ANNUAL REPORT
2015

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

* For identification purposes only

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This report, for which the directors (the "Directors" or "Director" for anyone of them) of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (the "Company" or "Luoxin Pharmaceutical") 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 is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Liu Baoqi
Li Minghua
Han Fengsheng
Chen Yu
Liu Zhenteng

Non-executive Directors

Yin Chuangui
Liu Zhenhai

Independent non-executive Directors

Foo Tin Chung, Victor
Fu Hongzheng
Prof. Chen Yun Zhen
Prof. Du Guanhua

SUPERVISORS

Sun Song
Wang Jian
Song Liang Wei
Liu Zhenfei

COMPLIANCE OFFICER

Liu Baoqi

COMPANY SECRETARY

Lau Hon Kee, Keith Vingo *(FCPA, CPA(Aust.))*

AUTHORISED REPRESENTATIVES

Liu Baoqi
Lau Hon Kee, Keith Vingo *(FCPA, CPA(Aust.))*

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Linyi High and New,
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MEMBERS OF THE AUDIT COMMITTEE

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Fu Hongzheng
Prof. Chen Yun Zhen
Prof. Du Guanhua

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AUDITORS

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STOCK CODE

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board"), it is my pleasure to present the annual report of the Group for the year ended 31 December 2015 (hereafter referred to as the "Year") for your review.

With an aim to maximising shareholders' value, our Company is devoted to enhancing the capabilities in research and development, increasing production capacity and consolidating sales network development, focusing on speeding up product structure adjustment and production of compressed antibiotic products, expediting of market development of products for respiratory and digestive systems. The profit margins and competitiveness of our core operations improved in an ongoing manner. Through dedication and concerted efforts of management and employees, the Company achieved rapid growth and healthy development. For the year ended 31 December 2015, turnover increased by 30.53% to RMB3,611,380,000, whereas profit attributable to shareholders increased by 11.13% to RMB492,929,000.

In the past year, we endeavoured to implement the targets of the Twelfth Five-Year Plan. Our capabilities in, among others, management, market network development, technology development, elite team building, spiritual civilisation development, brand building and goodwill have improved rapidly, which further enhanced our ability to withstand risks as well as our overall strength. To cope with business development and the ever increasing market demand, Shandong Yuxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Yuxin Pharmacy Co., Ltd.*" (山東裕欣藥業有限公司)), a new member of the Group, has been granted the Drug Manufacturing Certificate (藥品生產許可證) and the Sanitation License of Disinfectant Manufacturers (消毒產品生產企業衛生許可證). Installation of the automated storage system was completed and put into operation. Further assistance is received from the completion and commission of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities. We have also completed the construction of the new lyophilized powder injection workshop, which will commence production after passing good manufacturing practice ("GMP") certification. Constructions of phase 1 of the pharmaceutical raw materials project under Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Co., Ltd.* (formerly known as "Shandong Hengxin Pharmaceutical Co., Ltd.*) (山東羅欣藥業集團恒欣藥業有限公司)), including workshop of raw materials of Cephalosporins Sterile (with lyophilization); workshop of Non-Cephalosporins Sterile; workshop of raw materials of synthetic drugs, oral raw materials; workshop of raw materials of anti-tumor drugs; workshop of solvent recovery and water treatment projects were all completed with the GMP certification and have been put into use. Phase 2 of the pharmaceutical raw materials project is currently under construction, with one workshop of pharmaceutical raw material of Sterile and one workshop of raw materials of synthetic drugs having passed GMP certification and have been put into use. Construction of the new science studies buildings was completed and has commenced operation. The new office buildings had proceeded to the stage of interior decoration, which are expected to commence operation soon. In addition, preparations that passed the new GMP certification included lyophilized powder injection, powder injection, tablets, capsules, small-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 getting prepared to pass the European Union GMP certification. These projects expand the categories of new products of the Company and rapidly increase the integrated production capability. In June 2014, the Company established a wholly-owned subsidiary named Luoxin Biological Technology (Shanghai) Co., Ltd.* (羅欣生物科技(上海)有限公司) in ZJ Innopark in Shanghai, which would be responsible for research and development ("R&D") of the Group's high-tech solution and high-tech talents training, that formed a trio-partnership with the headquarter and further strengthened the development of new medicines. 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 basically 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 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. A number of the Company's new products were derived from successful research and development results, which were subsequently commercialised. Tens of products received invention patents and Scientific and Technological Progress Awards granted by the State. The technology centre of the Company was recognised as a "State-Accredited

CHAIRMAN'S STATEMENT

Enterprise Technology Centre" by National Development and Reform Commission, Ministry of Science and Technology, Ministry of Finance, General Administration of Customs and State Administration of Taxation. Together with the already established "State-province Joint Engineering Laboratory" (國家地方聯合工程實驗室), 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), "National Post-Doctoral Research Workshop" (國家博士後科研工作站), "Key High- Tech Enterprise under the State Torch Program" (國家火炬計劃重點高新技術企業), "Model Engineering Technology Research Centre of Shandong Province" (山東省級示範工程技術研究中心), "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory" (山東省凍乾粉針劑藥物重點實驗室), "Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory" (山東省凍乾粉針劑藥物工程實驗室), "Taishan Scholar – Pharmaceutical expert consultant" (泰山學者－藥學特聘專家) and "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站), they all enabled the Group to build a stronger platform of talent introduction and technology improvement for the Group, which, in turn, strengthened the Company's research and development capabilities. At present, the Company has an extensive and seamless sales network throughout PRC and a sound marketing management system. It has formed various sales channels for business solicitation, hospital end operation, logistics delivery, third terminal and bulk pharmaceuticals. In the past year the Group 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) (name having changed to Jinan Luoxin Pharmacy Company Limited* (濟南羅欣醫藥有限公司)) and Chongqing Maomin Pharmacy Co., Ltd.* (重慶茂民醫藥有限公司) (name having changed to Shandong Luoxin Pharmaceutical Group Chongqing Pharmacy Co., Ltd.* (山東羅欣藥業集團重慶醫藥有限公司) respectively. The acquisitions would be an effective way to facilitate the development of product marketing and expansion of pharmaceutical distribution network.

As the Company gained predominance in various aspects, we can thus maintain our rapid and sustainable development. Our strengths include: 1. our remarkable results in successful research and development as well as marketing of State level new medicine; 2. our competitive edge arising from continuous development of new medicine; 3. our experienced management in the pharmaceutical industry; 4. our strength in research and development, and our strong support for research and development as a result of our collaboration with domestic universities and research institutes; 5. our extensive sales and marketing network; and 6. our prominent cost advantage achieved by one-stop vertical production ranging from active pharmaceutical ingredients to pharmaceutical finished products in various dosage forms.

We believe that the pharmaceutical industry will maintain rapid growth in 2016. Particularly with acceleration of medical reform implementation by the PRC government, proactive introduction of new cooperative medical initiatives, further input into the pharmaceutical industry, improvement in public health services as well as the trend towards an aging population, the full implementation of two-child policy, the charging forward of urbanisation, we expect overall market expenditure on medical and pharmaceutical treatment will increase dramatically. Such huge market potential will enable well-established enterprises to enter a new era of rapid development. PRC is one of the countries that consume a lot of pharmaceuticals products, the room for development is extensive. The pharmaceutical industry has been included into the list of supported industries in the Thirteenth Five-Year Plan of the PRC central government. The PRC central government will allocate more resources to pharmaceutical and medical equipment industries. Looking ahead to 2016, the Company is on course to embark on a new voyage where it is facing certain new challenges as well as development opportunities. We strongly believe that the Company will be able to maintain faster and better development.

The rapid development and advancement of Luoxin Pharmaceutical always depends on sustained efforts of the management and employees, as well as incessant support from all shareholders, customers, suppliers and business partners. I would like to extend my gratitude to all the Directors for their contribution. I would also like to extend my sincere gratitude on behalf of the Board to all those who have devoted their efforts to facilitate the growth of the Company and giving tremendous support for the advancement of our Company.

Liu Baoqi
Chairman

21 March 2016

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Baoqi (**劉保起**), aged 54, is an executive Director and the chairman of the Company. He is responsible for the strategic planning and overall management of the Company. Mr. Liu completed his tertiary course in Economics and Management from the School of Shandong Provincial Communist Party (中共山東省委黨校) in 1996. Mr. Liu obtained the qualification of pharmacist. He has about 20 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Liu joined Shandong Luoxin Factory (the predecessor of the Company) in 1995. Before joining Shandong Luoxin Factory, Mr. Liu worked for Linyi Luozhuang Pharmacy Company ("Linyi Luozhuang", now known as Luoxin Pharmaceutical Group Co., Ltd. ("Luoxin Pharmaceutical Group")) from 1988 to 1995. Mr. Liu was named as the Outstanding Young Entrepreneur in Linyi City (臨沂市優秀青年企業家) and one of the Ten Outstanding Young Persons in Linyi City (臨沂市十大傑出青年) in May and October 1996 respectively. Mr. Liu is also a delegate of Shandong Province and the Linyi City People's Congress. Mr. Liu is currently the chairman of the board of director of Luoxin Holding, Luoxin Pharmaceutical Group, Shandong Luosheng Pharmacy Company Limited* (山東羅盛醫藥有限公司) and Shandong Mingxin Pharmacy Company Limited* (山東明欣醫藥有限公司). Mr. Liu is interested in 51.73% of the registered share capital of Luoxin Holding. Mr. Liu is the uncle of Mr. Liu Zhenhai, and the father of Mr. Liu Zhenteng and Mr. Liu Zhenfei.

Ms. Li Minghua (**李明華**), aged 50, is an executive Director, the general manager and the chief executive officer of the Company. She is responsible for assisting the chairman of the Company in the Company's overall business development and operation. She graduated from Shenyang Pharmacy University (瀋陽藥科大學) with a bachelor's degree in Pharmacy. Ms. Li is a senior professional engineer in medicine in the PRC certified by Hei Long Jiang Human Resource Department (黑龍江人事廳) and a registered practising pharmacist. Before joining the Company in 2001, Ms. Li had over 15 years' experience working in several pharmaceutical enterprises in the PRC. Ms. Li was granted the Qi Lu Female Inventor award (齊魯巾幗發明家) in 2010. She was accredited as Outstanding Engineer of Shandong Province (山東省優秀工程師) in 2011 and was granted the Adultescent Professional with Outstanding Contribution of Shandong Province (山東省有突出貢獻的中青年專家). She is a delegate of the Fei County People's Congress. Ms. Li is currently a director of Shandong Yuxin Pharmaceutical Company Limited* (山東裕欣藥業有限公司).

