# 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)**

# ANNUAL RESULTS ANNOUNCEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2015

## 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 announcement, for which the directors (the "Directors") of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.* (formerly known as: Shandong Luoxin Pharmacy 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 the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purposes only*

**RESULTS HIGHLIGHTS**

- Turnover for the year ended 31 December 2015 ("the Period") amounted to approximately RMB3,611,380,000 (2014: RMB2,766,788,000), representing an increase of approximately 30.53% as compared with the year ended 31 December 2014.

- Profit attributable to shareholders for the year ended 31 December 2015 amounted to approximately RMB492,929,000 (2014: RMB443,553,000), representing an increase of approximately 11.13% as compared with the year ended 31 December 2014.

- The Directors recommended the payment of a final dividend of RMB0.35 per share for the year ended 31 December 2015 (2014: RMB0.30 per share).

## RESULTS

The board of Directors (the "Board") is pleased to present the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015, together with the comparative figures for the year ended 31 December 2014 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Turnover** | 5 | **3,611,380** | 2,766,788 |
| Cost of sales | | **(1,134,104)** | (874,060) |
| **Gross profit** | | **2,477,276** | 1,892,728 |
| Other revenue | 5 | **67,681** | 78,743 |
| Other income | 7 | **39,857** | 26,585 |
| Selling and distribution expenses | | **(1,649,576)** | (1,259,076) |
| General and administrative expenses | | **(363,314)** | (211,034) |
| Finance costs | 6 | **(52)** | (21) |
| Profit before taxation | 7 | **571,872** | 527,925 |
| Taxation | 8 | **(81,265)** | (84,060) |
| **Profit and total comprehensive income for the year** | | **490,607** | 443,865 |
| **Profit/(loss) and total comprehensive income/(loss) for the year attributable to:** | | | |
| Owners of the Company | | **492,929** | 443,553 |
| Non-controlling interests | | **(2,322)** | 312 |
| | | **490,607** | 443,865 |
| **Earnings per share attributable to owners of the Company *(RMB)*** | | | |
| Basic and diluted | 10 | **0.809** | 0.728 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*Year ended 31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Available-for-sale financial assets | | **70,287** | 41,000 |
| Intangible assets | | **4,057** | – |
| Prepayments to acquire technical know-how | | **8,021** | 17,404 |
| Property, plant and equipment | | **754,293** | 544,275 |
| Construction-in-progress | | **108,136** | 219,902 |
| Prepaid lease payments | | **99,675** | 51,470 |
| Deferred tax assets | | **1,218** | 523 |
| Goodwill | | **165** | 165 |
| | | **1,045,852** | 874,739 |
| **Current assets** | | | |
| Inventories | | **241,986** | 278,283 |
| Trade and bills receivables | *11* | **524,848** | 324,797 |
| Other receivables, deposits and prepayments | | **172,602** | 178,812 |
| Financial assets at fair value through profit and loss | | **1,049,556** | 1,227,361 |
| Pledged bank deposits | | **–** | 29,189 |
| Cash and bank balances | | **605,333** | 160,512 |
| | | **2,594,325** | 2,198,954 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and bills payables | *12* | **130,188** | 179,119 |
| Other payables and accruals | | **643,027** | 430,578 |
| Deposits received | | **56,423** | 52,006 |
| Dividend payable | | **–** | 2,592 |
| Tax payable | | **48,600** | 41,802 |
| | | **878,238** | 706,097 |
| **Net current assets** | | **1,716,087** | 1,492,857 |
| **Total assets less current liabilities** | | **2,761,939** | 2,367,596 |

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Non-current liability** | | |
| Deferred income | **89,526** | 20,380 |
| **Net assets** | **2,672,413** | 2,347,216 |
| **Capital and reserves** | | |
| Share capital | **60,960** | 60,960 |
| Other reserves | **78,128** | 73,562 |
| Retained earnings | | |
| – Proposed final dividend | **213,360** | 182,880 |
| – Others | **2,300,705** | 2,026,018 |
| Equity attributable to owners of the Company | **2,653,153** | 2,343,420 |
| Non-controlling interests | **19,260** | 3,796 |
| **Total equity** | **2,672,413** | 2,347,216 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2015*

## 1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company by way of promotion with a registered capital of Renminbi ("RMB") 46,000,000. 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 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 parent and ultimate holding company is Shandong Luoxin Holdings Co., Ltd (incorporated in the PRC).

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 the subsidiaries are mainly manufacturing and wholesale of medicine.

