



# 山東羅欣藥業集團股份有限公司

## SHANDONG LUOXIN PHARMACEUTICAL GROUP 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 2014



\* For identification purposes only



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*This report, for which the directors (the “Directors”) of Shandong Luoxin Pharmaceutical Group 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 2014 was approximately RMB1,995,735,000, representing an increase of 12.85% 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 2014 was approximately RMB309,971,000 representing an decrease of 7.85% 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 2014.

## THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated third quarterly results of the Group for the three months and nine months ended 30 September 2014 (the "Period") and the comparative figures of the corresponding period of 2013 as follows:

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2014

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Turnover, net</b>	3	657,915	624,891	1,995,735	1,768,456
Cost of sales		<u>(184,540)</u>	<u>(248,219)</u>	<u>(622,335)</u>	<u>(586,870)</u>
<b>Gross profit</b>		473,375	376,672	1,373,400	1,181,586
Other revenue	3	3,132	8,814	32,519	19,249
Other income		17,846	2,160	21,139	10,107
Selling and distribution expenses		(340,680)	(238,471)	(923,945)	(711,971)
General and administrative expenses		<u>(45,888)</u>	<u>(35,006)</u>	<u>(129,691)</u>	<u>(103,446)</u>
Profit before taxation		107,785	114,169	373,422	395,525
Taxation	4	<u>(19,317)</u>	<u>(16,581)</u>	<u>(63,328)</u>	<u>(58,941)</u>
Profit for the Period		88,468	97,588	310,094	336,584
Other comprehensive income for the Period, net of tax		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total comprehensive income for the Period</b>		<u>88,468</u>	<u>97,588</u>	<u>310,094</u>	<u>336,584</u>
<b>Profit attributable to:</b>					
Owners of the Company		88,275	97,454	309,971	336,371
Non-controlling interests		<u>193</u>	<u>134</u>	<u>123</u>	<u>213</u>
		<u>88,468</u>	<u>97,588</u>	<u>310,094</u>	<u>336,584</u>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		88,275	97,454	309,971	336,371
Non-controlling interests		<u>193</u>	<u>134</u>	<u>123</u>	<u>213</u>
		<u>88,468</u>	<u>97,588</u>	<u>310,094</u>	<u>336,584</u>
<b>Earnings per share attributable to Owners of the Company (RMB) – Basic and diluted</b>	6	<u>14.49 cents</u>	<u>15.99 cents</u>	<u>50.85 cents</u>	<u>55.18 cents</u>



# NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 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 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. On 13 August 2014, the Company name was changed to Shandong Luoxin Pharmaceutical Group 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, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC.

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

The 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 4 November 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated condensed 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 ("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 2013.

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 reportable operating results report to the chief operating decision makers are the Group's assets and liabilities. Accordingly, the Group does not have separate reportable segment.

Turnover and other revenue recognised are as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Turnover, net</b>				
Sales of manufactured pharmaceutical products	657,915	624,891	1,995,735	1,768,456
<b>Other revenue</b>				
Interest income on financial assets at fair value through profit and loss	2,020	7,846	30,548	15,791
Interest income on bank deposits	1,112	968	1,971	3,458
	3,132	8,814	32,519	19,249
<b>Total revenue</b>	661,047	633,705	2,028,254	1,787,705

### 4. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
PRC enterprise income tax	19,317	16,581	63,328	58,941

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.

## 5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2014 (2013: Nil).

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2014 is based on the unaudited net profit of approximately RMB309,971,000 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 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.

Diluted earnings per share have been presented even though there were no dilutive potential ordinary shares outstanding during the nine months ended 30 September 2014 and 2013.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 30 September 2014, the Group has financial assets a fair value through profit and loss of approximately RMB1,285,000,000 (30 September 2013: RMB880,000,000). The financial assets at fair value through profit or loss represent nine 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 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)
	<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>
At 30 September 2013, unaudited	31,139	30,609	6,033	1,861,792	1,929,573	2,110	1,931,683
At 1 January 2014, audited	31,139	31,564	6,033	1,953,051	2,021,787	3,484	2,025,271
Total comprehensive income	-	-	-	309,971	309,971	123	310,094
Dividend declared	-	-	-	(182,880)	(182,880)	-	(182,880)
	<u>31,139</u>	<u>31,564</u>	<u>6,033</u>	<u>2,080,142</u>	<u>2,148,878</u>	<u>3,607</u>	<u>2,152,485</u>
At 30 September 2014, unaudited	31,139	31,564	6,033	2,080,142	2,148,878	3,607	2,152,485