Mr. Han Fengsheng (**韓風生**), aged 40, is an executive Director and the secretary of the Board. Mr. Han graduated from the Dalian University (大連大學) majoring in Computer Science. Before joining the Company in November 2001, Mr. Han had over 5 years' experience working in the information technology department of Linyi Luozhuang (now known as Luoxin Pharmaceutical Group). Mr. Han is a member of the National Committee of the Chinese People's Political Consultative Conference of Luo Zhuang District.

Mr. Chen Yu (**陳雨**), aged 47, is an executive Director and the vice general manager who is responsible for production management. Mr. Chen completed post-graduate education in Nanjing Chemical Power College (南京化工動力專科學校), and was named a Heat Supply and Ventilation Engineer by Liaoning Province Human Resources Bureau. Mr. Chen has over 20 years of experience in the PRC medicine manufacturing industry.

Mr. Liu Zhenteng (**劉振騰**), aged 30, was appointed as executive director of the Company from 1 July 2013. Mr. Liu Zhenteng obtained his bachelor's degree in Accountancy from Macquarie University (澳洲麥格理大學) and MBA from University of New South Wales, Australia (澳洲新南威爾斯大學). After his graduation from Macquarie University, Mr. Liu Zhenteng worked as an analyst with a securities company for a year in Hong Kong and after obtaining his MBA, he worked as a researcher in a private equity company for another year in Shanghai. Mr. Liu is responsible for finance, human resources and strategy planning of the Company. Mr. Liu Zhenteng is the son of Mr. Liu Baoqi, the chairman of the Board.

* *For identification purpose only*

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Yin Chuangui (尹傳貴), aged 59, is a non-executive Director, and the authorised representative of Linyi City People's Hospital ("Linyi People Hospital"), a promoter and an initial management shareholder of the Company. Mr. Yin graduated from the Weifang Medical College (濰坊醫學院) with a bachelor's degree specialising in Health Management. In May 2001, Mr. Yin was nominated by Linyi People Hospital as a non-executive Director.

Mr. Liu Zhenhai (劉振海), aged 40, was re-designated as non-executive Director from of the Company 1 July 2013. He has about 15 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Liu Zhenhai is also a delegate of the Linyi City Luo Zhuang District People's Congress. Mr. Liu Zhenhai is currently the director of Shandong Luosheng Pharmacy Company Limited* (山東羅盛醫藥有限公司) and Shandong Mingxin Pharmacy Company Limited* (山東明欣醫藥有限公司). Mr. Liu Zhenhai is the nephew of Mr. Liu Baoqi.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Foo Tin Chung Victor (傅天忠), aged 47, was appointed as an independent non-executive Director in April 2005 and carried on this role after the Company's listing on GEM in December 2005. Mr. Foo obtained a bachelor degree of commerce in accounting and information system from the University of New South Wales in Australia in April 1994 and a master degree in business administration from the Australian Graduate School of Management in July 2007. He has been a member of the Australia Society of Certified Practising Accountants since January 1998 and an associate member of the Hong Kong Institute of Certified Public Accountants since July 1999. Mr. Foo has been the company secretary of China Grand Pharmaceutical and Healthcare Holdings Limited (stock code: 512) since 2011, and the company secretary of Huisheng International Holdings Limited (stock code: 1340) since 2013. Mr. Foo was an executive director of Jinheng Automotive Safety Technology Holdings Limited (stock code: 872) but resigned in September 2014. Mr. Foo was a non-executive director of Sino Haijing Holdings Limited (stock code: 1106) since April 2015. Mr. Foo was a non-executive director of Ngai Shun Holdings Limited (stock code: 1246) since March 2015, but resigned in July 2015. Shares of all these companies are listed on the Stock Exchange.

Mr. Fu Hongzheng (付宏征), aged 52, was appointed as the independent non-executive Director in June 2001 and has carried on this role after the Company's listing on GEM in December 2005. Mr. Fu graduated from Pharmacy School of Yanbian University (延邊大學藥學院) in 1985 with a bachelors' degree and got his master's degree from the Shenyang Medical University (瀋陽醫科大學) in 1991.

Prof. Chen Yun Zhen (陳允震), aged 53, has been appointed as independent non-executive director on 31 December 2012. Prof. Chen is the supervisor of PhD candidates, professor and supervising doctor of Shandong University. Prof. Chen graduated at medical faculty of Shandong University in 1985 and has been working at the Orthopedic Department of Qilu Hospital since July 1985. Currently Prof. Chen is the deputy supervisor of Orthopedic Department, supervisor of Orthopedic Trauma Department and supervisor of Spinal Column and Spinal Cord Injury Research Centre of Qilu Hospital.

Prof. Du Guanhua (杜冠華), aged 59, was appointed as independent non-executive director from 1 July 2013. Prof. Du is a professor, tutor to PhD candidates, pharmacology researcher and Deputy Director of Institute of Materia Medica of Chinese Academy of Medical Sciences (中國醫學科學院) and Union Medical College (中國協和醫科大學). Prof. Du Guanhua (杜冠華) is also a supervisor of the National Centre of Drug Screening (國家藥物篩選中心) and the president of the Chinese Pharmacological Society (中國藥理學會). Prof. Du Guanhua (杜冠華) obtained Bachelor of Pharmacy from Shandong University, Medical Master from Tongi Medial College and PhD from Union Medical College.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Sun Song (孫松), aged 45, is the supervisor and the manager of the Company's bulk medicine workshop. Mr. Sun graduated from the University of Hei Long Jiang (黑龍江大學) in 1993 majoring in Organic Chemistry.

Mr. Wang Jian (王健), aged 55, was appointed as a supervisor of the Company with effect from 30 November 2010. Mr. Wang graduated with a Master's degree in research from Shenyang Pharmacy University (瀋陽藥科大學). Mr. Wang worked as the head of research and development department and the general manger of Guangzhou Bidi Pharmacy Co., Ltd (廣州彼迪藥業有限公司) prior to 1999 and has been individually researching in new medicine since 1999. Mr. Wang currently holds 9,360,136 Domestic Shares, representing approximately 2.10% of all Domestic Shares or approximately 1.54% of all Domestic Shares and H-Shares.

Ms. Song Liang Wei (宋良偉), aged 35, was nominated by the staff congress of the Company and appointed as a supervisor of the Company with effect from 30 November 2010. Ms. Song is the manager of the New Medicine Research and Development Technical Centre of the Company. Ms. Song graduated with a diploma in professional pharmacy from Shandong University. Before joining the Company, Ms. Song worked at Linyi People Hospital.

Mr. Liu Zhenfei (劉振飛), aged 28, joined Luoxin Pharmaceutical Group Co., Ltd.* (羅欣醫藥集團有限公司), a previous controlling shareholder of the Company, as sales executive in 2011 and appointed as the supervisor of the Company from 1 July 2013. Mr. Liu Zhenfei obtained a bachelor's degree of Business Administration from Macquarie University, Australia. Mr. Liu Zhenfei is the son of Mr. Liu Baoqi, the chairman of the Board.

SENIOR MANAGEMENT

Mr. Lau Hon Kee, Keith Vingo (劉漢基), FCPA, CPA (Aust.), aged 45, is the financial controller and company secretary of the Company. Mr. Lau is responsible for accounting, financial reporting and corporate governance of the Company. Mr. Lau holds a Bachelor's degree in Commerce from Australian National University and Master's degree in Professional Accounting from Hong Kong Polytechnic University. Mr. Lau had been serving as an independent non-executive director of Strong Petrochemical Holdings Limited since November 2008 until December 2011, a company listed on the Stock Exchange. Mr. Lau is also the joint company secretary of Zhejiang Tengy Environmental Technology Co., Ltd., a company listed on the Stock Exchange since October 2015. Mr. Lau is a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Before joining the Company in March 2003, Mr. Lau had over 10 years' experience in finance and accounting field, and held senior management position in several service and manufacturing companies.

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 Pharmaceutical 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		**Percentage of total turnover from**	**Percentage of total turnover from**	
Indications and usage	**January to December 2015**	**January to December 2014**	**January to December 2015**	**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%

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 REPORT

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board presents this corporate governance report to disclose its corporate governance practices adopted during the year ended 31 December 2015 to the shareholders. This report highlights some of the most important corporate governance practices of the Company.

THE CORPORATE GOVERNANCE POLICY

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.

The executive directors, according to the corporate governance policy, perform different duties in their specialist area, which are marketing, research and development, finance and accounting and general administration.

The Board has also established the Audit Committee, under its authorised terms of reference, to review the Company's existing internal control policies and procedures, operation, investor relationship and directors' duties and behaviour from time to time in order to maintain that the Board is managing the Company under the corporate governance policy.

In the opinion of the Board, the Company complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report ("Corporate Governance Code") contained in the Appendix 15 of the GEM Listing Rules.

THE BOARD

The Board currently comprises of 5 executive Directors, namely, Mr. Liu Baoqi, Ms. Li Minghua, Mr. Han Fengsheng, Mr. Chen Yu and Mr. Liu Zhenteng with Mr. Liu Baoqi acting as chairman of the Board, 2 non-executive Directors, namely, Mr. Yin Chuangui and Mr. Liu Zhenhai and 4 independent non-executive Directors, namely, Mr. Foo Tin Chung, Victor, Mr. Fu Hongzheng, Prof. Chen Yun Zhen and Prof. Du Guanhua. As the Company was established in the PRC, 4 supervisors, namely, Mr. Sun Song, Mr. Wang Jian, Ms. Song Liang Wei and Mr. Liu Zhenfei were also appointed to monitor the decision making of the Board.

Biographical details of the Directors and supervisors and their respective relationships (if any) have been set out in the section "Profiles of Directors, supervisors and senior management" in this report.

In accordance with Article 96 of the articles of association of the Company (the "Articles of Association"), the current service term of the Directors is 3 years running from 1 July 2013, the date on which the above Directors were duly re-elected and appointed.

The Board is responsible for the overall strategic development and operation of the Company. The Board is also responsible for the financial performance and internal control policies and procedures of the Company's business operation.

CORPORATE GOVERNANCE REPORT

COMMITMENTS

The Board will meet at least every quarter, to review the overall development, operation and financial performance of such period and other matters of the Company that require the approval of the Board. All Board members are given access to board materials and are given reasonable time to review the information and sufficient time for consideration. The chairman of the Board is responsible for preparing the agenda of the Board meetings.

Moreover, the Board meets regularly to discuss the daily operation issues of the Company. For those non-executive and independent non-executive Directors who are not personally present at such Board meetings, conference calls will be arranged so as to enable the Company to seek advice actively from them.

APPOINTMENT OF DIRECTORS

The Directors all carried out their duties in a dedicated, diligent and proactive manner with reasonable prudence. They carried out their duties imposed by the Company Law of the PRC, Hong Kong Companies Ordinance (Cap.622) ("Companies Ordinance"), the predecessor Hong Kong Companies Ordinance (Cap. 32) before 3 March 2014, the Articles of Association and the GEM Listing Rules, complied with relevant requirements and strictly implemented resolutions passed at general meetings.