The consolidated financial statements are presented in RMB which is the same as the functional currency of the Company. All values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 21 March 2016.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Company's financial year beginning 1 January 2014. A summary of the new HKFRSs are set out as below:

| | |
|---|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010–2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011–2013 Cycle |

In the opinion of directors, the application of the new HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the consolidated financial statements is on the presentation and disclosure of certain information in the consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after a date to be determined

**HKFRS 9 "Financial Instruments"**

HKFRS 9 was amended in 2013 to include the new requirements for general hedge accounting. A revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- Certain financial assets held within a business model whose objective is achieved both collecting contractual cash flows and selling financial assets should be measured at FVTOCI (unless designated at fair value through profit and loss ("FVTPL") to eliminate or significantly reduce a measurement mismatch). This applies to assets passing the contractual cash flow characteristics assessment (which is the same test used to determine whether financial assets are measured at amortised cost). Interest revenue, foreign exchange gains and losses and impairment gains and losses shall be recognized in profit or loss with all other gains or losses (i.e. the difference between those items and the total change in fair value) being recognised in other comprehensive income. Any cumulative gain or loss recorded in other comprehensive income would be reclassified to profit and loss on derecognition, or potentially earlier if the asset is reclassified because of a change in business model. Interest income and impairment gains and losses would be recognised and measured in the same manner as for assets measured at amortised cost such that the amounts in other comprehensive income represents the difference between the amortised cost value and fair value. This results in the same information in profit or loss as if the asset was measured at amortised cost, yet the consolidated statement of financial position would reflect the instrument's fair value.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company is in the process of making an assessment of the potential impact of the application of HKFRS 9 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

**HKFRS 15 "Revenue from contracts with customers"**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company is in the process of making an assessment of the potential impact of the application of HKFRS 15 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company do not anticipate the application of the other new and revised HKFRSs will have material effect on the Group's consolidated financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the applicable disclosure required by the Hong Kong Companies Ordinance ("CO") and the applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly, the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

**Basis of preparation**

The consolidated financial statements has been prepared under the historical cost convention excepted for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. The Financial Information is presented in RMB and all values are rounded to the nearest thousand except when otherwise stated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

## 4. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

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.

**Revenue from major products**

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Pharmaceutical products | **3,611,380** | 2,766,788 |

**Information about major customers**

Included in revenues arising from sales of pharmaceutical products of approximately RMB3,611,380,000 (2014: RMB2,766,788,000) are revenues of approximately RMB442,921,000 (2014: RMB206,829,000) which arose from sales to the Group's largest customer. For the year ended 31 December 2015 for the largest customer, no other individual customer contributed over 10% of the total revenue of the Group (2014: Nil).

**Geographical information**

During the year ended 31 December 2015, except for revenue of approximately RMB1,592,000 (2014: approximately RMB671,000) is generated from external customers located in overseas, all of the Group's revenue is derived from external customers located in the PRC.

The non-current assets of the Group are all located in the PRC in each of the years ended 31 December 2015 and 2014.

## 5. TURNOVER AND OTHER REVENUE

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Turnover** | | |
| Sales of manufactured pharmaceutical products | **3,611,380** | 2,766,788 |
| **Other revenue** | | |
| Interest income on bills receivables | **143** | 40 |
| Interest income on bank deposits | **1,547** | 2,099 |
| Gain on financial assets at fair value through profit or loss | **59,801** | 71,070 |
| Sundry income | **6,190** | 5,534 |
| | **67,681** | 78,743 |
| Total revenue | **3,679,061** | 2,845,531 |

The sales of product mix of the Group are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Turnover** | | |
| System specified medicine | **1,622,818** | 1,188,868 |
| Anti-biotic medicine | **1,211,250** | 1,045,736 |
| Other system specified medicine | **777,312** | 532,184 |
| | **3,611,380** | 2,766,788 |

## 6. FINANCE COSTS

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bills payables | **52** | 21 |

