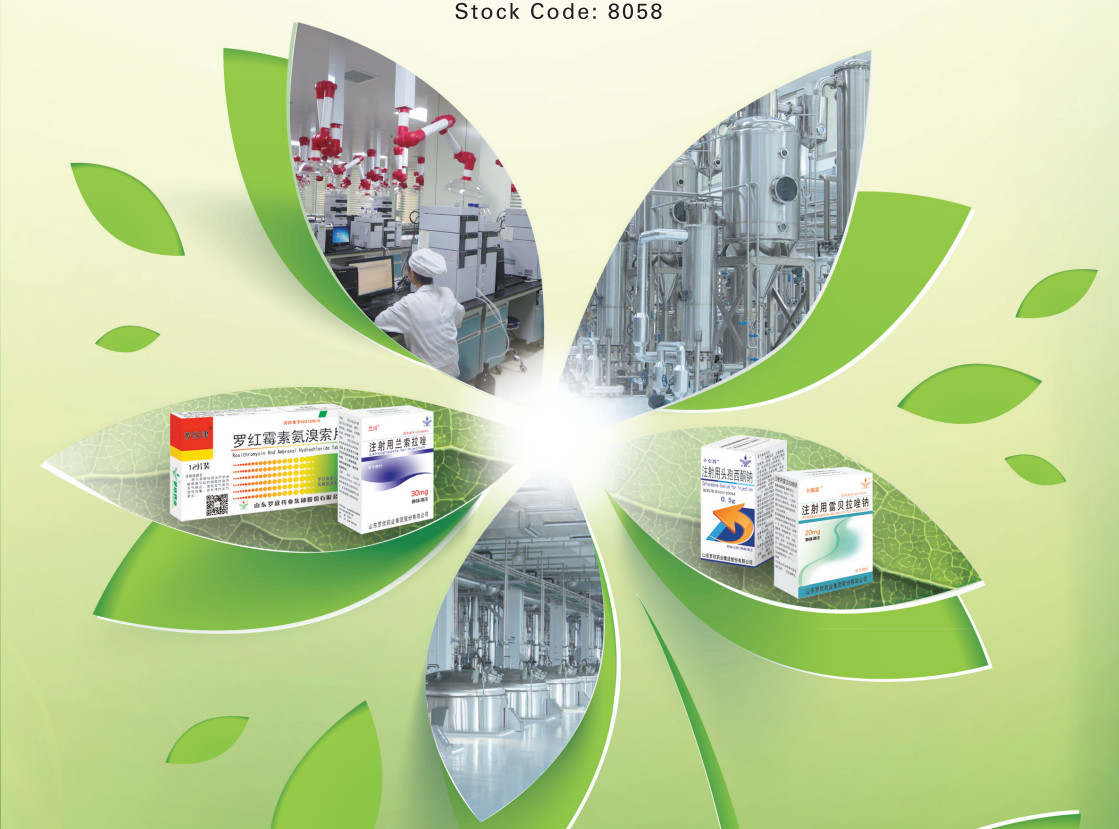
山東羅欣藥業集團股份有限公司

Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*

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

Stock Code: 8058



First Quarterly Report 2017

* 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 and its subsidiaries (the "Group"). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group's sales for the three months ended 31 March 2017 was approximately RMB1,202,327,000, representing an increase of approximately 28.94% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the three months ended 31 March 2017 was approximately RMB83,070,000, representing a decrease of approximately 29.35% when compared with that of the corresponding period of last year.
- The Board did not recommend the payment of any interim dividend for the three months ended 31 March 2017.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Group for the three months ended 31 March 2017 (the "Period") and the comparative figures of the corresponding period of 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Notes	Unaudited three months ended 31 March 2017 RMB'000	2016 RMB'000
Turnover	3	**1,202,327**	932,457
Cost of sales		**(334,622)**	(279,182)
Gross profit		**867,705**	653,275
Other revenue	3	**9,915**	10,954
Other income		**11,985**	18,865
Selling and distribution expenses		**(656,715)**	(446,459)
General and administrative expenses		**(125,183)**	(94,284)
Profit before taxation		**107,707**	142,351
Taxation	4	**(23,183)**	(24,378)
Profits for the Period		**84,524**	117,973
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		**(15)**	(6)
Total comprehensive income for the Period		**84,509**	117,967