## 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 payment of final dividends has 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 to the Shareholders on 11 July 2014. The Board did not recommend payment of any interim dividends for the nine months ended 30 September 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. 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 focused its strategies on science and technology innovation, acceleration research and development (“R&D”) distribution enhancement, production optimisation and striving to provide reliable and high-tech pharmaceutical products as well as strengthening the marketing and distribution systems. During the period under review, the Group has fully leveraged the opportunities arising from the growth in the market and satisfied market demands by investing additional resources in enhancing its production capabilities and technology application, and accelerating the implementation of technology achievement, formation of new growth point in terms of performance and accelerating 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 September 2014, confronting the pressure in the market environment brought by the commencement of public bidding for basic drugs procurement, the rapid increase in production costs and drug-price cuts, the Group has been implementing the development strategies as formulated earlier and sparing no effort to achieve the targets of the Twelfth Five-Year Plan, maintaining a balanced and healthy development in R&D, management, production, human resources and market network. The outstanding results were attributable to the support and cooperation of all shareholders, customers, suppliers, business partners and the public, as well as the concerted and unremitting efforts of the management and staff of the Group. In view of the current achievements, the Group will strengthen its 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 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) “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 even stronger platform for talent introduction, research and development and technology improvement, and in turn strengthen the research and development capabilities and overall competitiveness of the Group.

### *2. New products, patents and achievements*

During the period under review, the Group had 60 invention patents pending in the PRC. As at 30 September 2014, the Group had 99 invention patents registered in the PRC.



During the period under review, Shandong Yuxin Pharmacy Co., Ltd.\* (山東裕欣藥業有限公司) had obtained 1 pharmaceutical products approval, 5 antiseptic germicide products approvals. As at 30 September 2014, the Group had obtained 289 pharmaceutical products approvals and 5 antiseptic germicide products approvals.

As at 30 September 2014, the Group had 46 certificates of new drug.

As at 30 September 2014, the Group had 4 products listed in the State Torch Program and 2 products 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. The Company has been named as one of the “Top 100 Pharmaceutical Companies in China” (中國製藥工業百強企業) consecutively since 2006. Since 2011, the Company has 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.\* (山東裕欣藥業有限公司) was granted the Drug Manufacturing Certificate (藥品生產許可證), Sanitation License of Disinfectant Manufacturers (消毒產品生產企業衛生許可證) and the construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed.
  - (2) Pharmaceutical raw materials: the synthetic raw materials workshop 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) 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*

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.

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 will be responsible for the R&D of the Group's high-tech solution and high-tech talents training, that formed a trio-partnership with the headquarter and further strengthened the development of new medicine.

### *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.

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 completion and commencement of production in the Group’s new plants of Shandong Yuxin Pharmacy Co., Ltd.\* (山東裕欣藥業有限公司) and Shangdong Hengxin Pharmacy Co., Ltd.\* (山東恒欣藥業有限公司), our production capacity will be enhanced to satisfy the growing market demands for pharmaceutical products. The new plants are capable of increasing the number of new dosage types and effectively expand the R&D scope of new drugs, thus facilitating the Group’s overall business development. The Group will also 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.

### *Financial Review*

The Group’s unaudited turnover for the nine months ended 30 September 2014 was approximately RMB1,995,735,000 representing an increase of approximately 12.85% from approximately RMB1,768,456,000 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 nine months ended 30 September 2014 was approximately RMB622,335,000, representing an increase of approximately 6.04% from approximately RMB586,870,000 for the corresponding period of last year.

The unaudited gross profit margin for the nine months ended 30 September 2014 was approximately 68.82%, representing an increase of approximately 2.01% from approximately 66.81% for the corresponding period of last year. Although the gross profit margin increased in the period, the Company’s products faced general price control and increase in cost of sales, particularly in the areas of direct labour cost and increasing direct depreciation.