## 7. PROFIT BEFORE TAXATION

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of inventories recognised as expenses | **1,080,425** | 834,627 |
| Depreciation of property, plant and equipment | **60,261** | 57,173 |
| Amortisation of purchased technical know-how (included in cost of sales) | **–** | 17 |
| Amortisation of prepaid lease payments | **1,918** | 1,100 |
| Write-down of obsolete inventories | **2,366** | – |
| Impairment loss recognised in respect of trade receivables | **1,363** | 1,359 |
| Impairment loss recognised in respect of other receivables | **2,723** | 815 |
| Employees benefit expenses (excluding Directors' and supervisors' remuneration) | **1,267,725** | 870,240 |
| Loss on disposal of property, plant and equipment | **25,412** | 392 |
| Research and development costs | **253,607** | 121,997 |
| Rental expenses | **1,751** | 602 |
| Advertising costs | **4,368** | 4,345 |
| Auditors' remuneration | **1,151** | 1,000 |

and after crediting:

| | | |
|---|---|---|
| **Other income** | | |
| Waiver of trade payables | **552** | 965 |
| Exchange gain | **8,362** | – |
| Government grant | **27,184** | 21,362 |
| Penalty income | **2,105** | 1,613 |
| Reversal of obsolete inventories written-down | **567** | 37 |
| Reversal of impairment loss recognised in respect of trade receivables | **1,087** | 1,512 |
| Reversal of impairment loss recognised in respect of other receivables | **–** | 1,096 |
| | **39,857** | 26,585 |

## 8. TAXATION

**(i)** No provision for Hong Kong profits tax has been made as the Group did not generate assessable profits in Hong Kong during the year (2014: Nil).

**(ii)** As described in the paragraph below, the Company is subjected to the PRC Enterprise Income Tax at a rate of 15% (2014: 15%). The subsidiaries of the Group are subjected to the PRC Enterprise Income Tax at a rate of 25% (2014: 25%).

The Company received confirmation from the recognition authority that the Company has been recognised as the High and New Technology Enterprise. Pursuant to the new Enterprise Income Tax Law, the enterprise income tax applicable to the High and New Technology Enterprise is reduced to be levied at 15%. The Company has been enjoying the tax concession rate of 15% for the year ended 31 December 2015.

**(iii) The PRC value-added tax**

The Group is subjected to the PRC value-added tax ("VAT") at 17% (2014: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

**(iv)** The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current taxation – PRC Enterprise Income Tax | **81,960** | 83,367 |
| Deferred taxation | **(695)** | 693 |
| | **81,265** | 84,060 |

## 9. DIVIDENDS

The dividend paid in 2015 and 2014 were RMB182,880,000 (RMB0.30 per share) and RMB182,880,000 (RMB0.30 per share) respectively

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2015 of RMB0.35 per share (2014: RMB0.30 per share in respect of year ended 31 December 2014) has been proposed by the directors and is subject to approval by shareholders at the forthcoming general meeting.

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend of RMB0.35 per ordinary share (2014: Final dividends declared and approved of RMB0.3 per ordinary share) | **213,360** | 182,880 |

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2015** | 2014 |
|---|---|---|
| Profit attributable to owners of the Company *(RMB'000)* | **492,929** | 443,553 |
| Weighted average number of ordinary shares in issue *('000)* | **609,600** | 609,600 |
| Basic and diluted earnings per share *(RMB)* | **0.809** | 0.728 |

## 11. TRADE AND BILLS RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **475,570** | 307,210 |
| Bills receivables | **50,869** | 18,902 |
| | **526,439** | 326,112 |
| Less: Provision for impairment loss recognised in respect of trade receivables | **(1,591)** | (1,315) |
| | **524,848** | 324,797 |

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 1 to 90 days | **443,720** | 264,058 |
| 91 to 180 days | **63,087** | 50,829 |
| 181 to 365 days | **18,041** | 9,910 |
| | **524,848** | 324,797 |

Customers are generally granted with credit term of 90-180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2015 and 2014 are denominated in RMB.

## 12. TRADE AND BILLS PAYABLES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **130,188** | 149,930 |
| Bills payables | **–** | 29,189 |
| | **130,188** | 179,119 |

The following is an analysis of trade and bills payables by age based on the invoice date:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 1 to 90 days | **88,021** | 139,080 |
| 91 to 180 days | **6,587** | 14,425 |
| 181 to 365 days | **6,738** | 4,181 |
| Over 365 days | **28,842** | 21,433 |
| | **130,188** | 179,119 |

Trade and bills payables as at 31 December 2015 and 2014 are denominated in RMB.

