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 2016

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*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 this report misleading.*

SUMMARY

- The Group's sales for the nine months ended 30 September 2016 was approximately RMB2,862,033,000, representing an increase of approximately 10.71% 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 2016 was approximately RMB263,439,000, representing a decrease of approximately 22.67% when compared with that of the corresponding period of last year.
- The board of Directors of the Company (the "**Board**") does not recommend the payment of any dividend for the nine months ended 30 September 2016.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

The Board is pleased to announce the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively the "**Group**") for the nine months ended 30 September 2016 (the "**Period**") and the comparative figures of the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

	Notes	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
		2016	2015	**2016**	2015
		RMB'000	RMB'000	**RMB'000**	RMB'000
Turnover, net	3	**1,058,370**	956,869	**2,862,033**	2,585,166
Cost of sales		**(271,626)**	(326,048)	**(776,663)**	(874,829)
Gross profit		**786,744**	630,821	**2,085,370**	1,710,337
Other revenue	3	**8,730**	14,963	**29,686**	48,984
Other income		**7,611**	13,909	**43,976**	18,636
Selling and distribution expenses		**(623,419)**	(445,055)	**(1,573,412)**	(1,192,666)
General and administrative expenses		**(98,236)**	(75,069)	**(254,944)**	(187,516)
Profit before taxation		**81,430**	139,569	**330,676**	397,775
Taxation	4	**(14,289)**	(21,566)	**(62,979)**	(55,747)
Profit for the Period		**67,141**	118,003	**267,697**	342,028
Other comprehensive income for the Period, net of tax					
Item that may be reclassified subsequent to Profit or loss:					
Exchange difference on translating foreign operations		**972**	–	**983**	–
Total comprehensive income for the Period		**68,113**	118,003	**268,680**	342,028

	Notes	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
		2016	2015	**2016**	2015
		RMB'000	RMB'000	**RMB'000**	RMB'000
Profit attributable to:					
Owners of the Company		**64,233**	116,633	**263,439**	340,651
Non-controlling interests		**2,908**	1,370	**4,258**	1,377
		67,141	118,003	**267,697**	342,028
Total comprehensive income attributable to:					
Owners of the Company		**65,205**	116,633	**264,422**	340,651
Non-controlling interests		**2,908**	1,370	**4,258**	1,377
		68,113	118,003	**268,680**	342,028
Earnings per share attributable to Owners of the Company (RMB)					
— Basic and diluted	6	**10.54 cents**	19.13 cents	**43.22 cents**	55.88 cents

NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

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 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 principal activities of its subsidiaries are mainly wholesale and manufacture of biochemical products and Chinese medicine.

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 8 November 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated condensed interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2015.

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 principal activities of the Group are manufacturing and sales of pharmaceutical products.

The Group currently operates in one business segment in the manufacturing and sales of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the 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	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Turnover, net				
Sales of manufactured pharmaceutical products	**1,058,370**	956,869	**2,862,033**	2,585,166
Other revenue				
Interest income on financial assets at fair value through profit and loss	**7,647**	14,573	**27,282**	47,531
Interest income on bank deposits	**1,083**	390	**2,404**	1,453
	8,730	14,963	**29,686**	48,984
Total revenue	**1,067,100**	971,832	**2,891,719**	2,634,150

4. TAXATION

	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
PRC enterprise income tax	**14,289**	21,566	**62,979**	55,747

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

The Company is subjected to the PRC enterprise income tax at a rate of 15%. The subsidiaries of the Company are subjected to the PRC enterprise income tax at a rate of 25%.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (2015: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2016 is based on the unaudited net profit of approximately RMB263,439,000 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 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 nine months ended 30 September 2015.

During the period, there is no instrument with potential dilutive shares issued by the Group. Therefore, the basic and diluted earnings per share for the representation period are equal.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 30 September 2016, the Group has financial assets at fair value through profit and loss of approximately RMB972,494,000 (31 December 2015: RMB1,049,556,000) . The financial assets at fair value through profit or loss represent 9 principal protected financial products issued by several financial institutions in the PRC. These financial products mature within one year and are classified as current assets.

