



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

FIRST QUARTERLY REPORT 2015



* 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 three months ended 31 March 2015 was approximately RMB776,364,000, representing an increase of 20.68% 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 2015 was approximately RMB108,209,000 representing an decrease of 11.26% 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 2015.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiary (the "Group") for the three months ended 31 March 2015 (the "Period") and the comparative figures of the corresponding period of 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

		Unaudited three months ended 31 March	
		2015	2014
		RMB'000	RMB'000
Notes			
Turnover	3	776,364	643,330
Cost of sales		<u>(208,658)</u>	<u>(205,382)</u>
Gross profit		567,706	437,948
Other revenue	3	15,249	9,357
Other income		2,400	604
Selling and distribution expenses		<u>(396,448)</u>	<u>(263,219)</u>
General and administrative expenses		<u>(61,799)</u>	<u>(35,434)</u>
Profit before taxation		127,108	149,256
Taxation	4	<u>(18,822)</u>	<u>(27,854)</u>
Profits for the Period		108,286	121,402
Other comprehensive income for the Period, net of tax		<u>–</u>	<u>–</u>
Total comprehensive income for the Period		<u>108,286</u>	<u>121,402</u>
Profit/(loss) attributable to:			
Owners of the Company		108,209	121,937
Non-controlling interests		<u>77</u>	<u>(535)</u>
		<u>108,286</u>	<u>121,402</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		108,209	121,937
Non-controlling interests		<u>77</u>	<u>(535)</u>
		<u>108,286</u>	<u>121,402</u>
Earnings per share attributable to owners of the Company (RMB)			
– basic and diluted	6	<u>17.76 cents</u>	<u>20.00 cents</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2015

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company with a registered capital of Renminbi ("RMB") 46 million by way of promotion. Subsequent to the above reorganisation, the name of the Company 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 since 9 December 2005. Pursuant to the Extraordinary General Meeting held on 12 August 2014, the name of the Company change to Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.

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 principal activities of its subsidiary 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 6 May 2015.

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 2014.

The unaudited first quarterly 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 sales of pharmaceutical products.

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 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. Accordingly, the Group does not have separately reportable segments.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2015 RMB'000	2014 RMB'000
Turnover		
Sales of manufactured pharmaceutical goods	776,364	643,330
Other revenue		
Interest income	15,249	9,357
Total revenue	<u>791,613</u>	<u>652,687</u>

4. TAXATION

	Unaudited three months ended 31 March	
	2015 RMB'000	2014 RMB'000
PRC enterprise income tax	<u>18,822</u>	<u>27,854</u>

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

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 Period (2014: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the unaudited net profit of approximately RMB108,209,000 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 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.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2015 and 2014.

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 2015, audited	31,139	36,390	6,033	2,208,898	2,282,460	3,796	2,286,256
Profit attributable to owners of the Company	-	-	-	108,209	108,209	77	108,286
At 31 March 2015, unaudited	<u>31,139</u>	<u>36,390</u>	<u>6,033</u>	<u>2,317,107</u>	<u>2,390,669</u>	<u>3,873</u>	<u>2,394,542</u>
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	<u>31,139</u>	<u>31,564</u>	<u>6,033</u>	<u>2,074,988</u>	<u>2,143,724</u>	<u>2,949</u>	<u>2,146,673</u>



DIVIDENDS

On 10 March 2015, the Board recommended payment of a final dividend of RMB0.30 per share in respect of the year ended 31 December 2014 to the shareholders of the Company (the "Shareholders") whose names appear in the register of members of the Company on 11 June 2015. This proposed final dividend is subjected to approval by the Shareholders at the forthcoming annual general meeting which would be held on 8 June 2015. The Board did not recommend payment of any interim dividend for the three months ended 31 March 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

In 2015, 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 PRC's pharmaceutical industry in 2015.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always focused on the strategies of strengthening science and technology innovation, expediting research and development ("R&D"), distribution capability and production optimisation; striving to provide reliable and high-tech pharmaceutical products as well as strengthening marketing and distribution systems. During the Period, the Group took full advantage from opportunities arisen from growth in the market and satisfied market demands by investing additional resources in enhancing its production capabilities and technology application, and gearing up the implementation of technological achievement, securing new spots of growth and pressing the reform and team building process, thereby laying a solid foundation for sustainable future development of the Group.