Executive Directors were appointed based on their expertise and are responsible for different areas of the Company's business. The non-executive Directors and supervisors were mostly appointed through nominations made by certain initial management shareholders, promoters or staff unions, who could monitor the decision making of the Board and operation of the Company.

Two of the promoters, Linyi People's Hospital and Pingyi People Hospital sold their shares in the Company to independent investors and Linyi Luoxin (or known as "Luoxin Pharmaceutical Group" today, the previous controlling shareholder until May 2014) during October 2007. But as they played a role in the Company's performance and transactions from 2008 to 2015, and will continue to play their role in subsequent events in 2016, the non-executive Director nominated by them will remain on the Board until further arrangement.

The independent non-executive Directors also serve important role in the Board. They bring independent judgment on issues of strategic direction and future development; opine on connected transactions and risk management on audit issues. One of the independent non-executive Directors is a qualified accountant and the rest of them possess the qualification set out in GEM Listing Rules as at the date of this report. The Board has received annual confirmation in respect of the independence of each of the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and believes that their independence is in compliance with the GEM Listing Rules as at the date of this report.

Under the code provision A.4.3 of the Corporate Governance Code, serving more than nine years could be relevant to the determination of a non-executive Director's independence and that any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by shareholders.

Mr. Foo Tin Chung, Victor (傅天忠), being an independent non-executive Director eligible for re-election at the forthcoming annual general meeting, is an independent non-executive Director who was appointed in April 2005 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Foo Tin Chung, Victor continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Foo Tin Chung, Victor continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Foo Tin Chung, Victor's re-election at the annual general meeting.

CORPORATE GOVERNANCE REPORT

Mr. Fu Hongzheng (付宏征), being an independent non-executive Director eligible for re-election at the forthcoming annual general meeting, is an independent non-executive Director who was appointed in June 2001 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Fu Hongzheng continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Fu Hongzheng continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Fu Hongzheng's re-election at the annual general meeting.

The Board will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending candidates for directorships. All Directors are regularly updated on governance and regulatory matters and are entitled to have access to independent professional advice pursuant to the internal policies of the Company.

BOARD MEETINGS

During the year 2015, the Board has held 8 meetings. Directors were given sufficient time to review documents and information relating to matters discussed during such meetings.

Details of Directors' attendance at Board meetings held in 2015 are as follows:

	Dates of meeting							
Board Meetings	**10 March**	**6 May**	**8 June**	**22 June**	**5 August**	**9 October**	**3 November**	**7 December**
Executive Directors								
Mr. Liu Baoqi	✔	✔	✔	✔	✔	✔	✔	✔
Ms. Li Minghua	✔	✔	✔	✔	✔	✔	✔	✔
Mr. Han Fengsheng	✔	✔	✔	✔	✔	✔	✔	✔
Mr. Chen Yu	✔	✔	✔	✔	✔	✔	✔	✔
Mr. Liu Zhenteng	✔	✔	✔	✔	✔	✔	✔	✔
Non-executive Directors								
Mr. Yin Chuangui	✔	✔	✘	✔	✘	✔	✘	✔
Mr. Liu Zhenhai	✘	✔	✘	✘	✘	✘	✘	✘
Independent non-executive Directors								
Mr. Foo Tin Chung, Victor	✔	✔	✘	✔	✔	✘	✔	✘
Mr. Fu Hongzheng	✔	✔	✔	✔	✔	✘	✔	✘
Prof. Chen Yun Zhen	✔	✔	✔	✔	✔	✘	✔	✘
Prof. Du Guanhua	✔	✔	✘	✔	✔	✘	✔	✘

DIRECTORS' ATTENDANCE AT THE GENERAL MEETINGS

During the year ended 31 December 2015, two general meetings were held and details of Directors' attendance are as follows:

Name of Directors	8 June AGM	16 December EGM
Executive Directors		
Mr. Liu Baoqi	✔	✔
Ms. Li Minghua	✔	✔
Mr. Han Fengsheng	✔	✔
Mr. Chen Yu	✔	✔
Mr. Liu Zhenteng	✔	✘
Non-executive Directors		
Mr. Yin Chuangui	✘	✘
Mr. Liu Zhenhai	✘	✘
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✘	✘
Mr. Fu Hongzheng	✔	✘
Prof. Chen Yun Zhen	✔	✘
Prof. Du Guanhua	✘	✘

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, two non-executive Directors and two independent non-executive Directors were unable to attend the AGM of the Company held on 8 June 2015 in person; two non-executive Directors and four independent non-executive Directors were unable to attend the EGM of the Company held on 16 December 2015 in person. However, in order to understand the view of the shareholders, they joined the general meetings by telephone and video conference system.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING

During the year ended 31 December 2015, all the Directors have fulfilled the training requirement under paragraph A.6 of the Corporate Governance Code. The summary of the Directors who attended the types of training is as follows:

	Types of Training				
Name of Directors	**A**	**B**	**C**	**D**	**E**
Executive Directors					
Mr. Liu Baoqi	✔	✔	✔	✔	✔
Ms. Li Minghua	✔	✔	✔	✔	✔
Mr. Han Fengsheng	✔	✔	✔	✔	✔
Mr. Chen Yu	✔	✔	✔	✔	✔
Mr. Liu Zhenteng	✔	✔	✔	✔	✔
Non-executive Directors					
Mr. Yin Chuangui	✘	✘	✔	✔	✘
Mr. Liu Zhenhai	✘	✘	✔	✔	✘
Independent non-executive Directors					
Mr. Foo Tin Chung, Victor	✘	✘	✔	✔	✔
Mr. Fu Hongzheng	✘	✘	✔	✔	✘
Prof. Chen Yun Zhen	✔	✔	✔	✔	✘
Prof. Du Guanhua	✔	✔	✔	✔	✘

A. Attending seminars or workshops on marketing issue of the industry, organised internally or by external providers.

B. Attending seminars or workshops on products research & development and technologies updates of the industry, organised internally or by external providers.

C. Attending seminar or workshops on the Listing Rules, corporate governance and compliance issues, new or amended law, legislation or ordinances of both the PRC and Hong Kong organised internally or by external providers. Topics covered on Continue Disclosures Obligation, Corporate Governance Code, Connected Transaction, Environmental & Social Responsibility Reporting Risk Management & Internal Control Reporting, Asset Valuations, Fund Raising and Responsibilities and Duties of Listed Companies' Directors.

D. Attending seminar or workshops on directors' duties and undertakings, both organised internally or by external providers.

E. Attending internal workshop and top level discussion on marketing and production, corporate finance, internal control and budgeting issues.

DIRECTORS' 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. The Company has confirmed, after making specific enquiries with the Directors, the Directors have complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the year ended 31 December 2015.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under paragraph A.2.1 of the Corporate Governance Code, "the roles of chairman and chief executive officer should be separated and should not be performed by the same individual". During the year ended 31 December 2015, Mr. Liu Baoqi served as chairman of the Board and Ms. Li Minghua served as the general manager and chief executive officer of the Company.

COMMITTEES

As part of corporate governance practices, the Board has established the following committees which are all chaired by and comprise of the independent non-executive Directors.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") was established on 20 November 2005 and its members during the year ended 31 December 2015 included:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Prof. Chen Yun Zhen
Prof. Du Guanhua

The Company has established the Audit Committee with written terms of reference in compliance with paragraph C.3 of the Corporate Governance Code. The terms of reference adopted on 20 November 2005 were amended and restated on 13 March 2012 and 31 December 2015. The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures, the risk management and the 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, internal control policies and procedural and risk management issues; and see 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.

During the year ended 31 December 2015, the Audit Committee held four meetings and details of attendances of the meetings are shown below:

	Dates of meeting (2015)			
Audit Committee Meetings	**9 March**	**5 May**	**4 August**	**2 November**
Independent non-executive Directors				
Mr. Foo Tin Chung, Victor	✔	✔	✔	✔
Mr. Fu Hongzheng	✔	✔	✔	✔
Prof. Chen Yun Zhen	✔	✔	✔	✔
Prof. Du Guanhua	✔	✔	✔	✔

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established on 20 November 2005 and its members during the year ended 31 December 2015 included:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Prof. Chen Yun Zhen
Prof. Du Guanhua

The Company established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code. The terms of reference adopted on 20 November 2005 were amended and restated on 13 March 2012. The duties of the Remuneration Committee include evaluating the performance and making recommendations on the remuneration package of the Directors and senior management and evaluating and making recommendations on other employee benefit arrangements.

The appointments of the Remuneration Committee members are based on their broad experience in the medicinal field and knowledge of financial management, in particular, remuneration to local workforces. Amongst the members of the Remuneration Committee, Mr. Fu Hongzheng is an experienced medical professional in the PRC. Prof. Chen and Prof. Du are both practising doctors and medical scholars.

The Remuneration Committee reviews the Directors 'salaries based on their professional and education background, work experience and the prevailing salaries in the market.

During the year ended 31 December 2015, the Remuneration Committee held two meetings and details of the attendances of the meetings are shown below:

Remuneration Committee Meetings	**Dates of meeting (2015)** 9 March	4 August
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✔	✔
Mr. Fu Hongzheng	✔	✔
Prof. Chen Yun Zhen	✔	✔
Prof. Du Guanhua	✔	✔

NOMINATION COMMITTEE

The nomination committee of the Company ("Nomination Committee") was established on 13 March 2012 and its members during the year ended 31 December 2015 include:

Mr. Foo Tin Chung, Victor *(Chairman)*
Mr. Fu Hongzheng
Prof. Chen Yun Zhen
Prof. Du Guanhua

The Company established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The terms of reference were adopted on 13 March 2012. The duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee, when reviewing the appointment of Directors, will also consider the benefit of diversity of the board, including the wide range of backgrounds, such as professional and education background, geographical residence, nationality and gender.

The appointments of the Nomination Committee members are based on their broad experience in the medicinal field and knowledge of directors' duties, in particular, the making of recommendations on board composition with focus on different skills and knowledge of the Directors.

On 31 March 2012, the Nomination Committee issued nomination procedures in respect of shareholders' nomination of candidates for the Company's Directors.

During the year ended 31 December 2015, the Nomination Committee held two meetings and details of the attendances of the meetings are shown below:

Nomination Committee Meetings	Dates of meeting (2015) 9 March	4 August
Independent non-executive Directors		
Mr. Foo Tin Chung, Victor	✔	✔
Mr. Fu Hongzheng	✔	✔
Prof. Chen Yun Zhen	✔	✔
Prof. Du Guanhua	✔	✔

SHAREHOLDERS' RIGHTS

Extraordinary General Meeting

According to section 59 of the Articles of Association, shareholders of the Company holding 10% or more of the total voting shares of the Company shall have the right to convene an extraordinary general meeting. Shareholders who would like to convene an extraordinary general meeting should send a written notice to the Board, which shall convene an extraordinary general meeting within two months after the receipt of the said written notice.