8. SHAREHOLDERS' FUND

	Attributable to owners of the Company								
	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016, audited	31,139	41,272	6,033	(316)	–	2,514,065	2,592,193	19,260	2,611,453
Total comprehensive income	–	–	–	–	983	263,439	264,422	4,258	268,680
Capital injection by non-controlling interests	–	–	–	–	–	–	–	4,900	4,900
Change in ownership interests of a subsidiary	–	–	–	12	–	–	12	(1,912)	(1,900)
Dividend declared	–	–	–	–	–	(213,360)	(213,360)	–	(213,360)
At 30 September 2016, unaudited	**31,139**	**41,272**	**6,033**	**(304)**	**983**	**2,564,144**	**2,643,267**	**26,506**	**2,669,773**
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	–	–	2,366,669	2,440,231	5,173	2,445,404

DIVIDENDS

On 21 March 2016, the Board recommended payment of a final dividend of RMB0.35 per share in respect of the year ended 31 December 2015 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on 27 June 2016. This proposed final dividend has been approved by the Shareholders at the annual general meeting held on 22 June 2016. The Board did not recommend payment of any interim dividend for the Period (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Since the end of 2015, a series of policies regarding the pharmaceutical industry have been introduced, including issuance of new classification measure of drug registration relating to technology and research, implementation of quality consistency evaluation for generic drugs, shortage of resources at clinical bases as a result of upgraded clinical standards, as well as decreasing drug prices under the relevant bidding system in the market. Such policies have posed new and enormous challenges to the pharmaceutical industry in the short run. The Company believes that in such a tumultuous and challenging environment, companies have to seize the opportunities and strengthen efforts to establish sustainable core capabilities, so as to solve the crisis arising from such challenges from the root.

In terms of market, for those provinces opened to this round of tendering, tender prices of the pharmaceutical products were in a significant downward trend. In particular, the national pricing policy was negotiated by reference to the minimum tender price, which caused significant adverse effects on product pricing of the pharmaceutical enterprises. In addition, following the pilot scheme of cancellation of drug price markup in provincial and municipal public hospitals, hospitals in different areas made second price negotiation on bulk purchase basis when purchasing pharmaceutical products after the award of tender. This move could further reduce the purchase price on these pharmaceutical products, thus further pressurising pharmaceutical enterprises to reduce the price. Moreover, with the gradual implementation of control on proportion of drugs and medical expenditure of medical insurance, greater pressure was added on the sales growth of the pharmaceutical enterprises.

In terms of research and development ("**R&D**"), on one hand, as a result of upgraded standards for research work at clinical base and contract research organisation for clinical trials, the rate of clinical-related work have increased, which has increased the costs for clinical trials of the pharmaceutical enterprises. On the other hand, the full implementation of consistent evaluation of generic drugs and more stringent time constraints have resulted in a shortage of clinical resources, thus further increased the costs of clinical-related work. In addition, a series of policies encouraging the R&D of new drugs have been introduced. Pharmaceutical enterprises have to balance their input for both existing generic drugs and R&D of innovative drugs.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to providing safe, reliable and high-tech pharmaceutical products and focused on the strategies of strengthening science and technology innovation, production optimisation as well as strengthening marketing and distribution systems. During the Period, in the face of numerous newly-implemented industry policies, the Group endeavoured to adjust its operating strategies in order to adapt to changes in the industry and market demands by investing additional resources in enhancing its production capabilities, building R&D teams and deploying product pipelines. However, the growth of the Group's sales results is facing greater pressure due to the industrial policies and the market environment.

The Group will relentlessly work on the establishment of an outstanding sales team mainly targeting at the third terminal markets, such as primary medical institutions, and an over-the-counter ("**OTC**") sales network and a hospital terminal sales network, thereby constantly boosting market share and competitiveness of its products and laying a solid foundation for sustainable development in the future.

In respect of R&D activities, the Group will mainly concentrate on the following objectives:

Quality consistency evaluation for generic drugs. The Group will commence numerous consistency evaluation works in the coming years due to the large number of approvals obtained for generic drugs of the Group.

Clinical development of generic drugs. Currently, the Group has obtained many generic drugs clinical approvals and intends to allocate more capital to the clinical development of such drugs.

R&D of innovative drugs. The Group intends to further allocate capital to the Shanghai R&D Centre (as defined below) for the R&D of high-tech products through independent R&D, cooperation with institutions and R&D organisations and introduction from foreign projects etc., so as to expand the product portfolio of the Group.