The average credit period on trade payables is 90 days. Bills payables are all due to mature within 180 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 13. ACQUISITION OF ASSETS

On 28 February 2016, the Group acquired 100% of the entire capital of Jinan Luoxin Pharmaceutical Co., Ltd. (濟南羅欣醫藥有限公司) ("Jinan Luoxin") (formerly known as 山東金訶藥業有限公司), for an aggregate consideration of approximately RMB3,711,000 (the "Acquisition"). The purpose of the Acquisition is for the Group to develop the wholesales business in Shandong province and as such, the Acquisition has been accounted for as acquisition of assets rather than businesses.

| | *RMB'000* |
|---|---|
| Consideration paid during the year ended 31 December 2014 *(Note)* | 3,711 |
| The assets acquired and liabilities recognised at the date of the Acquisition are as follows: | |
| Intangible assets – License | 4,057 |
| Cash and bank balances | 34 |
| Trade and bills receivables | 3,672 |
| Prepayment, deposit and other receivables | 2,614 |
| Inventories | 1,318 |
| Property, plant and equipment | 734 |
| Trade and bills payables | (2,722) |
| Accruals and other payable | (5,996) |
| | 3,711 |

*Note:* The consideration paid was recognised as prepayment as at 31 December 2014.

## 14. COMMITMENTS AND CONTINGENCIES

The Group had the following significant capital commitments:

### (a) Operating leases

At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **878** | 867 |
| In the second to fifth year, inclusive | **–** | 398 |
| | **878** | 1,265 |

The Group leases office premises under operating lease arrangements which are negotiated and fixed for an average term of a year. The lease payments are fixed and pre-determined.

### (b) Capital commitments

Capital commitments outstanding at 31 December 2015, not provided for in the consolidated financial statements were as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted but not provided for: | | |
| – Purchase of technical know-how | **140,134** | 39,056 |
| – Purchase of property, plant and equipment | **74,125** | 301,805 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## INTRODUCTION

Development of the pharmaceutical industry in the PRC remains promising, underpinned by the advanced medical reforms actively implemented by the government and the tightening of regulations. Other factors of enhancement to the industry include increasing efforts of investing in the pharmaceutical industry, basic public health services and consistent growth in fiscal input in medical health services. The industry also witnessed improvements in the expansion of medical insurance coverage, rural health services and new rural cooperative medical services model. These, along with rapid aging of population, the full implementation of two-child policy, urbanisation and the steady growth of the global pharmaceutical market, will contribute to the future prospects of the PRC's pharmaceutical industry in 2016.

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

## BUSINESS REVIEW

During the Period, amid the pressure from market environment brought by the implementation of bidding system for basic drugs procurement, surging production costs and drug-price cuts, the Group upheld its underlying development strategies and endeavoured to achieve the targets of the 12th Five-Year Plan. It managed to maintain stable and healthy development in research and development (the "R&D"), management, production, human resources and market network. The outstanding results were attributable to the support and cooperation of all shareholders of the Company, customers, suppliers, business partners and the public, as well as the concerted and continued efforts of the management and staff of the Group. Riding on the success obtained, the Group will speed up on product development and further expand its marketing channels to accelerate corporate brand enhancement and strengthen the overall competitiveness of the Group, with an aim of building a world-class pharmaceutical brand.

**Research and Development**

1. *Building platform for technology research and development*

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

The Group established Luoxin Biological Technology (Shanghai) Co. Ltd.* (羅欣生物科技(上海)有限公司) (the "Shanghai R&D Centre"), in Shanghai Zhangjiang Hi-tech Park in June 2014, to reinforce its core competitive edge. Leveraging on the various advantages in Shanghai Zhangjiang Hi-tech Park, the Group will conduct its R&D for high-tech projects and give trainings to high-tech talents in the Shanghai R&D Centre. As at 31 December 2015, the Shanghai R&D Centre has a team of approximately 70 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 medicines and will continue to expand its scale along with further enrichment of the products line of the Company.

The Shanghai R&D Centre focuses on the R&D on innovative medicines. It will develop products by advanced technologies adopted through self-development, cooperation with education institutions, and R&D institutions and introduction from overseas projects. The Group's production lines will therefore be greatly enriched. As at 31 December 2015, the Shanghai R&D Centre has commenced various R&D projects on new medicines and established cooperation relationship with renowned foreign pharmaceutical enterprises and leading domestic R&D institutions. It will lead the R&D and sales of two innovative potential medicines.

2. *New products*

For the year ended 31 December 2015, the Company obtained 13 pharmaceutical production approvals. As at 31 December 2015, the Group had obtained a total of 304 pharmaceutical production approvals and six antiseptic germicide production approvals.

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

(2) Ambroxol Hydrochloride for Injection (鹽酸氨溴索注射液) (enhanced specification of 1ml: 7.5g) developed by the Group had been granted production approval by the China Food and Drug Administration on 15 May 2015. The specification is for child specific use.

