



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

INTERIM 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”) 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 announcement misleading.



SUMMARY

- The Group's sales for the six months ended 30 June 2015 was approximately RMB1,628,297,000, representing an increase of 21.71% 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 2015 was approximately RMB224,018,000 representing an increase of 1.05% when compared with that of the corresponding period of last year.
- The board of Directors of the Company ("Board") does not recommend payment of any dividend for the six months ended 30 June 2015.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Board of the Company is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 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 six months ended 30 June 2015

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Turnover	3	851,933	694,490	1,628,297	1,337,820
Cost of sales		<u>(340,123)</u>	<u>(232,413)</u>	<u>(548,781)</u>	<u>(437,795)</u>
Gross profit		511,810	462,077	1,079,516	900,025
Other revenue	3	18,772	20,030	34,021	29,387
Other income		2,327	2,689	4,727	3,293
Selling and distribution expenses		<u>(351,163)</u>	<u>(320,046)</u>	<u>(747,611)</u>	<u>(583,265)</u>
General and administrative expenses		<u>(50,648)</u>	<u>(48,369)</u>	<u>(112,447)</u>	<u>(83,803)</u>
Profit before taxation	5	131,098	116,381	258,206	265,637
Taxation	6	<u>(15,359)</u>	<u>(16,157)</u>	<u>(34,181)</u>	<u>(44,011)</u>
Profit for the Period		115,739	100,224	224,025	221,626
Other comprehensive income for the Period, net of tax		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the Period		<u>115,739</u>	<u>100,224</u>	<u>224,025</u>	<u>221,626</u>



		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
Notes		2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Profit attributable to:					
Owners of the Company		115,809	99,759	224,018	221,696
Non-controlling interests		(70)	465	7	(70)
		<u>115,739</u>	<u>100,224</u>	<u>224,025</u>	<u>221,626</u>
Total comprehensive income attributable to:					
Owners of the Company		115,809	99,759	224,018	221,696
Non-controlling interests		(70)	465	7	(70)
		<u>115,739</u>	<u>100,224</u>	<u>224,025</u>	<u>221,626</u>
Earnings per share attributable to owners of the Company (RMB)					
– Basic and diluted	7	<u>18.99 cents</u>	<u>16.36 cents</u>	<u>36.75 cents</u>	<u>36.36 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	Unaudited At 30 June 2015 RMB'000	Audited At 31 December 2014 RMB'000
Non-current assets			
Available-for-sale financial assets		41,000	41,000
Intangible assets	8	3,423	—
Prepayments to acquire technical know-how		20,163	17,404
Property, plant and equipment	9	723,591	544,275
Construction-in-progress		100,310	219,902
Prepaid lease payments	10	50,906	51,470
Deferred tax assets		523	523
Goodwill		165	165
		<u>940,081</u>	<u>874,739</u>
Current assets			
Inventories		307,360	278,283
Trade and bills receivables	11	446,437	324,797
Other receivables, deposits and prepayments		164,918	178,812
Financial assets at fair value through profit and loss	12	991,481	1,227,361
Pledged bank deposits		4,571	29,189
Cash and bank balances		517,016	160,512
		<u>2,431,783</u>	<u>2,198,954</u>
Current liabilities			
Trade and bills payables	13	236,097	179,119
Other payables and accruals		409,329	430,578
Deposits received		66,015	52,006
Dividend payable		177,943	2,592
Taxation payable		55,268	41,802
		<u>944,652</u>	<u>706,097</u>



	Notes	Unaudited At 30 June 2015 RMB'000	Audited At 31 December 2014 RMB'000
Net current assets		1,487,130	1,492,857
Total assets less current liabilities		2,427,211	2,367,596
Non-current liability			
Deferred income		20,380	20,380
Net assets		2,406,831	2,347,216
Capital and reserves			
Share capital	14	60,960	60,960
Reserves		2,323,762	2,282,460
Equity attributable to owners of the Company		2,384,722	2,343,420
Non-controlling interests		22,109	3,796
Total equity		2,406,831	2,347,216