The management of the Group believes that in short-to-mid-term, such R&D efforts may put pressure on the results of the Company. Nevertheless, it shall be beneficial to the core competitiveness of the Group in the long run.

BUSINESS REVIEW

During the Period, under the influence of factors such as the slowdown in the domestic economy, sustained decrease in tender prices and medical insurance premium control, the industry has been growing at a slower pace and witnessed further fragmentation. The Group upheld its underlying development strategies and endeavoured to achieve the targets of the 13th Five-Year Plan. It managed to maintain stable and healthy development in R&D, management, production, human resources, market network, thus laying a solid foundation for future development of the Group.

Research and Development

1. Building Platform for Technology Research and Development

R&D and innovation are the core drivers of the long-term development of the Group. As early as in 1996, the Group established an R&D base for generic drugs in Shandong. In June 2014, 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, to reinforce its core competitive edge by leveraging the various advantages acquired from Shanghai Zhangjiang Hi-tech Park. The Group will conduct R&D for high-tech projects and provide training to high-tech talents in the Shanghai R&D Centre. As at 30 September 2016, the Shanghai R&D Centre had a team of approximately 160 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 that covers all phases of R&D on new drugs and will continue to expand its scale along with further enrichment of the products line of the Company.

During the Period, the Group actively implemented the quality consistency evaluation for generic drugs. Currently, we have completed the registration of the reference listed drugs for oral drugs category in National Essential Drugs List while related R&D and applications are undergoing compactly and orderly. The Group's quality consistency evaluation for other categories of drugs will commence by stages subsequently.

Furthermore, the Shanghai R&D Centre focuses on the R&D on innovative drugs. It has developed products by advanced technologies adopted through self-development, cooperation with institutions, R&D organisations and introduction from overseas projects. The Group's production lines will, therefore, be greatly enriched. As at 30 September 2016, the Shanghai R&D Centre has commenced various self-developed and co-developed R&D projects on new drugs and established cooperation relationships with renowned foreign pharmaceutical enterprises and leading domestic R&D institutions.

Currently, the Group has been leading or is going to launch the domestic and global R&D and sales of two potential innovative drugs, including:

Item LXI–15028 (CJ-12420)

For pharmaceutical product item LXI–15028 jointly developed with CJ HealthCare in Korea, we expect to make the clinical trial application to the China Food and Drug Administration* (中國國家食品藥品監督管理總局) ("**CFDA**") in the near future. The Company has been granted an exclusive right to develop, manufacture and commercialise the proposed pharmaceutical product LXI–15028 in the PRC, where the Company will be responsible for the development, manufacture, and commercial activities within the territory and bear the associated expenses.

LXI–15028 is a potassium-competitive acid blocker (P-CAB) in phase III development for the treatment of reflux esophagitis and other acid-related gastrointestinal diseases. LXI–15028 competitively inhibits the binding of potassium ions to H+, K+-ATPase in the final step of gastric acid secretion in gastric parietal cells, which has the potential to provide a strong and sustained acid secretion inhibitory effect.

The Company is one of the leaders in acid inhibition treatment market in the PRC. LXI–15028 will complement the Company's current growing business in this therapeutic area. Currently, the Company is accelerating the development process of LXI–15028 according to schedule, in order to address the unmet needs of patients with acid-related diseases.

Item LXI–15029 (SCC-31)

For pharmaceutical product item LXI–15029 (SCC-31) jointly developed with Shanghai Institute of Materia Medica, Chinese Academy of Sciences* ("**SIMM**") (中科院上海藥物所) and Fudan University (復旦大學), we have obtained clinical trials approvals (Authorisation No. 2016L07931, 2016L07932, 2016L07933) from the CFDA. The Company and the project partners expect the investigation of new drug application to be made to the relevant foreign drug administrative authorities in the near future. The Company has the exclusive right to the R&D, manufacture and commercialise the product in the PRC, Hong Kong and Macau. The Company also co-own the right of the product with the project partners in markets beyond the PRC, Hong Kong and Macau, and will work together to expedite the R&D of this pharmaceutical product.