(3) Rabeprazole Sodium for Injection (注射用雷貝拉唑鈉) developed by the Group had been granted production approval by the China Food and Drug Administration on 8 June 2015. The product applies to stomach and duodenum ulcer bleeding that is not applicable to oral treatment. The product was granted with the Type 3.1 national certificate of new medicine and national innovation patent certificate.

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

(5) The ingredients for Cefonicid Sodium (頭孢尼西鈉) developed by the Group had been granted production approval by the China Food and Drug Administration on 14 January 2015.

(6) The ingredients for Cefalothin Sodium (頭孢噻吩鈉) developed by the Group had been granted production approval by the China Food and Drug Administration on 27 March 2015.

(7) The Cefteram Pivoxil Tablets (頭孢特侖新戊酯片) developed by the Group had been granted production approval by the China Food and Drug Administration on 27 March 2015. The product mainly applies to infectious diseases caused by various kinds of allergic bacteria.

(8) The Cefprozil Tablets (頭孢丙烯片) developed by the Group had been granted production approval by the China Food and Drug Administration on 27 March 2015. The product mainly applies to the following mild infections: upper respiratory tract infection, lower respiratory tract infection, non- complicated skin and soft tissue infection.

(9) Cefpiramide injection (注射用頭孢匹胺) developed by the Group had been granted production approval by the China Food and Drug Administration on 3 November 2015. The product mainly applies to infectious diseases caused by various kinds of allergic bacteria.

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

3. *Patents and achievements*

(1) As at 31 December 2015, the Group had 89 invention patents pending for registration in the PRC. As at 31 December 2015, the Group had 132 invention patents registered in the PRC.

(2) As at 31 December 2015, the Group had 304 production approvals.

(3) As at 31 December 2015, the Group had 48 certificates of new drugs.

(4) For the year ended 31 December 2015, 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 certain science and technology awards.

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

**Production and Management**

*1.* The Group continued to implement effective strategies in seven integral systems, namely management, culture, corporate organisation, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk resistance capacities and overall competencies. The Company has been named as one of the "Top 100 Pharmaceutical Companies in China" (中國製藥工業百強企業) since 2006. From 2011 onward, the Company has been named as the "Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China" (中國醫藥研發產品線最佳工業企業). These recognitions demonstrated the growth in the overall corporate strength of the Group.

*2.* *Construction of Production Facilities*

(1) Pharmaceutical preparations: 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. A mixing workshop for Cephalosporins and Non-Cephalosporins powder injection was newly built and entered the stage of equipment adjustment and certification. The 1601 solid workshop was renovated and successfully passed GMP certification. Shandong Yuxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Yuxin Pharmacy Co., Ltd.*" (山東裕欣藥業有限公司)) was granted the Drug Manufacturing Certificate and Sanitary License for Manufacturing Enterprise. Installation of the automated storage system was completed and will commence operation soon. The construction of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities was completed and put into operation. The construction of the new lyophilized powder injection workshop was completed and will commence production after passing GMP certification.

(2) Pharmaceutical raw materials: constructions of the phase 1 of the pharmaceutical raw materials project of Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Hengxin Pharmaceutical Co., Ltd.*" (山東恒欣藥業有限公司)), including workshop of raw materials of Cephalosporins Sterile (with lyophilization); workshop of non-cephalosporins sterile; workshop of raw materials of synthetic drugs, oral raw materials; workshop of raw materials of anti-tumor drugs; workshop of solvent recovery and water treatment projects were all completed with good manufacturing practice ("GMP") certification and have been put into use. The phase 2 of the pharmaceutical raw materials project is under construction. One of the workshops of sterile raw materials and a workshop of raw materials of synthetic drugs passed GMP certification and commenced operation. Newly-built science studies buildings were completed and put into operation. Newly built office buildings proceeded to the stage of internal decoration, which are expected to commence operation soon.

(3) Preparations that passed the new GMP certification included lyophilized powder injection, powder injection, tablets, capsules, low-volume injections, granules, dry suspension agent, large-volume injections and bulk pharmaceuticals (including sterile bulk medicines). Furthermore, solid injections (i.e. tablets, capsules, granules) are prepared to pass the European Union GMP certification.

3. *External Investment*

The Company completed the acquisition of two pharmaceutical trading companies in Jinan and Chongqing, namely Shandong Jinke Pharmaceutical Co., Ltd.* (山東金訶藥業有限公司) (now known as Jinan Luoxin Pharmacy Company Limited* (濟南羅欣醫藥有限公司) ("Jinan Luoxin")) and Chongqing Maomin Pharmacy Co., Ltd.* (重慶茂民醫藥有限公司) (now known as Shandong Luoxin Pharmaceutical Group Chongqing Pharmacy Co., Ltd.* (山東羅欣藥業集團重慶醫藥有限公司) ("Chongqing Luoxin")), in February and October 2015 respectively. The acquisitions will be effective ways to facilitate the development of the Group's product marketing strategy and expansion of pharmaceutical distribution network.