Business Review

During the Period, amid the pressure from the market environment brought by the commencement of bidding system for basic drugs procurement, surging production costs and drug-price cuts, the Group upheld its underlying development strategies and endeavoured to achieve the targets of the 12th Five-Year Plan. It managed to maintain stable 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. Riding on the success obtained, the Group will speed up product development and further expand its marketing channels to accelerate corporate brand enhancement and strengthen the overall competitiveness of the enterprise, with an aim of building a world-class pharmaceutical brand.

Research and Development

1. Building platform for technology research and development

Currently, the Company has obtained approval to establish or has been granted several scientific research platforms which included a state-accredited enterprise technology centre, 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臺(山東)產業化示範企業), “National Post-Doctoral Research Workshop” (國家博士後科研工作站), “Key High-Tech Enterprise under the State Torch Programme” (國家火炬計劃重點高新技術企業), “Model Engineering Technology Research Centre of Shandong Province” (山東省級示範工程技術研究中心), “Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory” (山東省凍乾粉針劑藥物重點實驗室), “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 “Enterprise Academician Workstation of Shandong Province” (山東省企業院士工作站). Together they form an even stronger platform for talent accumulation, research and development and technology advancement, and in turn strengthen the research and development capabilities and overall competitiveness of the Group.




The Group established Luoxin Biological Technology (Shanghai) Co. Ltd.* (羅欣生物科技(上海)有限公司) (the “Shanghai R&D Centre”), in Shanghai Zhangjiang Hi-tech Park in June 2014, to reinforce its core competitive edge. Leveraging on the various advantages in Shanghai Zhangjiang Hi-tech Park, the Group will conduct its research and development for high-tech projects and give trainings to high-tech talents in Shanghai R&D Centre. As at 31 March 2015, Shanghai R&D Centre team comprised approximately 50 staff members, and their key members, who are well-known domestic and international experts with research and development experience in medicines in internationally prominent pharmaceutical enterprises, have formed an R&D team. They are the foundation for a comprehensive R&D team that covers all phases of research and development on new medicines.

The Shanghai R&D Centre focuses on the research and development on innovative medicines. It will develop products by advanced technologies adopted through self-development, cooperation with colleges and R&D institutions and introduction from overseas projects. The Group’s production lines will therefore be greatly enriched. As at 31 March 2015, the Shanghai R&D Centre has commenced various research and development projects on new medicines, whether committed by itself or on collaboration basis, and has agreed to the preliminary cooperation with a number of pharmaceutical enterprises of different scale in the US, Europe and Asia. Certain projects with authorization from the PRC Government for research and development and sale are under active discussion.

2. *New products*

During the Period, the Company obtained five pharmaceutical production approvals. As at 31 March 2015, the Group had obtained 296 pharmaceutical production approvals and five antiseptic germicide production approvals.

- (1) The ingredients for Cefonicid Sodium (頭孢尼西鈉) developed by the Group had been granted the production approval by China Food and Drug Administration on 14 January 2015.
- (2) The ingredients for Cefalothin Sodium (頭孢噻吩鈉) developed by the Group had been granted the production approval by China Food and Drug Administration on 27 March 2015.
- (3) The Cefteram Pivoxil Tablets (頭孢特侖新戊酯片) developed by the Group had been granted the production approval by China Food and Drug Administration on 27 March 2015. The product mainly applies to infectious diseases caused by various kinds of allergic bacteria.
- (4) The Cefprozil Tablets (頭孢丙烯片) developed by the Group had been granted the production approval by China Food and Drug Administration on 27 March 2015. The product mainly applies to the following mild infections: upper respiratory tract infection, lower respiratory tract infection, non-complicated skin and soft tissue infection.