Shareholders of the Company who wish to make such proposal to convene an extraordinary general meeting should approach the Company Secretary for redirecting the proposal to the Board.

Making Proposals at Shareholders' Meetings

According to section 61 of the Articles of Association, when the Company convenes an annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new resolutions, and the Company shall include such proposed resolutions in the agenda for such annual general meeting if they are matters falling within the functions and powers of and to be dealt with by shareholders at general meetings.

Shareholders who would like to convene an extraordinary general meeting or to propose new resolutions in annual general meeting should approach the Company Secretary whom shall direct such request to the Board.

Contact details of the Company Secretary:

The Company Secretary
Shandong Luoxin Pharmaceutical Group Stock Co. Ltd.
Room 110, Tower B
Southmark, 11 Yip Hing Street
Wong Chuk Hang, Hong Kong

Email: keith.vingo.lau@luoxin.cn

Enquiries to the board

Shareholders who would like to send enquiries to the Board could approach the Company Secretary in writing and the Board will reply the enquiries in a timely manner.

Contact details of the Company Secretary:

The Company Secretary
Shandong Luoxin Pharmaceutical Group Stock Co. Ltd.
Room 110, Tower B
Southmark, 11 Yip Hing Street
Wong Chuk Hang, Hong Kong

Email: keith.vingo.lau@luoxin.cn

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and public investors. Information of the Company is disseminated to shareholders and interested parties in the following manner:

- delivery of the quarterly, interim and annual results and reports to all shareholders and interested parties; and

- publication of announcements on the quarterly, interim and annual results on the Stock Exchange websites, and issuance of other announcements and shareholders' circulars in accordance with the continuing disclosure obligation under the GEM Listing Rules.

The Company has appointed the investor relationship division of Quam (H.K.) Limited as the Company's investor relationship service provider. All of the Company's investor relationship information can be found on:

http://shandongluoxin.quamir.com

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing preparation by management of accounts for each financial period. The Board is also committed to making appropriate announcements, in accordance with the GEM Listing Rules, and to disclose all information that is necessary for shareholders to assess the financial performance and other matters of the Company.

During the year ended 31 December 2015, the Board reviewed the engagement of auditors and their remuneration. The auditor of the Company would receive approximately HK$1,240,000 for audit and related services and approximately HK$188,000 for other services.

The accounts for the year ended 31 December 2015 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting of the Company. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for re-appointment as auditors of the Company at the forthcoming AGM.

INTERNAL CONTROL

The Board is also responsible for regularly reviewing the internal control policies of the Group. Senior management members are required to work in accordance with the internal policies and procedures implemented by the Group. The Group has developed and established internal control policies and procedures prior to listing the H-shares of the Company on GEM in December 2005. This set of policies and procedures monitor the operation of the Company in three areas, namely: sales and account receivables cycles, purchase and account payables cycles, and other policy and procedures, including statutory and regulatory reporting and disclosure requirements. Emphasis has been placed on the level of approval on the utilisation of the Company's resources and compliance with financial reporting and disclosure requirements. The Audit Committee also advises on internal control issues and take an active role in communicating best practice in internal controls of the Group to the Directors and senior management of the Company.

The Board has carried out an annual review of the existing internal control systems of the Group in accordance with Code Provision C.2.1 of the Corporate Governance Code, including financial, operational and compliance controls and risk management functions of the Group. During the year ended 31 December 2015, the Board has reviewed the effectiveness of the Group's internal control systems and considered that they are adequate and effective.

The Board will continue reviewing the policies and procedures in order to maintain a high level of internal control over its operation.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors for the year ended 31 December 2015.

THE STRATEGY TO GENERATE THE VALUE

The Company is committed to launching new medicines, with its strong product research and development support, at their highest yield of product lifecycle, which would maintain the growing return to the shareholders and advance medicine supplies to the community.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and the Group are the manufacture and sale of pharmaceutical products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of this annual report.

The Directors recommend the payment of a final dividend of RMB0.35 per ordinary share, totaling RMB213,360,000. Such recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

The register of members of the Company will be closed from 20 May 2016 to 22 June 2016 (both days inclusive) in order to ascertain the shareholders who are eligible to attend and vote at the forthcoming annual general meeting. 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 annual general meeting, the dividend cum-date and ex-date will be 23 June 2016 and 24 June 2016 respectively. The register of members of the Company for entitlement of dividend will be closed from 28 June 2016 to 4 July 2016 (both days inclusive) in order to determine the shareholders who are eligible for the final dividend. 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.

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

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 Company 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 Company 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 Company will be closed from 28 June 2016 to 4 July 2016, both days inclusive, during which period no transfer of the Company'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 Company'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 Company 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 the mainland China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates 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 lower than 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 Company would make applications on their behalf to seek entitlement of 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) (《國家税務總局關於印發〈非居民享受税收協議待遇管理辦法(試行)〉的通知》(國税發[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 Company 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 Company 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 Company who are entitled to receive the final dividend, the H-share register of members of the Company will be closed from 28 June 2016 to 4 July 2016, both days inclusive, during which period no transfer of the Company's H-shares will be effected.

The Company 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 Company (the "Registered Address") on 4 July 2016 and will withhold and pay the individual income tax based on the register of members of the Company 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 Company's H share registrar and provide relevant supporting documents to the Company'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 Company's H shares within the time period stated above, the Company will determine the country of domicile the individual H shareholders based on the recorded Registered Address on 4 July 2016.

The Company 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 Company's H-share register of members on 4 July 2016.

The Company 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.

RESERVES

Movements in the reserves of the Company during the year ended 31 December 2015 are set out in Note 34 to the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 20 to the annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 33 to the annual report.

GEARING RATIO

The Directors of the Company review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risk associated with each class of capital. During the year ended 31 December 2015, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated base on total debt and total assets.

The gearing ratio as at 31 December 2015 and 2014 are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Total debt	**–**	–
Total assets	**3,640,177**	3,073,693
Gearing ratio	**N/A**	N/A

DISTRIBUTABLE RESERVES

According to the Company Law of the PRC, the distributable reserves of the Company as at 31 December 2015 amounted to RMB2,526,771,000 (2014: RMB2,253,266,000).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 115 to 116 of this report.

COMPARISON BETWEEN BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

An outstanding business objective stated in the prospectus but which remains unfulfilled is the commencement of promotion activities and production of Rhodiola for Injection.

Promotional activities for Rhodiola for Injection, including press releases and other target-customer oriented promotional activities, have not yet officially commenced as the Company has not obtained production approval. Nonetheless, the patent in respect of Rhodiola for Injection, which was obtained by the Company on 10 May 2006, was widely reported.

Production of Rhodiola for Injection has not yet commenced either as the Company is in the process of obtaining production approval from the relevant PRC authority.

REPORT OF THE DIRECTORS

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.

SHARE OPTIONS

The Group has not adopted any share option plan since its establishment.

DIRECTORS

The Directors during the year ended 31 December 2015 were:

Executive directors
Liu Baoqi (劉保起)
Li Minghua (李明華)
Han Fengsheng (韓風生)
Chen Yu (陳雨)
Liu Zhenteng (劉振騰)

Non-executive directors
Yin Chuangui (尹傳貴)
Liu Zhenhai (劉振海)

Independent non-executive directors
Fu Hongzheng (付宏征)
Foo Victor Tin Chung (傅天忠)
Prof. Chen Yun Zhen (陳允震)
Prof. Du Guanhua (杜冠華)

In accordance with Article 96 of the Articles of Association adopted by the shareholders of the Company on 20 November 2005, the term of directorship for most of the Directors is for a term of three years running from 30 November 2004, being the date of the general meeting of the Company which approved the appointments of the Directors. The last term of the directors' service has expired and they were re-elected as follows:

Mr. Liu Baoqi (劉保起), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生) and Mr. Chen Yu (陳雨), being executive Directors, retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Mr. Liu Zhenteng (劉振騰) was appointed as executive director on 10 June 2013 with a term of three years commencing from 1 July 2013.

REPORT OF THE DIRECTORS

Mr. Yin Chuangui (尹傳貴), being non-executive Director, retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Mr. Liu, Zhenhai (劉振海), was re-designated as non-executive Director on 10 June 2013 with a term of three years commencing from 1 July 2013.

Mr. Fu Hongzheng (付宏征), Mr. Foo, Victor Tin Chung (傅天忠) and Prof. Chen Yun Zhen (陳允震), being independent non-executive Directors retired and were re-elected on 10 June 2013 with a term of three years commencing from 1 July 2013. Prof. Du Guanhua (杜冠華) was appointed on 10 June 2013 with a term of three years commencing from 1 July 2013.

Under the code provision A.4.3 of the Corporate Governance Code, serving more than nine years could be relevant to the determination of a non-executive Director's independence and that any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by shareholders.

Mr. Foo Tin Chung, Victor (傅天忠), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in April 2005 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Foo Tin Chung, Victor continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Foo Tin Chung, Victor continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Foo Tin Chung, Victor's re-election at the annual general meeting.

Mr. Fu Hongzheng (付宏征), being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director who was appointed in June 2001 and carried on this role after the Company's listing on GEM in December 2005. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Fu Hongzheng continues to demonstrate the attributes of an independent non-executive Director and there is no evidence that his tenure has had any impact on his independence. The Board considers that Mr. Fu Hongzheng continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board believes that he will continue to bring independent and objective perspectives to the Company's affairs free of any relationship which could materially interfere with the exercise of his independent judgment. A separate resolution will be proposed for Mr. Fu Hongzheng's re-election at the annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Directors, independent non-executive Directors and supervisors of the Company has entered into a service contract with the Company commencing from 1 July 2013 for a term of three years.

Save as disclosed above, none of the Directors and supervisors of the Company has entered into service contracts with the Company which were not terminable by the Company within one year without compensation (other than statutory compensation).

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed above, none of the Directors and supervisors of the Company had a material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business during the year ended 31 December 2015.

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

As at 31 December 2015, the interests and short positions of each of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

1. Long position of domestic shares of the Company as at 31 December 2015:

Name of Director	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) *(Note 1)*	Interest of controlled corporation	325,639,949	73.17%	53.42%

2. Interest in Shandong Luoxin Holdings Co., Ltd.* (山東羅欣控股有限公司) as at 31 December 2015:

Name of Director	Capacity/ Nature of Interest	Number of shares in Luoxin Holdings	% of issued share capital of Luoxin Holdings
Liu Baoqi *(Note 1)*	Beneficial Owner	25,865000	51.73%
Li Minghua *(Note 2)*	Beneficial Owner	7,450,000	14.90%
Liu Zhenhai *(Note 3)*	Beneficial Owner	5,000,000	10.00%
Han Fengsheng *(Note 4)*	Beneficial Owner	1,000,000	2.00%

Note 1:

As at 31 March 2014, these 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmaceutical Group Co., Ltd. ("Luoxin Pharmaceutical Group"). Liu Baoqi ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmaceutical Group. On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings. As at 31 December 2015, Mr. Liu was interested in 51.73% of the registered share capital of Luoxin Holdings and is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Holdings.