The pharmaceutical product is a new competitive ATP mTOR kinase inhibitor that acts as potent and highly selective dual inhibitors of mTORC1 and mTORC2. PI3K-AKT-mTOR is an essential signal transduction pathway inside the cells and plays a crucial role in controlling the process of tumor formation, growth and resistance to the drug. Given that about 50% of human tumors occur by abnormal activation of mTOR and the central position of mTOR in the tumor signal network, the mTOR inhibitor should be a new generation drug targeting at broad-spectrum cancer and frequency with inhibiting effects on tumors with various molecular mechanisms. Compared with simple mTORC1 inhibitor, mTOR inhibitor, with its prospect of broadening cancer spectrum and enhancing the effectiveness of cancer treatment, the Company expects to see enormous development going forward, especially in the fields of breast cancer, lung cancer, and gastric cancer.

Since 2014, in addition to the Group's existing generic drugs, the Group has strengthened its efforts in R&D of innovative drugs with a view to expanding the innovative drug product line step by step. The R&D of innovative drugs focuses on oncology, digestive, respiratory and cardiovascular metabolism treatments. The cooperation with SIMM and Fudan University on the pharmaceutical product marks a major step in executing R&D strategy of innovative drugs. The organic combination of generic drugs with innovative drugs forms a quality product portfolio, enabling the Group to lay a solid foundation for future development.

Currently, the Company has obtained or been awarded approvals to establish several scientific research platforms which include a state-accredited enterprise technology centre, a state-province joint engineering laboratory, the "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)*" (國家綜合性新藥研發技術大平台(山東)產業化示範企業), the "National Post-Doctoral Research Workshop*" (國家博士後科研工作站), the "Key High-Tech Enterprise under the State Torch Programme*" (國家火炬計劃重點高新技術企業), the "Model Engineering Technology Research Centre of Shandong Province*" (山東省級示範工程技術研究中心), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory*" (山東省凍乾粉針劑藥物重點實驗室), the "Shandong Lyophilized Powder Injection Pharmaceutical Engineering Laboratory*" (山東省凍乾粉針劑藥物工程實驗室), the "Taishan Scholar — Pharmaceutical expert consultant*" (泰山學者 — 藥學特聘專家), and the "Enterprise Academician Workstation of Shandong Province*" (山東省企業院士工作站). Together, they formed a strong platform for talent accumulation, R&D and technology advancement, and further strengthened the R&D capabilities and overall competitiveness of the Group.

2. *New Products*

During the Period, the Company obtained five pharmaceutical production approvals:

(1) The Group's levofloxacin hydrochloride tablets (鹽酸左氧氟沙星片) with specification of 0.25g and 0.75g were granted production approval by the CFDA on 22 March 2016. The product is mainly used for the prevention and treatment of bacterial infection caused by proven or highly suspected sensitive bacteria.

(2) The Group's cefoxitin sodium for injection (注射用頭孢西丁鈉) with specification of 0.5g was granted production approval by the CFDA on 4 May 2016. The product is mainly used for the treatment of respiratory infections, infections of the urinary and reproductive systems, sepsis as well as local infections of bones, joints, skins and soft tissues.

(3) The Group's cephathiamidine for injection (注射用頭孢硫脒) with specification of 0.25g was granted production approval by the CFDA on 25 August 2016. The product is mainly used for respiratory system, infections of respiratory system, hepatobiliary system, the five sense organs and urinary tract, endocarditis and septicemia caused by sensitive bacteria.

(4) The Group's cephalosporin hydrochloride for injection (注射用鹽酸頭孢替安) with specification of 0.25g was granted production approval by the CFDA on 27 September 2016. The product is mainly used for infections caused by staphylococcus, streptococcus (genus of bacteria)(except for enterococci), streptococcus pneumoniae, bacillus influenza, colibacillus, klebsiella, intestinal bacteria, citrobacter, bacillus proteus mirabilis, proteus vulgaris, proteus mirabilis and proteus morganii.

3. Patents and Achievements

(1) As at 30 September 2016, the Group had 110 invention patents pending for registration in the PRC, and 146 invention patents registered in the PRC.

(2) As at 30 September 2016, the Group had 309 drug production approvals, and six antiseptic germicide production approvals.

(3) As at 30 September 2016, the Group had 48 certificates of new drugs.