(5) The Roxithromycin and Ambroxol Hydrochloride Dispersible Tablets (羅紅霉素氨溴索片) developed by the Group had been granted the production approval by China Food and Drug Administration on 27 March 2015. The product applies to the expectorant treatment of bacterial acute bronchitis caused by sensitive bacteria, acute exacerbation of chronic bronchitis and senile chronic bronchitis. The product was granted with the Type 3.2 national certificate of new medicine and national innovation patent certificate.

3. *Patents and achievements*

- (1) During the Period, the Group had 51 invention patents pending for registration in the PRC. As at 31 March 2015, the Group had 116 invention patents registered in the PRC.
- (2) As at 31 March 2015, the Group had 296 production approvals.
- (3) As at 31 March 2015, the Group had 47 certificates of new drug.
- (4) During the Period, the Group had 2 products being admitted to various major construction projects at national, provincial and municipal levels and independent innovation projects, and won certain science and technology awards.

As at 31 March 2015, the Group had 6 products being admitted to the National Major Innovative Drug Projects of the 12th Five-Year Plan, 10 projects being admitted to the State Torch Programme and 4 projects being admitted to the State Key New Products Programme.

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) since 2006. From 2011 onward, the Company has been named as the “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 Pharmaceutical Co., Ltd.* (formerly known as “Shandong Yuxin Pharmacy Co., Ltd.*”) (山東裕欣藥業有限公司) was granted the Drug Manufacturing Certificate and Sanitary License for Manufacturing Enterprise. Automated storage was completed and will commence operation soon. The construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed and put into operation. It has also been expediting the construction of the new lyophilized powder injection workshop.
- (2) Pharmaceutical raw materials: the synthetic raw materials workshop in respect of the phase 1 of the pharmaceutical raw materials project of Shandong Hengxin Pharmaceutical Co., Ltd.* (formerly known as “Shandong Hengxin Pharmacy Co., Ltd.*”) (山東恒欣藥業有限公司) has been put into operation.
- (3) Preparations that passed the new GMP certification included lyophilized powder injection, powder injection, tablets, capsules, low-volume injections, granules, dry suspension agent, large-volume injections and bulk pharmaceuticals (including sterile bulk medicines).

3. *External Investment*

In February 2015, the Company made an investment on the acquisition of a pharmaceutical trading company in Jinan, namely Shandong Jinke Pharmaceutical Co., Ltd.* (山東金訶藥業有限公司). That company had been renamed to Jinan Luoxin Pharmacy Company Limited (濟南羅欣醫藥有限公司). The acquisition would be an effective way to facilitate the development of product marketing and expansion of pharmaceutical distribution network.

Sales and Marketing

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

During the Period, the Group’s turnover was RMB776,364,000, representing an increase of 20.68% from approximately RMB643,330,000 for the corresponding period of last year. The increase was mainly attributable to the launch of high value-added products by the Group with an aim to enhance its product portfolio and the prompt establishment of sales network to increase market share of its products.

A breakdown of segmental sales revenue by pharmaceutical indications and usage is shown as follows:

Indications and usage	Sales		Percentage	Percentage	Growth rate (%)
	RMB'000		of total	of total	
	January to March 2015	January to March 2014	turnover for January to March 2015	turnover for January to March 2014	
System specified medicine	334,092	262,438	43.03%	40.79%	27.30%
Anti-biotic medicine	288,078	263,773	37.11%	41.00%	9.21%
Other system specified medicine	<u>154,194</u>	<u>117,119</u>	<u>19.86%</u>	<u>18.21%</u>	31.66%
Total	<u>776,364</u>	<u>643,330</u>	<u>100%</u>	<u>100%</u>	20.68%

Financial Review

The Group's unaudited turnover for Period was approximately RMB776,364,000, representing an increase of approximately 20.68% from approximately RMB643,330,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added-values, an upgrade of the Group's product portfolio and the acceleration of sales network development to increase the market share of its products.

The unaudited cost of sales for the Period was approximately RMB208,658,000, representing an increase of approximately 1.60% from approximately RMB205,382,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was approximately 73.12%, representing an increase of approximately 5.04 percentage points from approximately 68.08% for the corresponding period of last year. Increase in gross margin was due to the Group's launch of products with high added-values.