Note 2:

As at 31 December 2015, Li Minghua was interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3:

As at 31 December 2015, Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4:

As at 31 December 2015, Han Fengsheng was interested in 2.00% of the registered share capital of Luoxin Holdings.

Save as disclosed above, none of the Directors, chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, 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 December 2015, the Company had been notified of the following substantial shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the Directors, chief executive and supervisors of the Company.

1. Long position of Domestic Shares, as at 31 December 2015:

Name	Capacity/ Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Luoxin Holdings	Beneficial Owner	325,639,949	73.17%	53.42%

2. Long position of H-Shares, as at 31 December 2015:

Name	Capacity/ Nature of Interest	Number of H Shares	% of total issued Domestic Shares	% of Company's Share Capital
GL Capital Management GP Limited *(Note 6)*	Interest of controlled corporation	24,696,000	15.01	4.05
Lion River I N.V. *(Note 7)*	Interest of controlled corporation	24,696,000	15.01	4.05
GL Partners Capital Management Limited *(Note 7)*	Interest of controlled corporation	24,696,000	15.01	4.05
Assicurazioni Generali S.p.A *(Note 8)*	Interest of controlled corporation	24,696,000	15.01	4.05
Li Zhenfu *(Note 9)*	Interest of controlled corporation	24,696,000	15.01	4.05

Note 6:

GL Trade Investment Limited ("GL Trade Investment") held 24,696,000 H-shares of the Company. GL Trade Investment is a company incorporated in the Cayman Islands and is an indirect wholly owned subsidiary of GL Capital Management GP Limited ("GL Capital Management"). By virtue of the SFO, GL Capital Management Limited is deemed to be interested in 24,696,000 H-shares of the Company.

Note 7:

GL Capital Management is owned as to 51% by GL Partners Capital Management Limited ("GL Partners") and 49% by Lion River I N.V. Lion River I N.V. By virtue of the SFO, each of GL Partners and Lion River I N.V. is deemed to be interested in 24,696,000 H-shares of the Company.

Note 8:

Lion River I N.V. is wholly-owned by Assicurazioni Generali, S.p.A. ("Assicurazioni"). By virtue of the SFO, Assicurazioni is deemed to be interested in 24,696,000 H-shares of the Company.

Note 9

Li Zhenfu held as to 70% of the shareholding of GL Partners and by virtue of the SFO, he is deemed to be interested in 24,696,000 H-shares of the Company.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2015, the Company did not enter into any significant contract. However, the framework agreements of continuing connected transactions, entered into between the Company and (i) Luoxin Pharmaceutical Group, the controlling shareholder of the Company until May 2014; (ii) Shandong Luosheng Pharmacy Co., Ltd. ("Shandong Luosheng"); and (iii) Shandong Mingxin Pharmacy Co., Ltd. ("Shandong Mingxin"), (ii) and (iii) being the fellow subsidiaries of the Company until May 2014, which remained effective until 15 December 2015. Three framework agreements with Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin have been renewed and effective from 16 December 2015 until 31 December 2017. Please refer to the section on Connected Transactions and Continuing Connected Transactions for details.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year ended 31 December 2015 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	4.14%
– five largest suppliers combined	15.39%
Sales	
– the largest customer	12.26%
– five largest customers combined	18.70%

Two (2014: two) of the five largest customers of the Company are Luoxin Pharmaceutical Group and Shandong Luosheng (2014: Luoxin Pharmaceutical Group and Shandong Luosheng) which are the related parties of the Company. Luoxin Pharmaceutical Group is the largest customer of the Company for the year ended 31 December 2015. For further details, please refer to note 37 to the annual report.

During the year ended 31 December 2015, the sales of chemical medicines to Luoxin Pharmacutical Group, Shandong Luosheng and Shandong Mingxin amount to approximately RMB442,921,000, RMB49,026,000 and RMB39,950,000 respectively.

	From 1/1/2015 to 15/12/2015 RMB'000 *(Note 1)*	**From 16/12/2015 to 31/12/2015** RMB'000 *(Note 2)*	**Year ended 31 December 2015** RMB'000
Sales to Luoxin Pharmaceutical Group	423,394	19,527	442,921
Sales to Shandong Luosheng	45,535	3,491	49,026
Sales to Shandong Mingxin	36,954	2,996	39,950

Note:

1. Continuing connected transaction based on "Old Framework Agreements" from 1 January 2013 to 31 December 2015.

2. On 16 December 2015, the Company approved to enter into the new framework agreements with connected parties respectively for a term commencing from 16 December 2015 and ending on 31 December 2017. The "Old Framework Agreements" were terminated automatically upon the new framework agreements become effective.

The percentages of purchases and sales attributable to the Group's five largest suppliers and customers were less than 30% for the year ended 31 December 2015.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2015, the Company had the following non-exempt, continuing connected transactions, details of which are set out below:

	Annual Cap for the financial years/periods ending			
Nature of transaction	**31/12/2013**	**31/12/2014**	**31/12/2015**	**16/12/2015 to 31/12/2015**
	RMB Million	RMB Million	RMB Million	RMB Million
Sales of chemical medicines from the Company to Luoxin Pharmaceutical Group pursuant to a framework agreement dated 8 August 2012 (for year 2013, 2014 and 2015) and 30 October 2015 (from 16 December 2015 to 31 December 2015)	990	1,188	1,426	31
Sales of chemical medicines by the Company to Shandong Luosheng pursuant to a framework agreement dated 8 August 2012 (for year 2013, 2014 and 2015) and 30 October 2015 (from 16 December 2015 to 31 December 2015)	180	180	180	8
Sales of chemical medicines by the Company to Shandong Mingxin pursuant to a framework agreement dated 8 August 2012 (for year 2013, 2014 and 2015) and 30 October 2015 (from 16 December 2015 to 31 December 2015)	165	165	165	3

REPORT OF THE DIRECTORS

Luoxin Pharmaceutical Group was the single largest and a controlling shareholder of the Company until May 2014, which held approximately 53.42% of the issued share capital of the Company. Shandong Luosheng and Shandong Mingxin were fellow subsidiaries of the Company until May 2014, of which Luoxin Pharmaceutical Group is holding 51% of the share capital of both companies. They are therefore connected persons of the Company pursuant to Rule 20.11 of the GEM Listing Rules. The sale of the chemical medicines from the Company to Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin pursuant to the respective framework agreements constitute continuing connected transactions of the Company. All the framework agreements took effect from 1 January 2013 and would be expired on 31 December 2015. On 30 October 2015, the Group approved to enter into the new framework agreements with the connected parties respectively for a term commencing from 16 December 2015 and ending on 31 December 2017. The "Old Framework Agreements" were terminated automatically upon the new framework agreements becoming effective. The chemical medicines are provided to each of Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin respectively by the Company on normal commercial terms of suppliers offer to third parties for sale of chemical medicines of comparable application and quantity and on terms no less favourable to the Company than terms available to or from independent third parties customers. For the "Old Framework Agreements", the price is agreed upon between the parties for each transaction by reference to the aforementioned pricing policy through arm's length negotiations and the respective payments by Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin to the Company will be on deferred basis according to normal credit terms within 90 days. Further details about the framework agreements are set out in the announcement issued by the Company on 8 August 2012 and circular issued by the Company on 13 September 2012. For the new framework agreements, the sale of the pharmaceutical products to Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong MIngxin shall be on fair and reasonable basis and on normal commercial terms with reference to the sale of pharmaceutical products in similar or comparable application and quantity offered to other independent third parties and shall be on terms and pricing policy no less favourable to the Group than the terms available to independent third parties. For the details of the pricing policy to be adopted by the Company, please refer to the announcement issued by the Company on 22 June 2015 and 30 October 2015, and circular issued by the Company on 30 October 2015.

On 21 May 2014, the Domestic Shares of the Company held by Luoxin Pharmaceutical Group were sold to Luoxin Holdings. As at 31 December 2015, Mr. Liu was interested in 51.73% of the registered share capital of Luoxin Holdings and is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Holdings. As at 31 December 2015, Mr. Liu is also the director and controlling shareholder of Luoxin Pharmaceutical Group. The transactions with Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin will remain continuing connected transaction in 2015, 2016 and 2017.

During the year ended 31 December 2015, the sales of chemical medicines by the Company to Luoxin Pharmaceutical Group, Shandong Luosheng and Shandong Mingxin amounted to approximately RMB442,921,000, RMB49,026,000 and RMB39,950,000 (2014: RMB206,829,000, RMB48,194,000 and RMB31,181,000) respectively, which did not exceed the annual cap for the relevant transactions. Further details are set out in Note 37 to the consolidated financial statements. The Company received confirmation from auditors that these transactions comply with the matters stated in Rule 20.53 of the GEM Listing Rules. The independent non-executive Directors, who are not interested in any of the above continuing connected transactions, have reviewed and confirmed that the above continuing connected transactions have been entered into by the Company:

1. in the ordinary and usual course of the business of the Company;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Directors have received a letter from the auditors in respect of the continuing connected transactions as required by Rule 20.54 of the GEM Listing Rules.

The Company had complied with the relevant requirements under Chapter 20 of the GEM Listing Rules during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING INTERESTS

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

Luoxin Pharmaceutical Group

Luoxin Pharmaceutical Group which previous held 53.42% of the Company's issued share capital, was the controlling shareholder of the Company until May 2014. The chairman and executive director of the Company, Mr. Liu Baoqi, is also the chairman and executive director of Luoxin Pharmaceutical Group, and a controlling shareholder thereof. He holds 81.56% of the registered capital of Luoxin Pharmaceutical Group.

The principal activities of Luoxin Pharmaceutical Group, apart from being a controlling shareholder of the Company, are trading medical equipment, Chinese medicines and health and beauty products, which are not directly or indirectly in competition with the Company's business. The Company is principally engaged in the manufacturing and trading of antibiotics and system specified medicines. Luoxin Pharmaceutical Group also engages in the trading of chemical medicines, but is restricted only to those products which are purchased from the Company under the continuing connected transactions as disclosed above. Save as trading of chemical medicines purchased from the Company, Luoxin Pharmaceutical Group does not sell any chemical medicine. The customers to whom Luoxin Pharmaceutical Group sells chemical medicines are those hospitals in Linyi City District, which are at or below county level that the Group does not have direct access to. Luoxin Pharmaceutical Group does not engage in the manufacturing of medicines whether by itself or through any subsidiary or associate company. Luoxin Pharmaceutical Group can only be regarded as participating in the manufacturing of medicines indirectly through the Group by reason of it being a controlling shareholder of the Company. The Company's targeted markets and customers are hospitals of all sizes and at all levels throughout the PRC. Luoxin Pharmaceutical Group's targeted markets and customers are small and medium sized hospitals at or below county level, mainly in Linyi City District.

