



山東羅欣藥業集團股份有限公司

SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*


(a joint stock limited company established in the People's Republic of China with limited liability)

Stock Code: 8058

THIRD QUARTERLY REPORT 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 nine months ended 30 September 2015 was approximately RMB2,585,166,000, representing an increase of 29.53% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the nine months ended 30 September 2015 was approximately RMB340,651,000, representing an increase of 9.90% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2015.

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2015 (the "Period") and the comparative figures of the corresponding period of 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2015

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Turnover, net	3	956,869	657,915	2,585,166	1,995,735
Cost of sales		(326,048)	(184,540)	(874,829)	(622,335)
Gross profit		630,821	473,375	1,710,337	1,373,400
Other revenue	3	14,963	3,132	48,984	32,519
Other income		13,909	17,846	18,636	21,139
Selling and distribution expenses		(445,055)	(340,680)	(1,192,666)	(923,945)
General and administrative expenses		(75,069)	(45,888)	(187,516)	(129,691)
Profit before taxation		139,569	107,785	397,775	373,422
Taxation	4	(21,566)	(19,317)	(55,747)	(63,328)
Profit for the Period		118,003	88,468	342,028	310,094
Other comprehensive income for the Period, net of tax		-	-	-	-
Total comprehensive income for the Period		118,003	88,468	342,028	310,094
Profit attributable to:					
Owners of the Company		116,633	88,275	340,651	309,971
Non-controlling interests		1,370	193	1,377	123
		118,003	88,468	342,028	310,094
Total comprehensive income attributable to:					
Owners of the Company		116,633	88,275	340,651	309,971
Non-controlling interests		1,370	193	1,377	123
		118,003	88,468	342,028	310,094
Earnings per share attributable to Owners of the Company (RMB)					
- Basic and diluted	6	19.13 cents	14.49 cents	55.88 cents	50.85 cents



NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 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 RMB46 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 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 unaudited consolidated third quarterly financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These unaudited consolidated third quarterly financial statements have been approved for issue by the Board on 3 November 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated condensed interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2014.

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

3. TURNOVER AND OTHER REVENUE

The Group currently operates in one business segment in the manufacturing and sales of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the Group's assets and liabilities. Accordingly, the Group does not have separate reportable segment.

Turnover and other revenue recognised are as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Turnover, net				
Sales of manufactured pharmaceutical products	956,869	657,915	2,585,166	1,995,735
Other revenue				
Interest income on financial assets at fair value through profit and loss	14,573	2,020	47,531	30,548
Interest income on bank deposits	390	1,112	1,453	1,971
	14,963	3,132	48,984	32,519
Total revenue	971,832	661,047	2,634,150	2,028,254

4. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
PRC enterprise income tax	<u>21,566</u>	<u>19,317</u>	<u>55,747</u>	<u>63,328</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 Group is subject to the PRC enterprise income tax at a rate of 15%.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2015 (2014: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2015 is based on the unaudited net profit of approximately RMB340,651,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the nine months ended 30 September 2014 is based on the unaudited net profit of approximately RMB309,971,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share have been presented even though there were no dilutive potential ordinary shares outstanding during the nine months ended 30 September 2015 and 2014.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 30 September 2015, the Group has financial assets at fair value through profit and loss of carrying amount of approximately RMB1,033,085,000 (31 December 2014, initial investment amount: RMB1,285,000,000). The financial assets at fair value through profit or loss represent eight principal protected financial products issued by several financial institution in the PRC. These financial products mature within one year and are classified as current assets.

8. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015, audited	31,139	36,390	6,033	2,208,898	2,282,460	3,796	2,286,256
Total comprehensive income	-	-	-	340,651	340,651	1,377	342,028
Dividend declared	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 September 2015, unaudited	31,139	36,390	6,033	2,110,822	2,184,384	5,173	2,189,557
At 1 January 2014, audited	31,139	31,564	6,033	1,953,051	2,021,787	3,484	2,025,271
Total comprehensive income	-	-	-	309,971	309,971	123	310,094
Dividend declared	-	-	-	(182,880)	(182,880)	-	(182,880)
At 30 September 2014, unaudited	31,139	31,564	6,033	2,080,142	2,148,878	3,607	2,152,485