The unaudited operating expenditure for the three months ended 31 March 2015 was approximately RMB458,247,000, representing an increase of approximately 53.44% from approximately RMB298,653,000 for the corresponding period of last year.



The increase of operating expenditure was due to the following reasons:

1. the newly acquired or established subsidiaries, Jinan Luoxin Pharmacy Company Limited* (濟南羅欣醫藥有限公司) (“Jinan Luoxin”) and Luoxin Biological Technology (Shanghai) Co. Ltd.* (羅欣生物科技(上海)有限公司) (“Luoxin Bio”) are under further business development and were incurring overhead cost before generating revenue;
2. an increase in research and development expenses for products which may be launched in future, among which, certain additional expenses were attributed to Luoxin Bio which is research and development in business nature;
3. an increase of selling and distribution expenses due to emoluments increment to business development personnel of the sales team.

The unaudited profit attributable to the Shareholders for the Period was approximately RMB108,209,000, representing a decrease of 11.26% from approximately RMB121,937,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB17.76 cents for the Period.

Liquidity and Financial Resources

The Group’s working capital is generally financed by its internally generated cash flow. As at 31 March 2015, the Group’s cash and cash equivalents amounted to approximately RMB102,158,000 (exclude pledged bank deposit) (as at 31 March 2014: RMB136,084,000).

As at 31 March 2015, the Group did not have any borrowings (as at 31 March 2014: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2015, the Group had bank deposits of approximately RMB4,571,000 pledged as security for remittance under acceptance (as at 31 March 2014: RMB57,023,000).

Financial Assets at Fair Value through Profit or Loss

As at 31 March 2015, the Group had investment amount of financial assets at fair value through profit or loss of approximately RMB1,341,500,000 (as at 31 March 2014: RMB1,235,000,000). Such financial assets comprised nine investments in wealth management products, offered by licensed banks in the PRC.

Summary of the financial assets as at 31 March 2015 are as follows:

Investment Amount (RMB)	Investment period	Fixed investment return % per annum
260,000,000	5/2014 – 5/2015	5.85
11,500,000	7/2014 – Redeemable at any time	4.10
280,000,000	11/2014 – 5/2015	4.50
90,000,000	12/2014 – 12/2015	5.50
70,000,000	1/2015 – 7/2015	5.25
430,000,000	3/2015 – 4/2015	5.30
100,000,000	3/2015 – 5/2015	5.20
50,000,000	3/2015 – 9/2015	5.70
50,000,000	3/2015 – 5/2015	5.10

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

Significant Investment

For the Period, the Group did not make any significant investment.

Contingent Liabilities

For the Period, 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 state policies, thus making the prospects of the industry very optimistic. Being one of the key industries favoured by the 12th Five-Year Plan, pharmaceutical industry will share more resources from the PRC government in pharmaceutical and medical equipment, and a modern market system for circulation of pharmaceutical products will also be established during the 12th 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 CFDA 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 provides 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 production bases of "Yuxin" (裕欣) and "Hengxin" (恒欣), our production capacity will be enhanced to satisfy growing market demands for pharmaceutical products. The new production bases 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 speed up 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.

The Group expects 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 Period were approved by the Board on 6 May 2015.

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

As at 31 March 2015, the interests and short positions of each of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of 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:

1. Long position of domestic shares of the Company ("Domestic Shares") as at 31 March 2015:

Name of Director	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
Mr. Liu Baoqi (Note 1)	Interest of controlled corporation	325,639,949	73.17%	53.42%

2. Interest in Shandong Luoxin Holdings Co., Ltd.* (山東羅欣控股有限公司) ("Luoxin Holdings") as at 31 March 2015:

Name of Director	Capacity/Nature of interest	Number of shares in Luoxin Holdings	Approximate % of issued share capital of Luoxin Holdings
Mr. Liu Baoqi (Note 1)	Beneficial Owner	25,865,000	51.73%
Ms. Li Minghua (Note 2)	Beneficial Owner	7,450,000	14.90%
Mr. Liu Zhenhai (Note 3)	Beneficial Owner	5,000,000	10.00%
Mr. Han Fengsheng (Note 4)	Beneficial Owner	1,000,000	2.00%