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Other reserve 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 2015, audited	60,960	31,139	36,390	6,033	-	2,208,898	2,343,420	3,796	2,347,216
Total comprehensive Income	-	-	-	-	-	224,018	224,018	7	224,025
Deemed disposal	-	-	-	-	164	-	164	18,306	18,470
Dividend declared	-	-	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 June 2015, unaudited	60,960	31,139	36,390	6,033	164	2,250,036	2,384,722	22,109	2,406,831

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Unaudited Six months ended 30 June	
	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Net cash inflow from operating activities	420,113	263,509
Net cash outflow from investing activities	(89,933)	(270,911)
Net cash inflow/(outflow) from financing activities	<u>26,324</u>	<u>(68,618)</u>
Net increase/(decrease) in cash and cash equivalents	356,504	(76,020)
Cash and cash equivalents at beginning of Period, audited	<u>160,512</u>	<u>187,004</u>
Cash and cash equivalents at end of Period, unaudited	<u>517,016</u>	<u>110,984</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>517,016</u>	<u>110,984</u>



NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 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 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 of Hong Kong Limited since 9 December 2005. Pursuant to the Extraordinary General Meeting held on 12 August 2014, the name of the Company was changed 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 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 2015.



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 2014.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 report 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	
	2015	2014
	<i>RMB '000</i>	<i>RMB '000</i>
Turnover		
Sales of manufactured pharmaceutical products	1,628,297	1,337,820
Other revenue		
Interest income on financial asserts at fair value through profit or loss	32,958	28,528
Interest income	1,063	859
	34,021	29,387
Total revenue	1,662,318	1,367,207

4. PROFIT FROM OPERATIONS

	Unaudited Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Operating profit of the Group was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	592	589
Depreciation of property, plant and equipment	32,041	21,042
Loss on disposal of property, plant and equipment	133	-
Amortisation of prepaid lease payments	564	2,244
Amortisation of purchased technical know-how (included in cost of sales)	-	17
Employees benefit expenses (excluding Directors' and supervisors' emoluments)	147,216	146,472
Research and development costs	56,503	45,916
Advertising costs	2,019	2,411

5. TAXATION

	Unaudited Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
PRC enterprise income tax	34,181	44,011

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 payment of any interim dividend for the Period (2014: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on the unaudited net profit of approximately RMB224,018,000 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 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.

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 2015 and 2014.

8. INTANGIBLE ASSETS

	License RMB'000	Purchased technical know-how RMB'000	Total RMB'000
Cost:			
At 1 January 2014, 31 December 2014 and 1 January 2015, audited	–	17,450	17,450
Acquisition of assets (Note 19)	3,423	–	3,423
	<u>3,423</u>	<u>–</u>	<u>3,423</u>
At 30 June 2015, unaudited	<u>3,423</u>	<u>17,450</u>	<u>20,873</u>
Accumulated amortisation and impairment:			
At 1 January 2014, audited	–	17,433	17,433
Charge for the year	–	17	17
	<u>–</u>	<u>17</u>	<u>17</u>
At 31 December 2014 and 1 January 2015, audited	–	17,450	17,450
Charge for the Period	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
At 30 June 2015, unaudited	<u>–</u>	<u>17,450</u>	<u>17,450</u>
Carrying amount:			
At 30 June 2015, unaudited	<u>3,423</u>	<u>–</u>	<u>3,423</u>
At 31 December 2014, audited	<u>–</u>	<u>–</u>	<u>–</u>