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 nine months ended 30 September 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, 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 arising 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 implementation 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 include 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台(山東)產業化示範企業), a “National Post-Doctoral Research Workshop” (國家博士後科研工作站), a “Key High-Tech Enterprise under the State Torch Programme” (國家火炬計劃重點高新技術企業), a “Model Engineering Technology Research Centre of Shandong Province” (山東省級示範工程技術研究中心), a “Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory” (山東省凍乾粉針劑藥物重點實驗室), a “Shandong Lyophilized Powder Injection Pharmaceutical Engineering Laboratory” (山東省凍乾粉針劑藥物工程實驗室), a “Taishan Scholar – Pharmaceutical expert consultant” (泰山學者—藥學特聘專家) and an “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 further 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 the Shanghai R&D Centre. As at 30 September 2015, the Shanghai R&D Centre has a team of 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 September 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*

For the nine months ended 30 September 2015, the Company obtained eight pharmaceutical production approvals. As at 30 September 2015, the Group had obtained 299 pharmaceutical production approvals and six antiseptic germicide production approvals.

- (1) The Roxithromycin and Ambroxol Hydrochloride Dispersible Tablets (羅紅黴素氨溴索片) 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.
- (2) 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.
- (3) 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.
- (4) Ambroxol Hydrochloride Tablets (鹽酸氨溴索片) (enhanced specification of 60mg) developed by the Group had been granted production approval by the China Food and Drug Administration on 18 August 2015. The product applies to symptom of difficult cough up and out by thick sputum.
- (5) 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.



- (6) 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.
- (7) 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.
- (8) 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.
- (9) The antiseptic germicide product, Furacilin (呋喃西林噴劑) developed by the Group had been filed with the Health Inspection Department of Linyi City on 29 June 2015. The product has antibacterial effect against staphylococcus aureus, Escherichia coli and Pseudomonas aeruginosa.

3. *Patents and achievements*

- (1) As at 30 September 2015, the Group had 76 invention patents pending for registration in the PRC. As at 30 September 2015, the Group had 128 invention patents registered in the PRC.
- (2) As at 30 September 2015, the Group had 299 production approvals.
- (3) As at 30 September 2015, the Group had 48 certificates of new drugs.
- (4) For the nine months ended 30 September 2015, the Group had 3 research projects 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 September 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 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), including workshop of raw materials of Cephalosporins Sterile (with lyophilization); workshop of Non-Cephalosporins Sterile; workshop of raw materials of synthetic drugs, oral raw materials; workshop of raw materials of anti-tumor drugs; workshop of solvent recovery and water treatment projects were all completed with the GMP certification and have been put into use. Newly-built science studies buildings and office buildings were capped and proceeded to decoration stage, which are expected to commence operation soon.

 - (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). Furthermore, solid injections (i.e. tablets, capsules, granules) are prepared to pass the EUGMP certification.



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 will be an effective way to facilitate the development of the Group’s product marketing and expansion of 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 overseas investment and global operation of the Group. In July 2015, Luoxin Hong Kong Holdings Limited was engaged in an investment in an equity investment fund established in Cayman Islands. The fund is to mainly make investments in privately-owned companies in healthcare industry established in the PRC and the US. The fund aims to enable the Group to access to the latest cutting-edge technology that allows the Group to keep abreast of the developments of global healthcare industry.

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.

For the nine months ended 30 September 2015, the Group’s turnover was approximately RMB2,585,166,000, representing an increase of approximately 29.53% from approximately RMB1,995,735,000 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	Percentage of	Growth rate (%)
	January to September 2015	January to September 2014	total turnover from January to September 2015	total turnover from January to September 2014	
System specified medicine	1,117,374	824,536	43.22%	41.32%	35.52%
Anti-biotic medicine	899,914	802,905	34.81%	40.23%	12.08%
Other system specified medicine	<u>567,878</u>	<u>368,294</u>	<u>21.97%</u>	<u>18.45%</u>	54.19%
Total	<u>2,585,166</u>	<u>1,995,735</u>	<u>100%</u>	<u>100%</u>	29.53%

Financial Review

The Group's unaudited turnover for the nine months ended 30 September 2015 was approximately RMB2,585,166,000, representing an increase of approximately 29.53% from approximately RMB1,995,735,000 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 nine months ended 30 September 2015 was approximately RMB874,829,000, representing an increase of approximately 40.57% from approximately RMB622,335,000 for the corresponding period of last year.