(4) As at 30 September 2016, the Group had 13 research projects being admitted to various major construction projects at national, provincial and municipal levels and independent innovation projects, and won science and technology awards.

As at 30 September 2016, 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

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*" (中國醫藥研發產品綫最佳工業企業). These recognitions demonstrated the growth in the overall corporate strength of the Group.

1. *Construction of Production Facilities*

   Currently, the Group has three production bases, including the Company itself, Shandong Yuxin Pharmaceutical Co., Ltd.* (山東裕欣藥業有限公司) ("**Yuxin**") and Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Co., Ltd.* (山東羅欣藥業集團恒欣藥業有限公司) ("**Hengxin**"). The Group is capable of meeting growing demand for pharmaceutical products in the market with its strong production capacity. At the same time, it continues to increase the number of new dosage types of its pharmaceutical products and effectively complement the commercialisation of R&D results of new drugs.

   (1) Pharmaceutical preparations: the Company completed the civil construction of an anti-tumor drip and water injection workshop and a facility of purification and equipment, which entered the stage of equipment adjustment and certification. The 1601 solid workshop was renovated and successfully obtained GMP certification. Yuxin was granted the Drug Manufacturing Certificate and Sanitary License for Manufacturing Enterprise for solid injections (i.e. tablets, capsules and granules), injections (i.e. lyophilized powder injection), large-volume injections, inhalators and sprays. Installation of the automated storage system was completed and will commence operation soon. The constructions of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities were completed and put into operations. Solid workshop has passed and obtained GMP certification. The lyophilized powder injection workshop has passed GMP on-site inspection and will commence production upon obtaining GMP certification.

(2) Pharmaceutical raw materials: constructions of the phase I of the pharmaceutical raw materials project of Hengxin, including workshop of raw materials of cephalosporins sterile (with lyophilization); workshop of noncephalosporins 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 GMP certifications and have been put into use. The phase II of the pharmaceutical raw materials project is under construction. Two workshops of raw materials of non-sterile synthetics have entered the purification and pipeline installation phases and will be put into operation after obtaining GMP certifications; civil construction of two newly-built workshops of raw materials of cephalosporins sterile will be completed soon; newly-built research buildings and office buildings have commenced operations. Currently, 42 types of pharmaceutical raw materials have obtained GMP certifications, and one of the types has obtained Korean GMP certification.

(3) Preparations that obtained the new GMP certifications 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 and granules) are prepared to apply for the European Union GMP certifications.

2. External Investment

In July 2016, the Company completed an acquisition of a pharmaceutical trading company Shandong Luoxin Pharmaceutical Group Runxin Pharmaceutical Company Limited* (山東羅欣藥業集團潤欣醫藥有限公司 (formerly known as 聊城惠澤醫藥有限公司) in Liaocheng, Shandong. This will boost the Group's product marketing and expand the construction of distribution network of the Group's pharmaceutical products.

Sales and Marketing

The Group continued to integrate marketing resources and built an outstanding sales team to increase the market share and competitiveness of its products. Currently, the Group has an extensive and seamless sales network and marketing management system throughout the PRC. It has also formed an OTC sales network and a hospital terminal sales network. With the gradual implementation of classification treatment, the primary medical terminal market is in continuous growth. The Group boosts the development of the primary market and keeps exploring the third terminal markets, such as primary medical institutions, in order to expand its market share in the primary market. Currently, the Group's sales team in the third terminal market has been growing steadily, with increasing coverage area.

During the Period, the Group's turnover amounted to approximately RMB2,862,033,000, representing an increase of approximately 10.71% from approximately RMB2,585,166,000 for the corresponding period of last year. The increase was mainly attributable to the Group's continuing upgrading of the product portfolio and boosting the sales of high value-added products and the acceleration of sales network development to increase the market share of its products at different levels.