9. PROPERTY, PLANT AND EQUIPMENT

	<i>RMB'000</i>
Cost:	
At 1 January 2014, audited	481,210
Additions	66,373
Disposals	(28,550)
Transfer from construction-in-progress	<u>216,850</u>
At 31 December 2014 and 1 January 2015, audited	735,883
Disposal	(2,906)
Acquisition of assets (Note 19)	734
Additions and transfer from construction-in-progress	<u>208,363</u>
At 30 June 2015, unaudited	<u>942,074</u>
Accumulated depreciation and impairment:	
At 1 January 2014, audited	150,470
Charge for the year	57,173
Written back on disposals	<u>(16,035)</u>
At 31 December 2014 and 1 January 2015, audited	191,608
Charge for the Period	29,148
Written back on disposals	<u>(2,273)</u>
At 30 June 2015, unaudited	<u>218,483</u>
Carrying amount:	
At 30 June 2015, unaudited	<u>723,591</u>
At 31 December 2014, audited	<u>554,275</u>

At 30 June 2015, all buildings of the Group are located in the PRC.

Depreciation expense of approximately RMB16,753,000 (six months ended 30 June 2014: RMB16,937,000) have been expensed in cost of sales and approximately RMB12,395,000 (six months ended 30 June 2014: RMB4,105,000) 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.

	<i>RMB'000</i>
At 1 January 2014, audited	52,048
Addition of prepaid lease payments	1,649
Amortisation of prepaid lease payments	<u>(1,100)</u>
At 31 December 2014 and 1 January 2015, audited	52,597
Amortisation of prepaid lease payments	<u>(564)</u>
At 30 June 2015, unaudited	<u>52,033</u>

Analysed for reporting purposes as:

	At 30 June 2015 <i>RMB'000</i> (Unaudited)	At 31 December 2014 <i>RMB'000</i> (Audited)
Current assets (included in other receivables, deposits and prepayments)	1,127	1,127
Non-current assets	<u>50,906</u>	<u>51,470</u>
	<u>52,033</u>	<u>52,597</u>

The Group's prepaid lease payments comprise:

	At 30 June 2015 <i>RMB'000</i> (Unaudited)	At 31 December 2014 <i>RMB'000</i> (Audited)
Land in PRC		
Long-term lease	8,200	8,948
Medium-term lease	<u>43,833</u>	<u>43,649</u>
	<u>52,033</u>	<u>52,597</u>

11. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
1 to 90 days	389,521	264,058
91 to 180 days	35,703	50,829
181 to 365 days	21,658	9,910
Over 365 days	870	1,315
	<hr/>	<hr/>
	447,752	326,112
Less: Provision of impairment loss recognised in respect of trade receivables	(1,315)	(1,315)
	<hr/>	<hr/>
	446,437	324,797

Customers are generally granted with credit term of 180 days.

Trade and bills receivables as at 30 June 2015 are denominated in RMB.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

At 30 June 2015, the Group has financial assets at fair value through profit and loss of RMB991,481,000 (31 December 2014: RMB1,227,361,000). The financial assets at fair value through profit or loss represent 6 (31 December 2014: 6) 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:

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
1 to 90 days	153,033	117,228
91 to 180 days	17,755	9,954
181 to 365 days	30,295	2,869
Over 365 days	35,014	20,479
	<hr/>	<hr/>
	236,097	150,530

Trade and bills payables as at 30 June 2015 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 2014, audited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>
At 30 June 2015, unaudited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>

15. BANKING FACILITIES

At 30 June 2015, approximately RMB4,571,000 (at 31 December 2014: RMB29,189,000) banking facilities which were secured by pledged bank deposits of approximately RMB4,571,000 (at 31 December 2014: RMB29,189,000).

16. COMMITMENTS

At 30 June 2015, the Group had the following significant capital commitments:

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	–	39,056
– Purchase of property, plant and machinery	<u>132,342</u>	<u>301,805</u>

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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of chemical medicine to Luoxin Pharmaceutical Group Co., Ltd. ("Luoxin Pharmaceutical Group") (note (i))	218,281	124,385
Sales of finished goods to Shandong Luosheng Pharmacy Co., Limited ("Shandong Luosheng") (note (ii))	25,947	17,930
Sales of finished goods to Shandong Mingxin Pharmacy Co., Limited ("Shandong Mingxin") (note (iii))	15,712	23,371