	Notes	Unaudited three months ended 31 March 2017 RMB'000	2016 RMB'000
Profit attributable to:			
Owners of the Company		**83,070**	117,575
Non-controlling interests		**1,454**	398
		84,524	117,973
Total comprehensive income attributable to:			
Owners of the Company		**83,055**	117,569
Non-controlling interests		**1,454**	398
		84,509	117,967
Earnings per share attributable to owners of the Company (RMB)			
— basic and diluted	*6*	**13.63 cents**	19.29 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2017

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company with a registered capital of Renminbi ("RMB") 46 million by way of promotion. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2005. Pursuant to an 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 subsidiary are wholesale and manufacturing of biochemical products and Chinese medicine.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These consolidated financial statements were approved for issue by the Board on 12 May 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended 31 December 2016.

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

3. TURNOVER AND OTHER REVENUE

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

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

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2017 RMB'000	2016 RMB'000
Turnover		
Sales of manufactured pharmaceutical products	**1,202,327**	932,457
Other revenue		
Interest income and gain on financial assets at fair value through profit or loss	**9,915**	10,954
Total revenue	**1,212,242**	943,411

4. TAXATION

	Unaudited three months ended 31 March	
	2017 RMB'000	2016 RMB'000
PRC enterprise income tax	**23,183**	24,378

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 did not recommend the payment of an interim dividend for the three months ended 31 March 2017 (2016: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2017 is based on the unaudited net profit of approximately RMB83,070,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the three months ended 31 March 2016 is based on the unaudited net profit of approximately RMB117,575,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the three months ended 31 March 2016.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2017 and 2016.

7. 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	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	31,139	47,459	6,033	(304)	89	2,673,716	2,758,132	48,218	2,806,350
Profit for the period	–	–	–	–	–	83,070	83,070	1,454	84,524
Other comprehensive loss for the period	–	–	–	–	(15)	–	(15)	–	(15)
Total comprehensive income for the period	–	–	–	–	(15)	83,070	83,055	1,454	84,509
At 31 March 2017	**31,139**	**47,459**	**6,033**	**(304)**	**74**	**2,756,786**	**2,841,187**	**49,672**	**2,890,859**
At 1 January 2016	31,139	41,272	6,033	(316)	–	2,514,065	2,592,193	19,260	2,611,453
Profit for the period	–	–	–	–	–	117,575	117,575	398	117,973
Other comprehensive loss for the period	–	–	–	–	(6)	–	(6)	–	(6)
Total comprehensive income for the period	–	–	–	–	(6)	117,575	117,569	398	117,967
At 31 March 2016	**31,139**	**41,272**	**6,033**	**(316)**	**(6)**	**2,631,640**	**2,709,762**	**19,658**	**2,729,420**

DIVIDENDS

The Board did not recommend payment of any final dividend for the year ended 31 December 2016 to the shareholders of the Company (the "Shareholders"). The Board did not recommend payment of any interim dividend for the Period (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Since the end of 2015, a series of policies regarding the pharmaceutical industry have been introduced, including the 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 completed 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 the pharmaceutical enterprises during product pricing. In addition, following the introduction of the new national medical insurance catalog and the drug pricing policy under medical insurance, the cancellation of drug price markup in public hospitals, hospitals in different areas will make second price negotiation on bulk purchase basis when purchasing pharmaceutical products after the award of tender. This move could further reduce the purchasing price on the pharmaceutical products, thus pressurising the pharmaceutical enterprises to further reduce the price of their products. Moreover, with the gradual implementation of control on proportion of drugs and medical expenditure of medical insurance, the growth in sales of products of the pharmaceutical enterprises is subject to greater pressure.