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

	Sales RMB'000		Percentage of total turnover from	Percentage of total turnover from	
Indications and usage	January to September 2016	January to September 2015	January to September 2016	January to September 2015	Growth rate (%)
System specified medicine	1,273,528	1,117,374	44.50%	43.22%	13.98%
Antibiotic medicine	872,219	899,914	30.47%	34.81%	-3.08%
Other system specified medicine	716,286	567,878	25.03%	21.97%	26.13%
Total	2,862,033	2,585,166	100%	100%	10.71%

Key Products

蘭川® (Lanchuan) (Lansoprazole for Injection), a category 3 new drugs developed by the Group, is a proton pump inhibitor which is mainly used for the treatment of various erosive esophagitides, reflux esophagitis, gastric ulcer, duodenal ulcer. In September 2014, the Group was granted an approval (no. 2014S00718) by the CFDA, for adding for adding 3 more indications, namely "gastric ulcer with hemorrhage, acute stress ulceration and acute gastric mucosa lesions" on top of its current indication for "duodenal ulcer with hemorrhage with oral intake inapplicable". As a result, the Lanchuan branded product has filled the gap left by its peers in the domestic market on indication for stress ulceration.

羅欣津® (Luoxinjin) (Roxithromycin and Ambroxol Hydrochloride Tablets), a category 3.2 new drug developed by the Group with new drug certification by the CFDA. As proven by clinical studies, compared to sole Roxithromycin tablets, the compound preparations carry greater effectiveness in the treatment of respiratory infection with obvious relieving effect on the clinical manifestations like coughing and wheezing, and reduces the pain of the patients, thus offering strong appeal in clinical medication.

卡佩萊® (Kapeilai) (Rabeprazole Sodium for Injection), a category 3.1 new drug developed by the Group which is the 2nd generation proton pump inhibitor that is widely used in the treatment of gastric and duodenal ulcers and gastroesophageal reflux diseases. It is currently the first-line drug used for the treatment of digestive diseases. As revealed by clinical applications, it demonstrates superb stability with unique technicality, excellent safety and efficacy profile which is superior to the present national standard of the PRC. The successful development of this preparation has filled the blank in the PRC's domestic digestive medication (injection form). The product has better bioavailability and effectiveness than other dosage forms.

Prospects

Looking forward, as one of the key industries supported by the 13th Five-Year Plan, the pharmaceutical industry will be provided with more resources by the PRC government in terms of pharmaceutical and medical equipment.

The Opinions on the Reform of the Examination and Approval System of Drugs and Medical Devices* (《關於改革藥品醫療器械審評審批制度的意見》) and a basket of other related policies were introduced by the relevant authorities in 2015, with an aim to encourage innovative research of drugs in terms of clinical value, optimise the examination and approval procedures of new drugs, and accelerate the examination of new drugs in urgent clinical needs. Meanwhile, with the full implementation of new GMP, not only can it raise the technology standards of the industry and strengthen regulation, but also eliminate obsolete capacity and enhance industry concentration. In addition, the State Council of the PRC issued "Made in China 2025" plan in May 2015 and announced the country's first ten-year action plan focusing on promoting manufacturing. Bio-medicine and high-end medical equipment are listed as one of the ten key sectors. It proposed to vigorously develop new chemical medicine, traditional Chinese medicine and bio-medicine intended to treat serious illnesses. At the National Health and Well-being Convention held in August 2016, the Political Bureau of Central Committee of the PRC approved the "Healthy China 2030" plan, thereby promoting the citizens' health to a national strategic level so as to provide comprehensive and all-time healthcare protection for its people. Such plan will further facilitate long-term development of various industries in the PRC's healthcare sector.

2016 will be a stressful year. Due to the sustained decrease in tender prices, drug proportion, medical insurance premium control, the introduction of policies like quality consistency evaluation for generic drugs, reform on registration category for chemical drugs and reform on assessment and approval for pharmaceutical products, the development of pharmaceutical enterprises is under glaring pressure.

In short-to-mid-term, the changes in registration of pharmaceutical products mean that the Group's products originally planned for approval and launch in two years will not be available as intended. However, it is obvious that relevant policies aimed at improving the quality of pharmaceutical products and encouraging R&D which in turn will create new demands and opportunities for pharmaceutical enterprises. In the long run, the measures favour the overall development of innovative enterprises and expand the room of development for competitive enterprises.

The Group will continue to pursue the strategic direction of a "technology-driven enterprise with determination and efforts". By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investments in scientific research 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 has been enhanced to satisfy the growing market demands for pharmaceutical products. Meanwhile, the Group will increase the number of new dosage types of its pharmaceutical products and effectively expand the R&D scope of new drugs, thus facilitating the comprehensive development of the Group's business.