In June 2015, the Company established a subsidiary in Hong Kong, Luoxin Hong Kong Holdings Limited through the Shanghai R&D Centre, to serve as a platform for overseas investment and global operation of the Group. In July 2015, Luoxin Hong Kong Holdings Limited was engaged in an investment in an equity investment fund established in the Cayman Islands. Such fund mainly makes investments in private companies in healthcare industry established in the PRC and the United States, which aims to enable the Group to access the latest cutting- edge technology that allows the Group to keep abreast of the developments of global healthcare industry.

## Sales and Marketing

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

For the year ended 31 December 2015, the Group's turnover was approximately RMB3,611,380,000, representing an increase of approximately 30.53% from approximately RMB2,766,788,000 for the corresponding period of last year. The increase was mainly attributable to the launch of products with high added values by the Group with an aim to enhance its product portfolio and the prompt establishment of sales network to increase market share of its products.

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

| | **Sales** *RMB'000* | | | | |
|---|---|---|---|---|---|
| Indications and usage | **January to December 2015** | January to December 2014 | **Percentage of total turnover from January to December 2015** | Percentage of total turnover from January to December 2014 | Growth rate (%) |
| System specified medicine | 1,622,818 | 1,188,868 | 44.94% | 42.97% | 36.50% |
| Anti-biotic medicine | 1,211,250 | 1,045,736 | 33.54% | 37.80% | 15.83% |
| Other system specified medicine | 777,312 | 532,184 | 21.52% | 19.23% | 46.06% |
| Total | 3,611,380 | 2,766,788 | 100% | 100% | 30.53% |

**Financial Review**

For the year ended 31 December 2015, the Group's audited turnover was approximately RMB3,611,380,000, representing an increase of approximately 30.53% from approximately RMB2,766,788,000 of last year. The increase was attributable to the Group's launch of high value-added products, upgrade of product portfolio and acceleration of the development of its sales network to increase the market share of its products thereby boosting its turnover.

For the year ended 31 December 2015, the audited cost of sales was approximately RMB1,134,104,000, representing an increase of 29.75% from approximately RMB874,060,000 of last year.

For the year ended 31 December 2015, the audited gross profit margin was 68.60%, representing an increase of 0.19% from 68.41% of last year.

For the year ended 31 December 2015, the audited operating cost was approximately RMB2,012,890,000, representing an increase of 36.92% from approximately RMB1,470,110,000 of last year. The increase of operating expenditure was due to the following reasons:

1. the newly acquired or established subsidiaries, Jinan Luoxin, Chongqing Luoxin and Shanghai R&D Centre are under further business development and were incurring overhead cost before generating revenue;

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

3. an increase of selling and distribution expenses due to additional recruitment for business development personnel of the sales team which in turn resulted in an increase of remuneration expense.

For the year ended 31 December 2015, the audited profit attributable to the shareholders was approximately RMB492,929,000, representing an increase of 11.13% from approximately RMB443,553,000 of last year. Weighted average earnings per share were RMB0.809 for the year ended 31 December 2015.

**Liquidity and Financial Resources**

The Group's working capital is generally financed by its internally generated cash flow. As at 31 December 2015, the Group's cash and cash equivalents amounted to approximately RMB605,333,000 (as at 31 December 2014: RMB160,512,000). As at 31 December 2015, the Group did not have any borrowings (as at 31 December 2014: nil).

**Pledged Bank Deposits/Cash and Cash Equivalents**

As at 31 December 2015, the Group did not have bank deposits which were pledged as security for remittance under acceptance (as at 31 December 2014: bank deposits of approximately RMB29,189,000 were pledged as security for remittance under acceptance).