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 has increased, which has increased the costs of clinical trials of the pharmaceutical enterprises. At the same time, 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. On the other hand, 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 and channels. 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 continue its work on the establishment of an outstanding sales team which targets the third terminal markets, such as primary medical institutions, and an over-the-counts ("OTC") sales network and a hospital terminal sales network, thereby constantly boosting the market share and competitiveness of its products and laying a solid foundation for sustainable development of the Group in the future.

In respect of the R&D activities, the Group is mainly concentrating 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. Relevant evaluation works for some categories of drugs has commenced in 2016.

- Clinical development of generic drugs. Currently, the Group has obtained many generic drugs clinical trial 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 Luoxin Biological Technology (Shanghai) Co. Ltd.* (羅欣生物科技(上海)有限公司) ("Shanghai R&D Centre") 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 Group. 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 of pharmaceutical products 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 and market network, thus laying a solid foundation for the future sustainable 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 a R&D base for generic drugs in Shandong Province, the PRC. In June 2014, the Group established 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 has been conducting R&D for high-tech projects and providing training to high-tech talents in the Shanghai R&D Centre. As at 31 March 2017, the Shanghai R&D Centre had a team of approximately 169 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 a 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 product lines of the Company.

During the Period, the Group actively implemented the quality consistency evaluation for generic drugs in a comprehensive manner based on the national quality consistency evaluation policy. The first category for evaluation is the oral drugs category in National Essential Drugs List, which is required to be completed by the end of 2018 according to the national quality consistency evaluation policy. Currently, we have completed the registration of the reference listed drugs for this category while related R&D and applications are undergoing in a timely and orderly manner. The Group's quality consistency evaluations for other categories of drugs are also commencing by stages.

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 product lines will, therefore, be greatly enriched. As at 31 March 2017, 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 the domestic and global R&D of two potential innovative drugs, including:

Item LXI-15028 (CJ-12420)

For pharmaceutical product LXI-15028 jointly developed with CJ HealthCare in Korea, we made the application for clinical trial approvals to the Shandong Food and Drug Administration* (山東省食品藥品監督管理局) (the "SDFDA") in December 2016. The application has also been submitted to the Technical Evaluation Center of the China Food and Drug Administration* (中國國家食品藥品監督管理總局) (the "CFDA") and is currently pending technical evaluation by the Technical Evaluation Center. 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 the schedule, with the clinical development stage scheduled to commence in 2017, in order to address the unmet needs of patients with acid-related diseases.

Item LXI-15029 (SCC-31)

For pharmaceutical product LXI-15029 (SCC-31) jointly developed with Shanghai Institute of Materia Medica, Chinese Academy of Sciences* (中科院上海藥物所) ("SIMM") and Fudan University (復旦大學), we have obtained clinical trial approvals (Authorisation No. 2016L07931, 2016L07932, 2016L07933) from the CFDA. The Company and the project partners expect to submit the clinical research application to the relevant foreign drug administrative authorities in 2017. The Company has the exclusive right to the R&D, manufacture and commercialise the drug in the PRC, Hong Kong and Macau. The Company also co-owns 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.

This 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 solid tumors such as 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 the 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 patent drugs forms a quality product portfolio, enabling the Group to lay a solid foundation for its 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 "National Technological Innovation Demonstration Enterprise*" (國家技術創新示範企業), the "Pilot Enterprise on the Implementation of Management System for the Integration of Informatisation and Industrialisation*" (兩化融合管理體系貫標試點企業), 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 one pharmaceutical production approval. As at 31 March 2017, the Group had obtained a total of 314 pharmaceutical production approvals and six antiseptic germicide production approvals.

The Group's raw materials of tenofovir disoproxil fumarate for injection (注射用富馬酸替諾福韋二吡呋酯原料) were granted production approval by the CFDA on 21 February 2017.