Notes:

- (i) Luoxin Pharmaceutical Group is the promoter of the Company. Mr. Liu Baoqi is the Director and controlling shareholder for both Luoxin Pharmaceutical Group and the Company. Mr. Liu Zhenhai is the Director for both Luoxin Pharmaceutical Group and the Company.
- (ii) Shandong Luosheng is the fellow subsidiary of which Luoxin Pharmaceutical Group is holding 51% of the equity interests of Shandong Luosheng. Mr. Liu Baoqi and Mr. Liu Zhenhai are the Directors for both Shandong Luosheng and the Company.
- (iii) Shandong Mingxin is the fellow subsidiary of which Luoxin Pharmaceutical Group is holding 51% of the equity interests of Shandong Mingxin. Mr. Liu Baoqi and Mr. Liu Zhenhai are the Directors for both Shandong Mingxin and the Company.

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.
- (ii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- (iii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

	At 30 June 2015 (Unaudited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets designated as at fair value through profit or loss	-	991,481	-	991,481
	At 31 December 2014 (Audited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets designated as at fair value through profit or loss	-	1,227,361	-	1,227,361

Some of the Group's financial asset are measured at fair value at the end of each reporting period. The following table give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets held designated as at fair value through profit or loss	991,481	1,227,361	Level 2	Based on discounted cash flow from financial institutions

The most significant input is interest rate of the underlying assets.

There were no transfers between Levels 1 and 2 in the both years.

The directors consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair value.

19. ACQUISITION OF ASSETS

During the six months ended 30 June 2015, the Group completed the acquisition of the entire capital of Jinan Luoxin Pharmacy Company Limited (濟南羅欣醫藥有限公司) (“Jinan Luoxin”) (formerly known as 山東金訶藥業有限公司), for an aggregate consideration of approximately RMB3,711,000 (the “Acquisition”). The purpose of the Acquisition is for the Group to facilitate the development of product marketing and expansion of the Group’s pharmaceutical distribution network and as such, the Acquisition has been accounted for as acquisition of assets rather than businesses.

RMB'000

Consideration paid during year ended 31 December 2014 (Note)	<u>3,711</u>
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The assets acquired and liabilities recognised at the date of the Acquisition are as follows:

Intangible assets – License (Note 8)	3,423
Cash and bank balances	34
Trade and bills receivables	3,672
Prepayment, deposit and other receivables	3,245
Inventories	1,318
Property, plant and equipment (Note 9)	734
Trade and bills payables	(2,722)
Accruals and other payable	(5,936)
Taxation payable	<u>(57)</u>
	<u>3,711</u>
Net cash inflow arising on acquisition:	
– Cash and cash equivalent acquired	<u>34</u>

Note: Classified as prepayment at 31 December 2014



20. DEEMED DISPOSAL

During the six months ended 30 June 2015, the Group disposed 37.30% equity interest of Jinan Luoxin by way of increasing the registered capital of Jinan Luoxin from RMB3,000,000 to RMB50,000,000. The Group agree to paid RMB28,530,000 of the increased capital of Jinan Luoxin. The non-controlling interests of Jinan Luoxin agree to paid RMB18,470,000 of the increased capital of Jinan Luoxin. The Group recognised an increase of non-controlling interests and increase in other reserve of approximately RMB18,306,000 and RMB164,000 respectively.

21. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were approved by the Board on 5 August 2015.



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 has been approved by the Shareholders at the annual general meeting which was held on 8 June 2015. The dividend was paid on 20 July 2015.

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

In 2015, 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, 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 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, R&D and technology advancement, and in turn strengthen the R&D 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 R&D for high-tech projects and give trainings to high-tech talents in Shanghai R&D Centre. As at 30 June 2015, the Shanghai R&D Centre team comprised approximately 50 staff members. Their key members, who are well-known domestic and international experts with R&D 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 R&D on new medicines.