**Financial Assets at Fair Value through Profit or Loss**

As at 31 December 2015, the Group had financial assets at fair value through profit or loss of investment amount of approximately RMB1,045,000,000 (as at 31 December 2014: RMB1,210,000,000). Such financial assets comprised eight investments in wealth management products, offered by licensed banks in the PRC. A summary of the financial assets as at 31 December 2015 is as follows:

| **Investment Amount** *(RMB)* | **Investment period** | **Fixed investment return per annum** |
|---|---|---|
| 290,000,000 | 10/2015 – 1/2016 | 3.60% |
| 210,000,000 | 10/2015 – 1/2016 | 3.60% |
| 85,000,000 | 12/2015 – 1/2016 | 3.80% |
| 100,000,000 | 12/2015 – 4/2016 | 3.60% |
| 50,000,000 | 12/2015 – 2/2016 | 3.45% |
| 110,000,000 | 12/2015 – 5/2016 | 3.60% |
| 150,000,000 | 12/2015 – 3/2016 | 3.50% |
| 50,000,000 | 12/2015 – 6/2016 | 3.60% |

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

## MAJOR ACQUISITION AND DISPOSAL

For the year ended 31 December 2015, the Group did not have any major acquisition or disposal.

## SIGNIFICANT INVESTMENT

For the year ended 31 December 2015, the Group did not make any significant investment.

## CONTINGENT LIABILITIES

For the year ended 31 December 2015, the Group did not have any substantial contingent liabilities.

## EXCHANGE RISK

As at 31 December 2015, the Group operated and conducted business in the PRC, and all of the Group's transactions, assets and liabilities were denominated in RMB, except that some imported equipment and raw materials are used in R&D and Luoxin Hong Kong Holdings Limited made an investment in US dollar ("USD") in an equity investment fund established in Cayman Islands in July 2015. Most of the Group's cash and cash equivalents and pledged deposits were denominated in RMB while bank deposits were placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government. The Group's bank deposits denominated in USD were placed in off-shore USD account opened by Luoxin Hong Kong Holdings Limited with banks in the PRC.

## EMPLOYEES AND REMUNERATION POLICY

The Directors believe that employees' quality is the most important factor in maintaining the sustainable development and growth of the Group and in raising its profitability. The Group determines its employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and benefits are maintained at an appropriate level. The Group has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

**PROSPECTS**

Looking ahead, development of the pharmaceutical industry is one of the key priorities in future state policies, thus making the prospects of the industry very optimistic. Being one of the key industries supported by the 13th Five-Year Plan, pharmaceutical industry will be provided with more resources by the PRC government in terms of pharmaceutical and medical equipment, in which informatisation of the medical sector, high-end medical equipment and bio-medicine are highlighted as sectors of top priority for development. 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 was introduced 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 quality standards of drugs, but also eliminate obsolete capacity and enhance industry consolidation. Therefore, the implementation of these policies is beneficial to the development of innovative enterprises as a whole and provides more room for the growth of competitive enterprises.

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 is listed as one of the ten key sectors in the "Made in China 2025" plan. It proposed to develop new chemical medicine, traditional Chinese medicine and bio-medicine intended to treat serious illnesses. As the PRC steps up to promote innovation, the Group is confident in maintaining its sustainable and healthy development.

In the future, the Group will continue to pursue the strategic direction of a "technology-driven enterprise with determination and efforts" under the favourable operating environment. By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investments in scientific researches to consolidate its standing in scientific researches and technologies, and to enhance the capabilities of its R&D team. The Group strives for developing more products with more advanced technology, of better quality and higher added value. The Group also aims at reducing production costs and expanding production scale so as to stay competitive through economies of scale, low production costs and differentiation. With the completion of construction and commencement of production of the Group's new production bases of "Yuxin" (裕欣) and "Hengxin" (恒欣), our production capacity will be enhanced to satisfy growing market demands for pharmaceutical products. The new production bases are capable of increasing the number of new dosage types and effectively expand the R&D scope of new drugs, thus facilitating the Group's overall business development. The Group will also speed up the establishment of its sales teams and proactively broaden its sales network so as to enhance the market share of its products and continue to improve its competitiveness.

The Group expects that “Luoxin” will be built into a pharmaceutical enterprise with worldwide recognition through the above strategies.

## CORPORATE GOVERNANCE

The Board considers that good corporate governance of the Company is the key to safeguarding the interests of shareholders and enhancing the performance of the Company. The Board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

In the opinion of the Directors, the Company complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (the “CG Code”) for the year ended 31 December 2015, except the following:

Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Owing to overseas engagement, the two non-executive Directors and two independent non-executive Directors were unable to attend the annual general meeting (the “AGM”) of the Company held on 8 June 2015 in person; and two non-executive Directors and four independent non-executive Directors were unable to attend the extraordinary general meeting (the “EGM”) of the Company held on 14 December 2015 in person. However, in order to understand the view of the shareholders, they joined the AGM and EGM by telephone.

## AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 20 November 2005 with written terms of reference which were revised on 13 March 2012 and 31 December 2015 in compliance with the CG Code. The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (傅天忠) (Chairman), Mr. Fu Hongzheng (付宏征), Prof. Chen Yun Zhen (陳允震) and Prof. Du Guanhua (杜冠華).

The duties of the Audit Committee are to review and supervise the financial reporting process and the Company’s internal control policies and procedures, risk management and relationship with the Company’s auditors. The appointments of the Audit Committee members are based on their broad experience in the medicinal field and professional knowledge in financial reporting and management.

The Audit Committee meets regularly to review financial reporting matters and the Company's internal control policies and procedures issues and risk management issues; and sees how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The audited results of the Group for the year ended 31 December 2015 have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group has not redeemed, purchased or sold any of its listed securities during the year ended 31 December 2015.

## CLOSURE OF REGISTER OF MEMBERS

### Annual General Meeting

The registers of members of the Company to attend the annual general meeting (the "AGM") will be closed from 20 May 2016 to 22 June 2016 (both days inclusive). All properly completed H-Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H-shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 19 May 2016, for registration.

### Entitlement to Final Dividend

The Board has recommended the payment of a final dividend of RMB0.35 per share in respect of the year ended 31 December 2015. Subject to the approval of shareholders at the forthcoming AGM, the dividend cum-date and ex-date will be 23 June 2016 and 24 June 2016 respectively. The registers of members of the Company for entitlement of dividend will be closed from 28 June 2016 to 4 July 2016 (both days inclusive). All properly completed H-Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H-Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 27 June 2016, for registration.

The expected date of dividend distribution would be in the mid of August 2016 and with the expected exchange rate of RMB and HKD at 0.83.

## WITHHOLDING OF INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS AND NON-RESIDENT INDIVIDUAL SHAREHOLDERS IN RESPECT OF THE PROPOSED FINAL DIVIDEND NON-RESIDENT CORPORATE SHAREHOLDERS

### Non-resident Corporate Shareholders

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Group is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident corporate shareholders whose names appear on the H-Share register of members on 4 July 2016. The Group will distribute the final dividend to such non-resident corporate shareholders after withholding a 10% income tax. In order to determine the list of holders of H-Shares who are entitled to receive the final dividend, the H-Share register of members of the Group will be closed from 28 June 2016 to 4 July 2016, both days inclusive, during which period no transfer of the Group's H-Shares will be effected. In order for holders of H-Shares to be qualified for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Group's H-share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 27 June 2016, for registration.

### Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No. 348), the Group is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between mainland China and Hong Kong or Macau. The Group would withhold and pay the individual income tax at a rate of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates of 10% in respect of dividends. For non-resident individual H shareholders who are residents of those countries having agreements with China for personal income tax rates of lower than 10% in respect of dividends, the Group would make applications on their behalf to seek entitlement to the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)). For non-resident individual H shareholders who are residents of those countries having double tax treaties with

China for personal income tax rates in respect of dividends of higher than 10% but lower than 20%, the Group would withhold the individual income tax at the agreed-upon effective tax rate. For non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividends of 20% and other situations, the Group would withhold the individual income tax at a tax rate of 20%.

In order to determine the list of holders of H-Shares of the Group who are entitled to receive the final dividend, the H-share register of members of the Group will be closed from 28 June 2016 to 4 July 2016, both days inclusive, during which period no transfer of the Group's H-Shares will be effected. The Group will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Group (the "Registered Address") on 4 July 2016 and will withhold and pay the individual income tax based on the register of members of the Group as at 4 July 2016. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Group's H-share registrar and provide relevant supporting documents to the Group's H-share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 27 June 2016, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Group's H-Shares within the time period stated above, the Group will determine the country of domicile of the individual H shareholders based on the recorded Registered Address on 4 July 2016.

The Group will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate income tax and the final dividend will only be payable to the shareholders whose names appear on the Group's H-share register of members on 4 July 2016.

The Group will have no liability in respect of any claims arising from any delay in or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

By order of the Board
**Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.***
**Liu Baoqi**
*Chairman*

The PRC, 21 March 2016

*As at the date of this announcement, the Board comprises 11 Directors, of which Mr. Liu Baoqi (劉保起), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生), Mr. Chen Yu (陳雨) and Mr. Liu Zhenteng (劉振騰) are executive Directors, Mr. Yin Chuangui (尹傳貴) and Mr. Liu Zhenhai (劉振海) are non-executive Directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征), Prof. Chen Yun Zhen (陳允震) and Prof. Du Guanhua (杜冠華) are independent non-executive Directors.*

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