The Group will also step up its effort on 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 management believes that in short-to-mid-term, changes in market environment and the upcoming increase of R&D efforts may put pressure on the results of the Company. Nevertheless, it shall be beneficial to the core competitiveness of the Group in the long run.

Financial Review

The Group's unaudited turnover for the Period was approximately RMB2,862,033,000, representing an increase of approximately 10.71% from approximately RMB2,585,166,000 for the corresponding period of last year. The increase was attributable to the Group's continuing upgrade of the product portfolio and boosting the sales of high value-added products and the acceleration of sales network development to increase the market share of its products.

The unaudited cost of sales for the Period was approximately RMB776,663,000, representing a decrease of approximately 11.22% from approximately RMB874,829,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was approximately 72.86%, representing an increase of approximately 6.70% from approximately 66.16% for the corresponding period of last year.

The unaudited operating expenditure for the Period was approximately RMB1,828,356,000, representing an increase of approximately 32.47% from approximately RMB1,380,182,000 for the corresponding period of last year. The increase in operating expenditure was mainly due to the following reasons:

1. an increase in R&D expenses for products which may be launched in the future, among which, certain additional R&D expenses were attributed to Shanghai R&D Centre the business of which heavily involves R&D;

2. an increase in 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 Period was approximately RMB263,439,000, representing a decrease of approximately 22.67% from approximately RMB340,651,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB43.22 cents for the Period.

Liquidity and Financial Resources

The Group's working capital is mainly financed by its internally generated cash flow. As at 30 September 2016, the Group's cash and cash equivalents amounted to approximately RMB479,128,000 (excluding pledged bank deposits) (as at 30 September 2015: RMB520,455,000). As at 30 September 2016, the Group did not have any borrowings (as at 30 September 2015: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2016, the Group did not have bank deposits pledged as security for remittance under acceptance (as at 30 September 2015: RMB4,571,000).

Financial Assets at Fair Value through Profit or Loss

As at 30 September 2016, the Group had financial assets at fair value through profit or loss of initial investment amount of approximately RMB970,000,000 (as at 30 September 2015: RMB1,033,085,000). Such financial assets comprised nine 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 2016 are as follows:

Initial investment amount (RMB)	**Investment period**	**Fixed investment return % per annum**
70,000,000	7/2016 — 10/2016	3.10%
200,000,000	8/2016 — 11/2016	3.00%
120,000,000	8/2016 — 11/2016	3.00%
100,000,000	9/2016 — 3/2017	3.00%
60,000,000	9/2016 — 12/2016	3.00%
180,000,000	9/2016 — 12/2016	3.00%
100,000,000	9/2016 — 12/2016	3.00%
40,000,000	9/2016 — 12/2016	3.25%
100,000,000	9/2016 — 12/2016	3.00%

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

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

SIGNIFICANT INVESTMENT

Save as disclosed, during the Period, the Group did not make any significant investment.

CONTINGENT LIABILITIES

As of 30 September 2016, the Group did not have any substantial contingent liabilities.

EXCHANGE RISK

As at 30 September 2016, 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 some imported equipment and raw materials used in R&D and an investment made by Luoxin Hong Kong Holdings Limited in an equity investment fund established in the Cayman Islands in July 2015 which were denominated in US dollars ("**USD**"). 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 offshore USD accounts 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.

APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Period were approved by the Board on 8 November 2016.

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

As at 30 September 2016, 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 (the "**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 2016:

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	Interest of controlled corporation	325,639,949	73.17%	53.42%

2. Long position in the shares of Shandong Luoxin Holdings Co., Ltd.* (山東羅欣控股有限公司) ("**Luoxin Holdings**") as at 30 September 2016:

Name of Director	Capacity/Nature of interest	Number of shares in Luoxin Holdings	Approximate % of issued share capital of Luoxin Holdings
Mr. Liu Baoqi	Beneficial Owner	25,865,000	51.73%
Ms. Li Minghua	Beneficial Owner	7,450,000	14.90%
Mr. Liu Zhenhai	Beneficial Owner	5,000,000	10.00%
Mr. Han Fengsheng	Beneficial Owner	1,000,000	2.00%
Mr. Liu Zhenteng	Beneficial Owner	10,685,000	21.37%

Note:

As at 30 September 2016, Mr. Liu Baoqi 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.