The Shanghai R&D Centre focuses on the R&D 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 30 June 2015, the Shanghai R&D Centre has commenced various R&D 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 authorisation from the PRC Government for research and development and sale are under active discussion.

2. *New products*

During the Period, the Company obtained seven pharmaceutical production approvals. As at 30 June 2015, the Group had obtained 298 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 production approval by the 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 production approval by the 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 production approval by the 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 production approval by the 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 production approval by the 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.
- (6) Ambroxol Hydrochloride for Injection (鹽酸氨溴索注射液) (enhanced specification of 1ml: 7.5g) developed by the Group had been granted production approval by the China Food and Drug Administration on 15 May 2015. The specification is for child specific use.
- (7) Rabeprazole Sodium for Injection (注射用雷貝拉唑鈉) developed by the Group had been granted production approval by the China Food and Drug Administration on 8 June 2015. The product applies to stomach and duodenum ulcer bleeding that is not applicable to oral treatment. The product was granted with the Type 3.1 national certificate of new medicine and national innovation patent certificate.



3. *Patents and achievements*

- (1) During the Period, the Group had 68 invention patents pending for registration in the PRC. As at 30 June 2015, the Group had 126 invention patents registered in the PRC.
- (2) As at 30 June 2015, the Group had 298 production approvals.
- (3) As at 30 June 2015, the Group had 48 certificates of new drug.
- (4) During the Period, the Group had 3 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 30 June 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. Installation of the automated storage system 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. The construction of the new lyophilized powder injection workshop was completed and will commence production after passing GMP certification.
- (2) Pharmaceutical raw materials: constructions of the synthetic raw materials workshop in respect of 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), workshop of Cephalosporins Sterile, workshop of Non-Cephalosporins Sterile, workshop of lyophilized sterile bulk medicines, workshop of oral raw materials, workshop of solvent recovery and water treatment projects were all completed and have been put into use. Newly-built office buildings and science studies and quality inspection buildings are under construction.
- (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*

The Company completed 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) in February 2015. That company had been renamed to Jinan Luoxin Pharmacy Company Limited* (濟南羅欣醫藥有限公司) (“Jinan Luoxin”). The acquisition would be an effective way to facilitate the development of product marketing and expansion of the Group’s pharmaceutical distribution network.

In June 2015, the Company established a subsidiary, Luoxin Hong Kong Holdings Limited in Hong Kong through the Shanghai R&D Centre, to serve as an overseas platform for future overseas investment and global operation of the Group.

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. It has also 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 approximately RMB1,628,297,000, representing an increase of approximately 21.71% from approximately RMB1,337,820,000 for the corresponding period of last year. The increase was mainly attributable to the launch of products with high added values 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 RMB'000		Percentage of total turnover for January to June 2015	Percentage of total turnover for January to June 2014	Growth rate (%)
	January to June 2015	January to June 2014			
System specified medicine	692,930	549,404	42.56%	41.07%	26.12%
Anti-biotic medicine	589,430	531,076	36.20%	39.70%	10.99%
Other system specified medicine	345,937	257,340	21.24%	19.23%	34.43%
Total	1,628,297	1,337,820	100%	100%	21.71%

Financial Review

The Group's unaudited turnover for the six months ended 30 June 2015 was approximately RMB1,628,297,000, representing an increase of approximately 21.71% from approximately RMB1,337,820,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added-values, upgrade to 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 2015 was approximately RMB548,781,000, representing an increase of approximately 25.35% from approximately RMB437,795,000 for the corresponding period of last year.



The unaudited gross profit margin for the six months ended 30 June 2015 was approximately 66.30%, representing a decrease of approximately 0.98 percentage points from approximately 67.28 % for the corresponding period of last year.

The unaudited operating expenditure for the six months ended 30 June 2015 was approximately RMB860,058,000, representing an increase of approximately 28.93% from approximately RMB667,068,000 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 and Shanghai R&D Centre are under further business development and were incurring overhead cost before generating revenue;
2. an increase in R&D expenses for products which may be launched in the future, among which certain additional expenses were attributed to Shanghai R&D Centre the business of which heavily involves research and development;
3. an increase of selling and distribution expenses due to additional recruitment for business development personnel of the sales team which in turn resulted in an increase of remuneration expense.