REPORT OF THE DIRECTORS

Notwithstanding the non-competition undertakings entered into by Luoxin Pharmaceutical Group in 2002 (as supplemented by a memorandum in 2005), whereby it agreed not to engage in any business which would be in competition with that of the Company, the Company entered into certain continuing connected transactions with Luoxin Pharmaceutical Group. The Company has been selling chemical medicines to Luoxin Pharmaceutical Group under these agreements. It is a unique feature of the PRC medicine market that certain customer groups would only deal with certain medicine traders. Owing to this unique feature, certain hospitals at or below county level in Linyi City District would not purchase medicines directly from the Company. However Luoxin Pharmaceutical Group may have business dealings with these hospitals. In those circumstances, Luoxin Pharmaceutical Group becomes the bridge between the Company and those hospitals and sells the Company's chemical medicine products to them. Therefore, the Company entered into the said continuing connected transactions with Luoxin Pharmaceutical Group for the distribution of the Company's chemical medicines to these customers.

The Directors considered that not only were the continuing connected transactions not a breach of the non-competition undertaking on the part of Luoxin Pharmaceutical Group, but rather a perfect opportunity that promoted cooperation between the Company and Luoxin Pharmaceutical Group in opening up the chemical medicine market. It would also broaden the ultimate client base for both the Company and Luoxin Pharmaceutical Group with hospitals at or below county level in Linyi City District. Without this opportunity and cooperation, neither the Company nor Luoxin Pharmaceutical Group have been able to sell chemical medicines to those hospitals. In reaching the above conclusion the Directors have taken into account the following:

i. Since 2005, there has been no sale of chemical medicines by Luoxin Pharmaceutical Group other than the chemical medicines purchased from the Company under the continuing connected transactions. As such, Luoxin Pharmaceutical Group has not resumed its chemical medicines business that is directly or indirectly in competition with the Company's business; and

ii. the continuing connected transactions bring mutual benefits to the Group and Luoxin Pharmaceutical Group. On one hand, the Group generates considerable revenue by distributing through Luoxin Pharmaceutical Group to particular groups of customers that the Group would not be able to gain access to without Luoxin Pharmaceutical Group. On the other hand, Luoxin Pharmaceutical Group generates revenue by selling the Group's products whilst pursuant to the undertakings, Luoxin Pharmaceutical Group is restricted from selling chemical medicine products produced by other manufacturers.

Revenue generated by the sale of products to Luoxin Pharmaceutical Group amounted to approximately 13%, 7% and 12% of the total revenue of the Company in each of the three years ended 31 December 2013, 2014 and 2015 respectively.

Despite the fact that the Group currently relies on Luoxin Pharmaceutical Group for a sizeable portion of its revenue, the Directors believe that it can source other distributors and distribute its chemical medicine products to markets other than hospitals at or below county level in Linyi City District, even if Luoxin Pharmaceutical Group ceases to distribute products of the Group. Having said that, the Company and Luoxin Pharmaceutical Group are in a good business relationship and there is no indication that Luoxin Pharmaceutical Group will cease to cooperate with the Group.

In view of the above, the Directors consider there is no competing interest between the Group and Luoxin Pharmaceutical Group. None of the Directors, the controlling Shareholders of the Company 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.

AUDITORS

The accounts for the year ended 31 December 2015 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming AGM. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming AGM.

On behalf of the Board
Liu Baoqi
Chairman

PRC, 21 March 2016

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 114, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practicing Certificate Number: P06417
Hong Kong, 21 March 2016

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	7	3,611,380	2,766,788
Cost of sales		(1,134,104)	(874,060)
Gross profit		2,477,276	1,892,728
Other revenue	7	67,681	78,743
Other income	9	39,857	26,585
Selling and distribution expenses		(1,649,576)	(1,259,076)
General and administrative expenses		(363,314)	(211,034)
Finance costs	8	(52)	(21)
Profit before taxation	9	571,872	527,925
Taxation	10	(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	15	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	17	**70,287**	41,000
Intangible assets	18	**4,057**	–
Prepayments to acquire technical know-how	19	**8,021**	17,404
Property, plant and equipment	20	**754,293**	544,275
Construction-in-progress	21	**108,136**	219,902
Prepaid lease payments	22	**99,675**	51,470
Deferred tax assets	23	**1,218**	523
Goodwill	24	**165**	165
		1,045,852	874,739
Current assets			
Inventories	25	**241,986**	278,283
Trade and bills receivables	26	**524,848**	324,797
Other receivables, deposits and prepayments	27	**172,602**	178,812
Financial assets at fair value through profit and loss	28	**1,049,556**	1,227,361
Pledged bank deposits	29	**–**	29,189
Cash and bank balances	29	**605,333**	160,512
		2,594,325	2,198,954
Liabilities			
Current liabilities			
Trade and bills payables	30	**130,188**	179,119
Other payables and accruals	31	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current liability			
Deferred income	32	89,526	20,380
Net assets		2,672,413	2,347,216
Capital and reserves			
Share capital	33	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

Approved by the Board of Directors on 21 March 2016 and signed on its behalf by:

Liu Baoqi
Director

Liu Zhenteng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014	60,960	31,139	31,564	6,033	–	1,953,051	2,082,747	3,484	2,086,231
Profit and total comprehensive income for the year	–	–	–	–	–	443,553	443,553	312	443,865
Transfer from retained earnings to statutory surplus reserve fund	–	–	4,826	–	–	(4,826)	–	–	–
Dividend paid	–	–	–	–	–	(182,880)	(182,880)	–	(182,880)
At 31 December 2014 and 1 January 2015	**60,960**	**31,139**	**36,390**	**6,033**	**–**	**2,208,898**	**2,343,420**	**3,796**	**2,347,216**
Profit/(loss) and total comprehensive income/(loss) for the year	–	–	–	–	–	492,929	492,929	(2,322)	490,607
Transfer from retained earnings to statutory surplus reserve fund	–	–	4,882	–	–	(4,882)	–	–	–
Additional non-controlling interests arising on disposal of interests in a subsidiary (Note 40)	–	–	–	–	(285)	–	(285)	18,755	18,470
Change in ownership interests of a subsidiary (Note 40)	–	–	–	–	(31)	–	(31)	(969)	(1,000)
Dividend paid	–	–	–	–	–	(182,880)	(182,880)	–	(182,880)
At 31 December 2015	**60,960**	**31,139**	**41,272**	**6,033**	**(316)**	**2,514,065**	**2,653,153**	**19,260**	**2,672,413**
Representing:									
Proposed 2015 final dividends						213,360			
Others						2,300,705			
Retained earnings as at 31 December 2015						2,514,065			

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		**571,872**	527,925
Adjustments for:			
Interest income		**(1,690)**	(2,139)
Finance costs		**52**	23
Gain on financial assets at fair value through profit or loss		**(59,801)**	(71,070)
Reversal of obsolete inventories written down	25	**(567)**	(37)
Reversal of impairment loss recognised in respect of trade receivables	26	**(1,087)**	(1,512)
Reversal of impairment loss recognised in respect of other receivables	27	**–**	(1,096)
Depreciation of property, plant and equipment	20	**60,261**	57,173
Loss on disposal of property, plant and equipment		**25,412**	392
Write-down of obsolete inventories	25	**2,366**	–
Impairment loss recognised in respect of trade receivables	26	**1,363**	1,359
Impairment loss recognised in respect of other receivables	27	**2,723**	815
Impairment loss recognised in respect of prepayments to acquire technical know-how		**9,383**	6,004
Amortisation of prepaid lease payments	22	**1,918**	1,100
Amortisation of purchased technical know-how	18	**–**	17
Increase in operating cash flow before movements in working capital		**612,205**	518,954
Net cash received from/(paid for) financial assets at fair value through profit or loss		**237,606**	(1,291)
Decrease/(increase) in inventories		**35,816**	(55,052)
Increase in trade and bills receivables		**(196,655)**	(46,500)
Increase in other receivables, deposits and prepayments		**(30,263)**	(69,456)
(Decrease)/increase in trade and bills payables		**(51,653)**	13,162
Increase in deposits received		**4,417**	25,288
Increase in deferred income		**106,578**	–
Increase in other payables and accruals		**169,021**	131,888
Net cash from operations		**887,072**	516,993
Interest paid		**(52)**	(23)
PRC income tax paid		**(75,162)**	(93,289)
Net cash generated from operating activities		**811,858**	423,681

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
Investing activities		
Interest received	1,690	2,139
Increase in prepayments to acquire technical know-how	–	(8,003)
Purchase of property, plant and equipment	(73,499)	(66,373)
Purchase of prepaid lease payments	–	(819)
Additions of construction-in-progress	(110,092)	(168,168)
Proceeds from disposal of property, plant and equipment	400	12,123
Acquisition of assets	34	–
Purchase of available-for-sale financial asset	(29,287)	–
Net cash used in investing activities	(210,754)	(229,101)
Financing activities		
Dividend paid	(185,472)	(198,288)
Decrease/(increase) in pledged bank deposits	29,189	(22,784)
Net cash used in financing activities	(156,283)	(221,072)
Net increase/(decrease) in cash and cash equivalents	444,821	(26,492)
Cash and cash equivalents at the beginning of the year	160,512	187,004
Cash and cash equivalents at the end of the year	605,333	160,512
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	605,333	160,512

The accompanying notes form an integral part of these consolidated financial statements.

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. (山東羅欣控股有限公司) (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 described in Note 16.

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 2015. 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.

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

In addition, the Group has adopted the amendments to the Listing Rules issued by the 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

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

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 recognised 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.

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

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 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 GEM Listing Rules but not under the new CO or amended GEM 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation

The consolidated financial statements has been prepared under the historical cost convention excepted for certain 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.

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 realisable 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.

The principal accounting policies are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power to over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- and has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Subsidiaries

A subsidiary in an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 – 40 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction-in-progress

Construction-in-progress comprises buildings, plant and machinery on which construction work or installation has not been completed and which, upon completion, management intends to use for long-term purpose. It is stated at cost which includes construction expenditure incurred, interest on loan and other direct costs attributable to the construction or installation less any accumulated impairment losses. On completion, the buildings, plant and machinery are transferred to respective categories at cost less any accumulated impairment losses.

Leasehold land

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets

Purchased technical know-how

Purchased technical know-how is stated at cost less accumulated amortisation and any accumulated impairment losses. It is recognised as an intangible asset if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and amortised on a straight-line basis over its estimated economic life of a period of five years since the commencement of related production. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

License

License with indefinite useful life that are acquired carried at cost less accumulated impairment loss.