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 2016, the Company had been notified of the following substantial Shareholders' interests and short positions in the shares and underlying shares of the Company. 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 2016:

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 of the Company ("**H-Share**"), as at 30 September 2016:

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 1)*	Interest of controlled corporation	26,166,000	15.90%	4.29%
Lion River I N.V. *(Notes 2, 3 and 4)*	Interest of controlled corporation	26,802,000	16.29%	4.39%
GL Partners Capital Management Limited *(Note 2)*	Interest of controlled corporation	26,166,000	15.90%	4.29%
Assicurazioni Generali S.p.A *(Note 5)*	Interest of controlled corporation	26,802,000	16.29%	4.39%
Li Zhenfu *(Note 6)*	Interest of controlled corporation	26,166,000	15.90%	4.29%
Morgan Stanley	Interest of controlled corporation	14,908,000	9.05%	2.45%

Note 1: GL Trade Investment Limited ("**GL Trade Investment**") held 26,166,000 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 was deemed to be interested in 26,166,000 H-Shares of the Company.

Note 2: GL Capital Management was 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. was deemed to be interested in 26,166,000 H-Shares of the Company, which were held by GL Trade Investment as a beneficial owner.

Note 3: GL Healthcare Investment L.P. was the beneficial owner of 518,758 H-Shares of the Company. GL Healthcare Investment L.P. was owned by GL China Opportunities Fund II (Canada) L.P. as to 84.77%, which in turn was owned by Lion River I. N.V. as to 84.77%. By virtue of the SFO, Lion River I. N.V. was deemed to be interested in 518,758 H-shares held by GL Healthcare Investment L.P..

Note 4: GL China Long Equity Opportunities Fund SPV LP was the beneficial owner of 117,242 H-Shares of the Company. GL China Long Equity Opportunities Fund SPV LP was wholly-owned by GL China Long Equity Opportunities Fund LP, which in turn was wholly-owned by Lion River I. N.V.. By virtue of the SFO, Lion River I. N.V. was deemed to be interested in 117,242 H-shares held by GL China Long Equity Opportunities Fund SPV LP.

Note 5: Lion River I N.V. was wholly-owned by Assicurazioni Generali, S.p.A. ("**Assicurazioni**"). By virtue of the SFO, Assicurazioni was deemed to be interested in 26,802,000 H-Shares of the Company.

Note 6: Li Zhenfu held as to 70% of the shareholding of GL Partners and by virtue of the SFO, he was deemed to be interested in 26,166,000 H-Shares of the Company.

3. Short position of H-Shares, as at 30 September 2016:

Name	Capacity/Nature of interest	Number of H-Share	Approximate %of total issued H-Shares	Approximate % of Company's share capital
Morgan Stanley	Interest of controlled corporation	184,000	0.11%	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 Period, the Company has complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in the prevailing Appendix 15 of the GEM Listing Rules (the "**CG Code**").

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") on 20 November 2005 with written terms of reference revised on 31 December 2015 in compliance with the 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. Prof. Chen Yun Zhen was retired on 30 June 2016, and the Company appointed Ms. Huang Huiwen as the new member of the Audit Committee. The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (the chairman), Mr. Fu Hongzheng, Ms. Huang Huiwen and Prof. Du Guanhua.

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

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

COMPETING BUSINESS

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

Luoxin Pharmaceutical Group

As at the date of the report, the chairman and executive Director, Mr. Liu Baoqi is also the chairman and executive director of Luoxin Pharmaceutical Group and a controlling shareholder holding 81.56% 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 undertook to cease its chemical medicine business. In June 2005, Luoxin Pharmaceutical Group signed a supplementary non-competition undertaking pursuant to which it undertook to 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.

Save as disclosed above, none of the Directors, the substantial Shareholders or their respective close 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, 8 November 2016

As at the date of this report, the Board comprises 10 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. Liu Zhenhai (劉振海) is a non-executive Director; and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征), Prof. Du Guanhua (杜冠華) and Ms. Huang Huiwen (黃慧文) are independent non-executive Directors.

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

* *For identification purposes only*