-Shares of the Company.

Note 7:

Li Zhenfu held as to 70% of the shareholding of GL Partners as at 30 June 2014 and by virtue of the SFO, he is deemed to be interested in 11,548,000 H-Shares of the Company.



## 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 (Chairman), Mr. Fu Hongzheng, Prof. Chen Yun Zhen and Prof. Du Guanhua.

The unaudited results of the Company for the six months ended 30 June 2014 have been reviewed by the Audit Committee which was of the opinion that such results complied with the applicable accounting standard and that adequate disclosure has been made in respect thereof.

## 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 six months ended 30 June 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 six months ended 30 June 2014.

## COMPETING BUSINESS

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

### *Luoxin Pharmacy Group*

Up to 21 May 2014, Luoxin Pharmacy Group was the controlling shareholder of the Company which held 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.

On 21 May 2014, Luoxin Pharmacy Group sold the shares of the company to Luoxin Holdings which holds the 53.42% of the Company's total issued share capital. The chairman of the Company, Mr. Liu is also the executive director and controlling shareholder holding 51.73% of the registered capital of Luoxin Holdings.





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*

\* For identification purpose only

PRC, 5 August 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.*