Note 1: As at 31 March 2014, these 325,639,949 Domestic Shares were registered in the name of Luoxin Pharmaceutical Group Co., Ltd. ("Luoxin Pharmaceutical Group", formerly known as Linyi Luoxin Pharmacy Company Limited). Mr. Liu Baoqi ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmaceutical Group. On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings. As at 31 March 2015, Mr. Liu was interested in 51.73% of the registered share capital of Luoxin Holdings and was 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, Ms. 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 31 March 2015, Ms. Li was interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3: As at 31 March 2015, Mr. Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4: As at 31 March 2015, Mr. Han Fengsheng was interested in 2.00% of the registered share capital of Luoxin Holdings.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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 2015, the Company had been notified of the following substantial shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the Directors and chief executive of the Company.

1. Long position of Domestic Shares, as at 31 March 2015:

Name	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
Luoxin Holdings	Beneficial owner	325,639,949	73.17%	53.42%

2. Long position of H-Share, as at 31 March 2015:

Name	Capacity/Nature of interest	Number of H-Share	Approximate % of total issued H-Shares	Approximate % of Company's share capital
GL Capital Management GP Limited (Note 5)	Interest of controlled corporation	19,786,000	12.02%	3.25%
Lion River I N.V.(Note 6)	Interest of controlled corporation	19,786,000	12.02%	3.25%
GL Partners Capital Management Limited (Note 6)	Interest of controlled corporation	19,786,000	12.02%	3.25%
Assicurazioni Generali S.p.A (Note 7)	Interest of controlled corporation	19,786,000	12.02%	3.25%
Li Zhenfu (Note 8)	Interest of controlled corporation	19,786,000	12.02%	3.25%
Deutsche Bank Aktiengesellschaft	NIL (Note 9)	6,801,653	4.13%	1.12%

Note 5: GL Trade Investment Limited ("GL Trade Investment") held 19,786,000 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"). By virtue of the SFO, GL Capital Management is deemed to be interested in 19,786,000 H-Shares of the Company.

Note 6: GL Capital Management is owned as to 51% by GL Partners Capital Management Limited ("GL Partners") and 49% by Lion River I N.V. By virtue of the SFO, each of GL Partners and Lion River I N.V. is deemed to be interested in 19,786,000 H-Shares of the Company.

Note 7: Lion River I N.V. is wholly-owned by Assicurazioni Generali, S.p.A. ("Assicurazioni"). By virtue of the SFO, Assicurazioni is deemed to be interested in 19,786,000 H-Shares of the Company.

Note 8: 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 19,786,000 H-Shares of the Company.

3. Short position of H-Shares, as at 31 March 2015:

Name	Capacity/Nature of interest	Number of H-Share	Approximate % of total issued H-Shares	Approximate % of Company's share capital
Deutsche Bank Aktiengesellschaft	NIL (Note 9)	846,000	0.51	0.14



Note 9: As shown on the form of disclosure of interests filed by Deutsche Bank Aktiengesellschaft on 8 December 2014.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that during the Period, 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 Period 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 Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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



COMPETING BUSINESS

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

Luoxin Pharmaceutical Group

Up to 21 May 2014, Luoxin Pharmaceutical Group was the controlling shareholder of the Company which held 53.42% of the Company's then total issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmaceutical Group and a controlling shareholder holding 51.73% of the registered capital of Luoxin Pharmaceutical Group.

Before a non-competition undertaking in favour of the Company was signed by Luoxin Pharmaceutical Group on 7 November 2002, Luoxin Pharmaceutical 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 Pharmaceutical Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmaceutical Group signed a supplementary non-competition undertaking pursuant to which it would carry out its sales activities restricted only to those products which are purchased from the Company 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 Pharmaceutical Group an annual confirmation in respect of the compliance with these undertakings. On 21 May 2014, Luoxin Pharmaceutical Group sold its entire shareholding of the Company to Luoxin Holdings which represented 53.42% of the Company's then 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 Pharmaceutical Group Stock Co., Ltd.*
Liu Baoqi
Chairman

PRC, 6 May 2015

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 Zhenheng (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