3. Patents and Achievements

(1) As at 31 March 2017, the Group had 120 invention patents pending for registration in the PRC. As at 31 March 2017, the Group had 155 invention patents registered in the PRC.

(2) As at 31 March 2017, the Group had 314 pharmaceutical production approvals.

(3) As at 31 March 2017, the Group had 48 certificates of new drugs.

(4) As at 31 March 2017, 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 at national, provincial and municipal levels for 125 product technologies.

(5) As at 31 March 2017, the Group had eight products being admitted to the National Major Innovative Drug Projects, 10 projects being admitted to the State Torch Programme, and four 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*" (中國醫藥研發產品線最佳工業企業). 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 the 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 complements the industrialisation of R&D results of new drugs.

(1) Pharmaceutical preparations: the Company completed the civil constructions of an anti-tumor drip and water injection workshop and a facility of purification and equipment, the equipment adjustment of which has been completed and entered into the early stage of certification. The 1601 solid workshop was renovated and successfully obtained GMP certification. The constructions of the 1305 and 1306 mixing powder workshops were completed and passed the on-site inspection by the SDFDA, and have both obtained approvals for mixing powder injection. The 1501 anti-tumor water injection workshop and the 1307 antibiotic powder injection workshop are currently undergoing renovations and upgrading process, both of which are expected to commence operations in the second half year of 2017. Yuxin was granted the Drug Manufacturing Certificate and Sanitary License for Manufacturing Enterprise for solid preparations (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 put into operation. The constructions of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities were completed and put into operations. The 2602 solid workshop and the 2503 and 2505 lyophilized powder injection workshops have all obtained GMP certificates, and all of which have been put to full productions. The QC laboratory is planned to meet the European Union standards and the IMP clinical medication warehouse is currently under construction and is expected to be put into operation in the second half year of 2017.

(2) Pharmaceutical raw materials: 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 and oral raw materials; workshop of raw materials of anti-tumor drugs; workshop of solvent recovery and deep water treatment projects have all obtained GMP certifications and have been put into operations. The constructions of phase II of the pharmaceutical raw materials project were completed. Two workshops of raw materials of non-sterile chemical synthesis have obtained GMP certifications and been put into operations; the purification and process pipeline installation of two newly-built workshops of raw materials of cephalosporins sterile have been completed and both of which are currently in the degugging stage and will apply for GMP certifications 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, hard capsules, low-volume injections, granules, dry suspension agent, large-volume injections and bulk pharmaceuticals (including sterile bulk medicines). Furthermore, solid preparations (i.e. tablets, capsules and granules) are prepared to apply for the European Union GMP certifications.

2. External Investment

In January 2017, the Company injected RMB7.14 million into the capital of Sichuan Luoxin Pharmacy Company Limited (四川羅欣醫葯有限公司) ("Sichuan Luoxin"). As a result, the registered capital of Sichuan Luoxin was increased to RMB20 million.

Sales and Marketing

The Group continued to integrate marketing resources, built an outstanding sales team and conduct refined market management 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.

For the period ended 31 March 2017, the Group's turnover amounted to approximately RMB1,202,327,000, representing an increase of approximately 28.9% from RMB932,457,000 for the corresponding period of last year. The increase was mainly attributable to the Group's continuing upgrading of the product portfolio, 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:

Indications and usage	Sales RMB'000 January to March 2017	Sales RMB'000 January to March 2016	Percentage of total turnover from January to March 2017	Percentage of total turnover from January to March 2016	Growth rate (%)
System specified medicine	**579,624**	419,475	**48.21%**	44.99%	38.18%
Antibiotic medicine	**356,662**	276,886	**29.66%**	29.69%	28.81%
Other specified medicine	**266,042**	236,096	**22.13%**	25.32%	12.68%
Total	1,202,327	932,457			28.94%

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 esophagitis, reflux esophagitis, gastric ulcer, duodenal ulcer, etc. In September 2014, the Group was granted an approval (no. 2014S00718) by the CFDA, for adding three 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 effect 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 second 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 quality 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 innovative drugs, and accelerate the examination of innovative 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 the regulations, 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-performance 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.