The unaudited operating expenditure for the nine months ended 30 September 2014 was approximately RMB1,053,636,000 representing an increase of approximately 29.21% from approximately RMB815,417,000 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 network in certain geographical areas.

The unaudited profit attributable to the Shareholders for the nine months ended 30 September 2014 was approximately RMB309,971,000 representing a decrease of 7.85% from approximately RMB336,371,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.51 for the nine months ended 30 September 2014.

#### *Liquidity and Financial Resources*

The Group's working capital is generally financed by its internally generated cash flow. As at 30 September 2014, the Group's cash and cash equivalents amounted to approximately RMB41,427,000 (as at 30 September 2013: RMB316,450,000). As at 30 September 2014, the Group did not have any borrowings (as at 30 September 2013: nil).

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

As at 30 September 2014, the Group had bank deposits of approximately RMB26,250,000 pledged as security for remittance under acceptance (as at 30 September 2013: RMB79,932,000).

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

As at 30 September 2014, the Group had financial assets at fair value through profit or loss of approximately RMB1,285,000,000 (as at 30 September 2013: RMB880,000,000). Such financial assets comprised 9 investments in wealth management products, offered by licensed banks in the PRC.



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

<b>Investment Amount (RMB)</b>	<b>Investment period</b>	<b>Fixed investment return % per annum</b>
470,000,000	4/2014 – 10/2014	5.60%
260,000,000	5/2014 – 5/2015	5.85%
280,000,000	5/2014 – 11/2014	5.00%
60,000,000	6/2014 – 12/2014	4.70%
40,000,000	7/2014 to any time redeemable	3.80%
25,000,000	7/2014 to any time redeemable	3.95%
80,000,000	9/2014 – 3/2015	5.00%
50,000,000	9/2014 – 12/2014	4.70%
20,000,000	9/2014 – 12/2014	4.70%

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 2014, the Group did not have any major acquisition or disposal.

#### *Significant Investment*

For the nine months ended 30 September 2014, the Group did not make any significant investment.

#### *Contingent Liabilities*

For the nine months ended 30 September 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.

## APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the nine months ended 30 September 2014 were approved by the Board on 4 November 2014.

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

As at 30 September 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:

### 1. Long position of domestic shares of the Company ("Domestic Shares"), as at 30 September 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%

### 2. 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”). As at 30 September 2014, Mr. Liu was 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: As at 31 March 2014, Li Minghua (“Ms. Li”) was interested in 16.00% of the registered share capital of Luoxin Holdings. On 23 June 2014, Ms. Li sold 550,000 shares of Luoxin Holdings to another independent third party. As at 30 September 2014, Ms. Li was interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3: As at 30 September 2014, Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4: As at 30 September 2014, Han Fengsheng was 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 September 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 September 2014*

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

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

<b>Name</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of H Shares</b>	<b>% of total issued H Shares</b>	<b>% of Company's Share Capital</b>
GL Capital Management GP Limited (Note 6)	Interest of controlled corporation	16,532,000	10.05	2.71
Lion River I N.V. (Note 6)	Interest of controlled corporation	16,532,000	10.05	2.71
Assicurazioni Generali S.p.A (Note 6)	Interest of controlled corporation	16,532,000	10.05	2.71
GL Partners Capital Management Limited (Note 6)	Interest of controlled corporation	16,532,000	10.05	2.71
Li Zhenfu (Note 7)	Interest of controlled corporation	16,532,000	10.05	2.71
Deutsche Bank Aktiengesellschaft	Beneficial Owner	191,653	0.11	0.03
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	8,092,000	4.92	1.33

Note 6: GL Trade Investment Limited (“GL Trade Investment”) held 16,532,000 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 16,532,000 H-Shares of the Company.

Note 7: Li Zhenfu held as to 70% of the shareholding of GL Partners and by virtue of the SFO, he is deemed to be interested in 16,532,000 H-Shares of the Company.

#### *Short position of H Shares, as at 30 September 2014*

<b>Name</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of H Shares</b>	<b>% of total issued H Shares</b>	<b>% of Company's Share Capital</b>
Deutsche Bank Aktiengesellschaft	Beneficial Owner	186,000	0.11	0.03

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



The unaudited results of the Company for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 Group Stock Co., Ltd.\***

**Liu Baoqi**  
Chairman

PRC, 4 November 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