The license and its status are reviewed annually to determine whether events and circumstances continue to support indefinite useful life. Should the useful life of the license change from indefinite to finite, the change would be accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. An assessment is made at each reporting date as to whether there is any indication that Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value though profit or loss and available-for-sale financial assets ("AFS financial assets"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value though profit or loss

Financial assets are classified as at fair value though profit or loss when the financial asset is either held for trading or it is designated as at fair value though profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value though profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value though profit or loss.

Financial assets at fair value though profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in the active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits, cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss (Continued)

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including trade and bills payables, dividend payable and other payables and accruals) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received.

Government grant relating to purchase of property, plant and equipment is included in non-current liabilities as deferred income and is expensed in profit or loss on a straight-line basis over the expected useful lives of the related assets.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign and presentation currency

Functional and presentation currency

Items included in the accounts of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The accounts are presented in RMB, which is the Group's functional and presentation currency.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Related party transactions

A party is considered to be related to the Group if:

(a) the party or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the reporting entity

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related party transactions (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be inflecting by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

Taxation

The Group is subject to PRC Enterprise Income Tax and value-added tax. Since PRC tax rules are complicated and there may be new PRC tax rules and regulations from time to time, the Group recognised tax liabilities based on estimates of tax liabilities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Provision for obsolete inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items.

Trade and other receivables

The debt profile of trade and other debtors is reviewed on a regular basis to ensure that the trade and other debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade and other debtor balances are called into doubts, specific provisions for trade and other receivables are made based on credit status of the debtors, the aged analysis of the receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectibility of trade and other receivables for which provision are not made could affect the results of operations.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

Impairment of intangible assets

The directors of the Company reconsidered the recoverability of the Group's intangible assets. The recoverable amounts of the intangible assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2015 RMB'000	2014 RMB'000
Financial assets		
Available-for-sale financial assets	**70,287**	41,000
Loan and receivables (including cash and cash equivalents)	**1,232,058**	588,037
Financial assets at fair value through profit or loss	**1,049,556**	1,227,361
Financial liabilities		
Amortised cost	**773,215**	612,289

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Interest rate risk management

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate borrowings. The Group did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

The Group's exposure to market risk for changes in interest rates relates primarily to the bank balances. Floating-rate interest income is charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(b) ***Financial risk management objectives and policies*** (Continued)

Market risk (Continued)

Foreign currency risk management

The Group operates and conducts business in the PRC and all the Group's transactions, assets and liabilities are primarily denominated in RMB and Hong Kong dollars ("HK$"), which expose the Group to foreign currency risk. The Group does not have any formal hedging policy.

No sensitivity analysis on foreign currency risk is performed since the Group's has no material foreign currency denominated monetary assets and liabilities at the end of the reporting period.

Other price risk

The Group is exposed to equity price risk mainly through its investment. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the management of the Group would monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis on change in fair value of financial assets at fair value though profit or loss

The sensitivity analyses below have been determined based on the exposure to price risk at the end of the reporting period.

If prices had been 10% higher/lower (2014: 10%):

– post-tax profit for the year ended 31 December 2015 would increase/decrease by RMB104,956,000 (2014: RMB122,736,100). This is mainly due to the changes in fair value of financial assets designated as financial assets at fair value through profit or loss investments.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group have put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the accounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) *Financial risk management objectives and policies* (Continued)

Credit risk (Continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2015						
Non-derivative financial liabilities						
Trade and bills payables	–	101,346	28,842	–	130,188	130,188
Other payables and accruals	–	643,027	–	–	643,027	643,027
		744,373	28,842	–	773,215	773,215
As at 31 December 2014						
Non-derivative financial liabilities						
Trade and bills payables	–	179,119	–	–	179,119	179,119
Other payables and accruals	–	430,578	–	–	430,578	430,578
Dividend payable	–	2,592	–	–	2,592	2,592
		612,289	–	–	612,289	612,289

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

Fair value of financial instruments

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

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.

(ii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(iii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

	2015 **RMB'000**	2014 RMB'000	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Financial assets at fair value through profit or loss	**1,049,556**	1,227,361	Level 2	Based on the discounted expected return from financial institutions

The most significant input is market value of the underlying assets.

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

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

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(Continued)

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

6. 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, except for the largest customer, no other individual customer contributed over 10% of the total revenue of the Group (2014: Nil).

Geographical information

The Group mainly operates in the PRC. During the year ended 31 December 2015, except for revenue of approximately RMB1,592,000 (2014: 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. As the non-current assets of the Group are all located in the PRC in each of the year ended 31 December 2015 and 2014, so no geographical analysis was presented.

7. TURNOVER AND OTHER REVENUE

	2015 RMB'000	2014 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 RMB'000	2014 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

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Bills payables	52	21

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories recognised as an expenses		**1,080,425**	834,627
Depreciation of property, plant and equipment	20	**60,261**	57,173
Amortisation of purchased technical know-how (included in cost of sales)	18	**–**	17
Amortisation of prepaid lease payments	22	**1,918**	1,100
Write-down of obsolete inventories	25	**2,366**	–
Impairment loss recognised in respect of trade receivables	26	**1,363**	1,359
Impairment loss recognised in respect of other receivables	27	**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:

	Notes	2015 RMB'000	2014 RMB'000
Other income			
Waiver of trade payables		**552**	965
Net exchange gain		**8,362**	–
Government grant		**27,184**	21,362
Penalty income		**2,105**	1,613
Reversal of obsolete inventories written-down	25	**567**	37
Reversal of impairment loss recognised in respect of trade receivables	26	**1,087**	1,512
Reversal of impairment loss recognised in respect of other receivables	27	**–**	1,096
		39,857	26,585

10. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Group did not carry on any business 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 since been enjoying the tax concession rate of 15% for the years ended 31 December 2015 and 2014.

(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 – Enterprise income tax	**81,960**	83,367
Deferred taxation (Note 23)	**(695)**	693
	81,265	84,060

10. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**571,872**	527,925
Calculated at a taxation rate of 25% (2014: 25%)	**142,968**	131,981
Tax effect of income not taxable for tax purpose	**(16,980)**	(17,959)
Tax effect of expenses not deductible for tax purpose	**139**	22,388
Tax effect of tax concession	**(51,844)**	(50,457)
Tax effect of tax losses utilised	**(376)**	–
Tax effect of unutilised tax losses	**6,830**	1,429
Tax effect of temporary difference	**528**	(3,322)
Taxation charge for the year	**81,265**	84,060

11. 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 RMB'000	2014 RMB'000
Proposed final dividend of RMB0.35 per ordinary share (2014: Final dividends declared and approved of RMB0.30 per ordinary share)	**213,360**	182,880

12. EMPLOYEE SALARIES, WAGES, COMMISSION AND PENSION

	2015 **RMB'000**	2014 RMB'000
Salaries, wages and commission	**1,254,734**	850,238
Pension costs – defined contribution plans	**6,332**	8,885
	1,261,066	859,123

13. PENSION AND RETIREMENT BENEFIT COSTS

The Group has provided for pension and retirement benefit costs to all qualified employees in the PRC in accordance with the regulations set by the PRC local government which is calculated based on 30% on the employees' salary or the monthly average salaries set out by the PRC local government.

Commencing 2003, the Group has participated in a Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong for all qualified Hong Kong employees, which is a defined contribution scheme managed by independent trustees. Monthly contributions are made to the MPF Scheme based on 5% of the Hong Kong employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. Both the Group's and the employees' contributions are subject to a cap of RMB1,008 (equivalent to HK$1,250) per month with effect from 1 June 2012 and RMB1,210 (equivalent to HK$1,500) per month with effect from 1 June 2014, and thereafter contributions are voluntary.

During the year ended 31 December 2015, the Group has contributed approximately RMB14,520 (2014: RMB11,905) to the MPF Scheme.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

	2015 **RMB'000**	2014 RMB'000
Basic salaries and allowances	**1,084**	972
Retirement benefit costs	**60**	54
	1,144	1,026

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(i) The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows: (Continued)

Individual emoluments paid and payable to the directors for the year ended 31 December 2015 are as follows:

	Year ended 31 December 2015			
	Fees RMB'000	Salaries, and other benefits RMB'000	Retirement schemes contributions RMB'000	Total RMB'000
Executive director:				
Liu Baoqi	–	446	10	456
Li Minghua	–	115	10	125
Liu Zhenteng	–	144	10	154
Han Fengsheng	–	72	10	82
Chen Yu	–	72	10	82
Non-executive directors:				
Yin Chuangui	24	–	–	24
Liu Zhenhai	24	–	10	34
Independent non-executive director:				
Foo Tin Chung, Victor	115	–	–	115
Fu Hongzheng	24	–	–	24
Prof. Chen Yun Zhen	24	–	–	24
Prof. Du Guanhua	24	–	–	24
	235	849	60	1,144

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(i) The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows: (Continued)

Individual emoluments paid and payable to the directors for the year ended 31 December 2014 are as follows:

	Year ended 31 December 2014			
	Fees RMB'000	Salaries, and other benefits RMB'000	Retirement schemes contributions RMB'000	Total RMB'000
Executive director:				
Liu Baoqi	–	372	9	381
Li Minghua	–	120	9	129
Liu Zhenteng	–	96	9	105
Han Fengsheng	–	60	9	69
Chen Yu	–	60	9	69
Non-executive directors:				
Yin Chuangui	24	–	–	24
Liu Zhenhai	24	–	9	33
Independent non-executive director:				
Foo Tin Chung, Victor	144	–	–	144
Fu Hongzheng	24	–	–	24
Prof. Chen Yun Zhen	24	–	–	24
Prof. Du Guanhua	24	–	–	24
	264	708	54	1,026

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(i) The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows: (Continued)

The number of directors whose emoluments fell within the following band is as follows:

	Number of individuals	
	2015	2014
Nil – RMB806,000 (equivalent to Nil – HK$1,000,000)	**11**	11

None of the directors have waived or agreed to waive any emoluments during the year.

(ii) The five individuals whose emoluments were the highest in the Group for the year did not include (2014: four) director whose emoluments are reflected in the analysis presented above. The emoluments payable (excluding amounts paid or payable by way of commissions on sales generated by the individual) to the five (2014: one) non-director, highest paid individual during the year are as follows:

	2015	2014
	RMB'000	RMB'000
Basic salaries and allowances	**4,790**	686
Retirement benefit costs	**115**	13
	4,905	699

The number of non-director, highest paid individuals whose emoluments fell within the following band is as follows:

	Number of individuals	
	2015	2014
Nil – RMB806,000 (equivalent to Nil – HK$1,000,000)	**3**	1
RMB806,000 – RMB1,613,000 (equivalent to HK$1,000,000 to HK$2,000,000)	**2**	–

(iii) During the year, no emoluments have been paid to the directors of the Company or the five highest individuals as an inducement to join or as compensation for loss of office (2014: Nil).