2017 remains a stressful year. Due to the sustained decrease in tender prices of drugs, decreased in drug proportion, medical insurance premium control, the introduction of the new national medical insurance catalog and the drug pricing policy under medical insurance, the cancellation of markup of drug price in hospitals, the second price negotiation by hospitals, the introduction of policies such as 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 launching 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 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 constructions and the commencement of productions of the Group's new production bases of Yuxin and Hengxin, 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 extensive sales network so as to enhance the market share of its products and continue to improve its core 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 RMB1,202,327,000, representing an increase of approximately 28.94% from approximately RMB932,457,000 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 RMB334,622,000, representing an increase of approximately 19.86% from approximately RMB279,182,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was approximately 72.17%, representing an increase of approximately 2.11% from approximately 70.06% for the corresponding period of last year.

The unaudited operating expenditure for the Period was approximately RMB781,898,000, representing an increase of approximately 44.60% from approximately RMB540,743,000 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 the Shanghai R&D Centre, the business of which heavily involves R&D; and

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 RMB83,070,000, representing a decrease of approximately 29.35% from approximately RMB117,575,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB13.63 cents for the Period.

Liquidity and Financial Resources

The Group's working capital is mainly financed by its internally generated cash flow. As at 31 March 2017, the Group's cash and cash equivalents amounted to approximately RMB637,192,000 (excluding pledged bank deposits) (as at 31 March 2016: RMB563,769,000). As at 31 March 2017, the Group did not have any borrowings (as at 31 March 2016: Nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2017, the Group's bank deposits of approximately RMB25,000,000 was pledged as security for remittance under acceptance (as at 31 March 2016: Nil).

Financial Assets at Fair Value through Profit or Loss

As at 31 March 2017, the Group had financial assets at fair value through profit or loss of initial investment amount of approximately RMB960,000,000 (as at 31 March 2016: RMB1,006,389,000). Such financial assets comprised 7 investments in wealth management products, offered by licensed banks in the PRC.

Summary of the initial investment amount of the financial assets as at 31 March 2017 are as follows:

Initial investment amount (RMB)	Investment period	Fixed investment return % per annum
150,000,000	1/2017–4/2017	3.80%
200,000,000	11/2016–5/2017	3.30%
50,000,000	11/2016–5/2017	3.30%
260,000,000	3/2017–6/2017	3.70%
100,000,000	12/2016–6/2017	3.15%
100,000,000	3/2017–6/2017	3.80%
100,000,000	2/2017–8/2017	3.40%

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

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

CONTINGENT LIABILITIES

As at 31 March 2017, the Group did not have any substantial contingent liabilities.

EXCHANGE RISK

During the Period, 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 12 May 2017.

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

As at 31 March 2017, 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 Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

1. Interest in domestic shares of the Company ("Domestic Shares") as at 31 March 2017:

Name of Director	Capacity/ Nature of interest	Number of Domestic Shares[1]	Approximate % of total issued Domestic Shares	Approximate % of Company's total issued share capital
Mr. Liu Baoqi[2]	Interest of controlled corporation	293,075,954 (L)	65.85%	48.08%

Notes:

(1) The letter "L" denotes the person's long position in the Domestic Shares.

(2) Mr. Liu Baoqi was interested in 51.73% of the registered share capital of Shandong Luoxin Holdings Co., Ltd.*(山東羅欣控股有限公司) ("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 Domestic Shares held by Luoxin Holdings.