The unaudited gross profit margin for the nine months ended 30 September 2015 was approximately 66.16%, representing a decrease of approximately 2.66 percentage points from approximately 68.82 % for the corresponding period of last year.



The unaudited operating expenditure for the nine months ended 30 September 2015 was approximately RMB1,380,182,000 representing an increase of approximately 30.99% from approximately RMB1,053,636,000 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 nine months ended 30 September 2015 was approximately RMB340,651,000, representing an increase of approximately 9.90% from approximately RMB309,971,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB55.88 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 September 2015, the Group's cash and cash equivalents amounted to approximately RMB520,455,000 (excluding pledged bank deposits) (as at 30 September 2014: RMB41,427,000). As at 30 September 2015, the Group did not have any borrowings (as at 30 September 2014: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2015, the Group had bank deposits of approximately RMB4,571,000 pledged as security for remittance under acceptance (as at 30 September 2014: RMB26,250,000).

Financial Assets at Fair Value through Profit or Loss

As at 30 September 2015, the Group had financial assets at fair value through profit or loss of carrying amount of approximately RMB1,033,085,000 (as at 30 September 2014, initial investment amount: RMB1,285,000,000). Such financial assets comprised 11 investments in wealth management products, offered by licensed banks in the PRC.

Summary of the initial investment amount of the financial assets as at 30 September 2015 are as follows:

Initial investment amount (RMB)	Investment period	Fixed investment return % per annum
90,000,000	12/2014-12/2015	5.50
125,000,000	5/2015-11/2015	4.65
235,000,000	7/2015-10/2015	4.20
150,000,000	7/2015-10/2015	4.10
200,000,000	7/2015-12/2015	4.50
80,000,000	7/2015-12/2015	4.50
20,000,000	8/2015-9/2015	3.20
25,000,000	8/2015-9/2015	3.20
10,000,000	9/2015-9/2015	2.80
50,000,000	9/2015-11/2015	3.20
35,000,000	Redeemable anytime	Variable

The relevant amounts of the financial assets, being the Group's operating cash flow surplus, were previously held by the Group as cash or bank deposits prior to making the said investments, with an aim to optimise utilisation of the Group's operating cash flow surplus.

MAJOR ACQUISITION AND DISPOSAL

For the nine months ended 30 September 2015, the Group did not have any major acquisition or disposal.

SIGNIFICANT INVESTMENT

For the nine months ended 30 September 2015, the Group did not make any significant investment.

CONTINGENT LIABILITIES

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



EXCHANGE RISK

As at 30 September 2015, the Group operated and conducted business in the PRC, and all of the Group's transactions, assets and liabilities were denominated in RMB, except that Luoxin Hong Kong Holdings Limited made an investment in US dollar ("USD") in an equity investment fund established in Cayman Islands in July 2015. 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 on foreign exchange control imposed by the PRC government. The Group's bank deposits denominated in USD were placed in off-shore USD account opened by Luoxin Hong Kong Holdings Limited with banks in the PRC.

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 supported 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 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, 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 nine months ended 30 September 2015 were approved by the Board on 3 November 2015.

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

As at 30 September 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 September 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 September 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 30 September 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 21 May 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 September 2015, Ms. Li was interested in 14.90% of the registered share capital of Luoxin Holdings.
- Note 3: As at 30 September 2015, Mr. Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.
- Note 4: As at 30 September 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 September 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 September 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 September 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	24,696,000	15.01%	4.05%
Lion River I N.V. (Note 6)	Interest of controlled corporation	24,696,000	15.01%	4.05%
GL Partners Capital Management Limited (Note 6)	Interest of controlled corporation	24,696,000	15.01%	4.05%
Assicurazioni Generali S.p.A (Note 7)	Interest of controlled corporation	24,696,000	15.01%	4.05%
Li Zhenfu (Note 8)	Interest of controlled corporation	24,696,000	15.01%	4.05%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	8,234,144	5.00%	1.35%

Note 5: GL Trade Investment Limited (“GL Trade Investment”) held 24,696,000 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 24,696,000 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 24,696,000 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 24,696,000 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 24,696,000 H-Shares of the Company.

3. *Short position of H-Shares, as at 30 September 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	192,000	0.12%	0.03%

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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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, 3 November 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.

* For identification purposes only