The unaudited profit attributable to the Shareholders for the six months ended 30 June 2015 was approximately RMB224,018,000, representing an increase of approximately 1.05% from approximately RMB221,696,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB33.96 cents for the Period.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 30 June 2015, the Group's cash and cash equivalents amounted to approximately RMB517,016,000 (excluding pledged bank deposits) (as at 30 June 2014: RMB110,984,000). As at 30 June 2015, the Group did not have any borrowings (as at 30 June 2014: nil).



Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2015, the Group had bank deposits of approximately RMB4,571,000 pledged as security for remittance under acceptance (as at 30 June 2014: RMB57,023,000).

Financial Assets at Fair Value through Profit or Loss

As at 30 June 2015, the Group had financial assets at fair value through profit or loss of approximately RMB991,481,000 (as at 31 December 2014: RMB1,227,361,000). 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 2015 are as follows:

Initial investment amount <i>(RMB)</i>	Investment period	Fixed investment return % per annum
90,000,000	12/2014-12/2015	5.50
70,000,000	1/2015-7/2015	5.25
50,000,000	3/2015-9/2015	5.70
430,000,000	4/2015-7/2015	5.30
125,000,000	5/2015-11/2015	4.65
215,000,000	6/2015-7/2015	3.80

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 2015, the Group did not have any major acquisition or disposal.



Significant Investment

For the six months ended 30 June 2015, the Group did not make any significant investment.

Contingent Liabilities

For the six months ended 30 June 2015, the Group did not have any substantial contingent liabilities.

Exchange Risk

As at 30 June 2015, the Group operated and conducted business in the PRC, and all of the Group's transactions, assets and liabilities were denominated in RMB. Most of the Group's cash and cash equivalents and pledged deposits were denominated in RMB while bank deposits were 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 sustainable 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, development of the 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 be provided with more resources by the PRC government in terms of 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 sustainable 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 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 with more advanced technology, of better quality and higher added-value. The Group also aims at reducing production costs and expanding production scale so as to stay competitive through economies of scale, low production costs and differentiation. With the completion of construction and commencement of production of 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 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 six months ended 30 June 2015 were approved by the Board on 5 August 2015.

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

As at 30 June 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 30 June 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 30 June 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 (<i>Note 1</i>)	Beneficial Owner	25,865,000	51.73%
Ms. Li Minghua (<i>Note 2</i>)	Beneficial Owner	7,450,000	14.90%
Mr. Liu Zhenhai (<i>Note 3</i>)	Beneficial Owner	5,000,000	10.00%
Mr. Han Fengsheng (<i>Note 4</i>)	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 30 June 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 30 June 2015, Ms. Li was interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3:

As at 30 June 2015, Mr. Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4:

As at 30 June 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 AND 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 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 30 June 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 30 June 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	Beneficial owner	436,144	0.27%	0.07%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	7,798,000	4.74%	1.28%

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 30 June 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	Beneficial owner	434,000	0.26%	0.07%

Note 9:

As shown on the form of disclosure of interests filed by Deutsche Bank Aktiengesellschaft on 22 May 2015.

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 six months ended 30 June 2015, 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 six months ended 30 June 2015 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 2015.

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 2015.



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.

Luoxin Pharmaceutical Group was engaged in the sales of chemical medicines, Chinese medicines, medical equipment and health and beauty products. Pursuant to a non-competition undertaking in favour of the Company signed by Luoxin Pharmaceutical Group on 7 November 2002, 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 Group in Linyi City 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 order of the Board
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*
Liu Baoqi
Chairman

PRC, 5 August 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 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.

This report will appear and remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from its date of publication and on the Company's website at: <http://shandongluoxin.quamir.com>.