2. Interest in the shares of Luoxin Holdings as at 31 March 2017:

Name of Director	Capacity/ Nature of interest	Number of shares in Luoxin Holdings[1]	Approximate % of total issued share capital of Luoxin Holdings
Mr. Liu Baoqi	Beneficial owner	25,865,000 (L)	51.73%
Ms. Li Minghua	Beneficial owner	7,450,000 (L)	14.90%
Mr. Han Fengsheng	Beneficial owner	1,000,000 (L)	2.00%
Mr. Liu Zhenteng	Beneficial owner	10,685,000 (L)	21.37%

Note:

(1) The letter "L" denotes the person's long position in such shares.

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 Rules 5.46 to 5.67 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 31 March 2017, 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. Interest in Domestic Shares as at 31 March 2017:

Name	Capacity/ Nature of interest	Number of Domestic Shares[1]	Approximate % of total issued Domestic Shares	Approximate % of Company's total issued share capital
Luoxin Holdings	Beneficial owner	293,075,954 (L)	65.85%	48.08%
Chen Laiyang	Beneficial owner	30,239,821 (L)	6.79%	4.96%
Zhang Bin	Beneficial owner	30,239,822 (L)	6.79%	4.96%
珠海鑫沃富投資合夥企業(有限合夥) (Zhuhai New Wolf Investment Partnership (L.P.)*[2]	Beneficial owner	32,563,995 (L)	7.32%	5.34%
Mr. Zheng Jiaxin[2]	Interest of controlled corporation	32,563,995 (L)	7.32%	5.34%

Notes:

(1) The letter "L" denotes the person's/entity's long position in the Domestic Shares.

(2) Mr. Zheng Jiaxin held as to 99% of the shareholding of 珠海鑫沃富投資合夥企業(有限合夥) (Zhuhai New Wolf Investment Partnership (L.P.)*).

2. Interest in H Shares of the Company ("H Shares") as at 31 March 2017:

Name	Capacity/ Nature of interest	Number of H Shares[1][2]	Approximate % of total issued H Shares	Approximate % of Company's total issued share capital
GL Trade Investment Limited	Beneficial owner	26,166,000 (L)	15.90%	4.29%
GL China Opportunities Fund L.P.	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
GL Capital Management GP L.P.	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
GL Capital Management GP Limited	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
Lion River I N.V.	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
GL Partners Capital Management Limited	Interest of controlled corporation	26,763,373 (L)	16.26%	4.39%
Assicurazioni Generali S.p.A	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
Li Zhenfu	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
Morgan Stanley	Interest of controlled corporation	7,573,941 (L) 164,000 (S)	4.60% 0.09%	1.24% 0.02%
Deutsche Bank Aktiengesellschaft	Beneficial owner	77,653 (L) 76,000 (S)	0.05% 0.05%	0.01% 0.01%
	Person having a security interest in shares	9,848,000 (L)	5.98%	1.62%

Notes:

(1) The letter "L" denotes the person's/entity's long position in the H Shares.

(2) The letter "S" denotes the person's/entity's short position in the H Shares.

Save as disclosed above, as at 31 March 2017, 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. 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.

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.

MAJOR EVENTS DURING THE REPORTING PERIOD

On 13 March 2017, the joint offerors (the "Joint Offerors") including Giant Star Global (HK) Limited and Ally Bridge Flagship LX (HK) Limited, GL Instrument Investment L.P. ("GL Instrument") and the Company announced that a voluntary conditional offer (the "Offer") was being contemplated by Somerley Capital Limited on behalf of the Joint Offerors for all the issued H Shares (other than those already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) in accordance with the Hong Kong Code on Takeovers and Mergers which, if implemented, will result in the delisting of the H Shares from the GEM of the Stock Exchange. For further information, please refer to the announcement dated 13 March 2017 and the circular dated 11 April 2017 of the Company.

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 this report, the chairman and executive Director, Mr. Liu Baoqi is also the chairman, an executive director and a controlling shareholder holding 81.56% of the registered capital of Luoxin Pharmaceutical Group.

Luoxin Pharmaceutical Group is 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 District of the PRC 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, 12 May 2017

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.

* *For identification purposes only*