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(iv) Ms. Li Minghua was also the chief executive of the Company during the years ended 31 December 2015 and 2014.

The number of senior management (excluding directors whose emolument fell within the following band is as follows:

	Number of individuals	
	2015	2014
Nil – RMB806,000 (equivalent to Nil – HK$1,000,000)	**1**	1

15. 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

During the year ended 31 December 2015 and 2014, there is no instrument with potential dilutive shares issued by the Group. Therefore, the basic and diluted earnings per share for the respective years are equal.

16. PARTICULARS OF SUBSIDIARIES

As at 31 December 2015 and 2014, the Company had interests in the following subsidiaries:

Name of the entity	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of registered capital held by the Company		Proportion of voting power held		Principal activities
				2015	2014	2015	2014	
Sichuan Luoxin Pharmaceutical Company Limited* (四川羅欣醫葯有限公司) ("Sichuan Luoxin")	Incorporated	PRC	RMB6,000,000	51%	51%	51%	51%	Wholesale of biochemical products and Chinese medicine
Shandong Yuxin Pharmaceutical Company Limited*# (Formerly known as: Shandong Yuxin Pharmacy Company Limited*) (山東裕欣藥業有限公司) ("Shandong Yuxin")	Incorporated	PRC	RMB50,000,000	100%	100%	100%	100%	Wholesale and manufacture of biochemical products and Chinese medicine
Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Company Limited*# (Formerly known as: Shandong Hengxin Pharmaceutical Company Limited*) (山東羅欣藥業集團恒欣藥業有限公司) ("Shandong Hengxin")	Incorporated	PRC	RMB50,000,000	100%	100%	100%	100%	Wholesale and manufacture of biochemical products and Chinese medicine
Luoxin Biological Technology (Shanghai) Co., Ltd.*# (羅欣生物科技(上海)有限公司) ("Biological Technology")	Incorporated	PRC	RMB30,000,000	100%	100%	100%	100%	Development, technology transfer, technology consultancy and technology services of biological products, pharmaceutical products and medical equipments
Jinan Luoxin Pharmacy Co., Ltd. * (濟南羅欣醫藥) ("Jinan Luoxin")	Incorporated	PRC	RMB50,000,00	65.06%	–	65.06%	–	Wholesale of biochemical products and Chinese medicine, development technology transfer, technology consultancy and technology services of biological products
Luoxin Hong Kong Holdings Limited ("Hong Kong Luoxin")	Incorporated	Hong Kong	HK$10,000	100%	–	100%	–	Investment holding

The subsidiaries had no debt securities outstanding at the end of the reporting period or at any time during the year.

\# Shandong Hengxin, Shandong Yuxin, Biological Technology and Hong Kong Luoxin were incorporated on 11 April 2012, 19 December 2012, 25 June 2014 and 28 May 2015 respectively.

* The English name represents the translated name of the subsidiary as no English name has been registered.

16. PARTICULARS OF SUBSIDIARIES (Continued)

The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interest:

Name of subsidiary	(Loss)/profit allocated to non-controlling interest		Accumulated non-controlling interests		Percentage of equity interest held by non-controlling interest	
	2015	2014	**2015**	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Sichuan Luoxin	**(1,298)**	312	**2,498**	3,796	**49**	49
Jinan Luoxin	**(1,024)**	–	**16,762**	–	**34.94##**	–

\## For the changes in percentage of equity interest of Jinan Luoxin, please refer to Note 40.

Summarised financial information in respect of each of the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intra-group eliminations.

Sichuan Luoxin

	2015	2014
	RMB'000	RMB'000
Current assets	**38,370**	37,000
Non-current assets	**355**	263
Current liabilities	**(33,636)**	(29,517)
Equity attributable to owners of the Company	**5,089**	7,746
Revenue	**113,554**	112,489
Expenses	**(116,202)**	111,853
(Loss)/profit for the year	**(2,648)**	636
Total comprehensive (loss)/income for the year	**(2,648)**	636
Net cash (used in)/generated from operating activities	**(2,922)**	3,397
Net cash used in investing activities	**(207)**	(13)
Net cash generated from/(used in) financing activities	**2,939**	(2,939)
Net decrease in cash and cash equivalents	**(190)**	(445)

16. PARTICULARS OF SUBSIDIARIES (Continued)

Jinan Luoxin

	2015 RMB'000
Current assets	73,081
Non-current assets	1,796
Current liabilities	(30,963)
Equity attributable to owners of the Company	43,914
Revenue	172,275
Expenses	(175,016)
Loss for the year	(2,741)
Total comprehensive loss for the year	(2,741)
Net cash used in operating activities	(39,062)
Net cash used in investing activities	(1,415)
Net cash generated from financing activities	47,000
Net increase in cash and cash equivalents	6,523

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 RMB'000	2014 RMB'000
Unlisted securities – Equity securities (Note)		
At cost	70,287	41,000

Note:

1. Amount of RMB1,000,000 represented 10% of the capital of 山東羅欣陽光包裝制品有限公司, a company involved in the production and selling of plastic and packaging materials.

2. As at 31 December 2014, the investment cost of RMB40,000,000 represent 40% of the capital of Second Hospital of Fei County (費縣第二醫院). On July 2015, the Group further invested RMB15,000,000 to acquired 15% of the capital on it.

   As at 31 December 2015, although the Group hold 55% capital on the Second Hospital of Fei County, the directors of the Company confirmed that the Group does not involve into the daily operation decision and financial decision of the Second Hospital of Fei County. Due to the PRC regulation restriction, Second Hospital of Fei County cannot distribute its profit, as a result, the Group does not have the ability to use power to affect the amount of its returns from Second Hospital of Fei County. Therefore the Group does not have any control or significant influence on the Second Hospital of Fei County.

3. On 13 July 2015, the Group entered into subscription agreements to acquire the capital of WuXi Healthcare Ventures II, L.P. The partnership makes capital investments, primarily in privately-owned life sciences companies in PRC, Hong Kong and Taiwan ("Greater China") or United States. During the year ended 31 December 2015, the Group contributed approximately RMB14,287,000 (USD2,200,000), represented 3.46% of the capital of WuXi Healthcare Ventures II, L.P.

The available-for-sale financial assets are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be reliably measured. No impairment was recognised as at 31 December 2015 and 2014.

18. INTANGIBLE ASSETS

	Purchased technical know-how RMB'000	License RMB'000	Total RMB'000
Cost:			
At 1 January 2014, 31 December 2014 and 1 January 2015	17,450	–	17,450
Acquisition of assets (Note 39)	–	4,057	4,057
At 31 December 2015	17,450	4,057	21,507
Accumulated amortisation and impairment:			
At 1 January 2014	17,433	–	17,433
Charge for the year	17	–	17
At 31 December 2014, 1 January 2015 and 31 December 2015	17,450	–	17,450
Net carrying amount:			
At 31 December 2015	**–**	**4,057**	**4,057**
At 31 December 2014	–	–	–

The licenses will expire on December 2020 and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the licenses and consider that the possibility of failing in renewal is remote and the licenses will generate net cash flows for the Group for an indefinite period. Therefore, the licenses are treated as having an indefinite useful life.

The purchased technical know-how with estimated useful life of 5 years was fully amortised for the year ended 31 December 2014.

19. PREPAYMENTS TO ACQUIRE TECHNICAL KNOW-HOW

As at 31 December 2015 and 2014, the amounts are prepayments to third parties to acquire technical know-how. For the year ended 31 December 2015 and 2014, amount of approximately RMB9,383,000 and RMB6,004,000 respectively were impaired which was included in research and development expenses. The directors of the Company have considered that the amount of the prepayment to acquire technical know-how of RMB9,383,000 (2014: RMB6,004,000) was not recoverable as the research and development process was not successful and would not bring any future economic benefit to the Group. The directors of the Company are of the opinion that no further impairment was recognised because the remaining research and development process was considered to be successful and would bring future economic benefit to the Group.

20. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost					
As at 1 January 2014	229,162	203,984	24,988	23,076	481,210
Additions	2,652	51,947	10,248	1,526	66,373
Disposals	(3,323)	(23,840)	(1,341)	(46)	(28,550)
Transfer from construction-in-progress (Note 21)	46,065	169,905	–	880	216,850
As at 31 December 2014 and 1 January 2015	**274,556**	**401,996**	**33,895**	**25,436**	**735,883**
Acquisition of assets (Note 39)	**–**	**–**	**–**	**734**	**734**
Additions	**7,626**	**38,719**	**2,875**	**24,279**	**73,499**
Disposals	**(23,500)**	**(13,121)**	**(2,558)**	**(3,943)**	**(43,122)**
Transfer from construction-in-progress (Note 21)	**113,610**	**103,987**	**–**	**4,261**	**221,858**
As at 31 December 2015	**372,292**	**531,581**	**34,212**	**50,767**	**988,852**
Accumulated depreciation and impairment					
As at 1 January 2014	28,529	95,611	11,843	14,487	150,470
Charge for the year	8,209	42,396	4,146	2,422	57,173
Written back on disposals	(729)	(14,002)	(1,270)	(34)	(16,035)
As at 31 December 2014 and 1 January 2015	**36,009**	**124,005**	**14,719**	**16,875**	**191,608**
Charge for the year	**9,854**	**36,110**	**7,560**	**6,737**	**60,261**
Written back on disposals	**(3,878)**	**(11,546)**	**(1,118)**	**(768)**	**(17,310)**
As at 31 December 2015	**41,985**	**148,569**	**21,161**	**22,844**	**234,559**
Net carrying value					
As at 31 December 2015	**330,307**	**383,012**	**13,051**	**27,923**	**754,293**
As at 31 December 2014	238,547	277,991	19,176	8,561	544,275

21. CONSTRUCTION-IN-PROGRESS

	RMB'000
At 1 January 2014	268,584
Additions	168,168
Transfer to property, plant and equipment (Note 20)	(216,850)
At 31 December 2014 and 1 January 2015	**219,902**
Additions	**110,092**
Transfer to property, plant and equipment (Note 20)	**(221,858)**
At 31 December 2015	**108,136**

Analysis of construction-in-progress as follows:

	2015 RMB'000	2014 RMB'000
Construction cost of buildings	**56,448**	122,573
Cost of plant and machinery	**51,688**	97,329
	108,136	219,902

22. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 48-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2014	52,048
Addition of prepaid lease payments	1,649
Amortisation of prepaid lease payments	(1,100)
At 31 December 2014 and 1 January 2015	**52,597**
Addition of prepaid lease payments	**50,927**
Amortisation of prepaid lease payments (Note 9)	**(1,918)**
At 31 December 2015	**101,606**

Analysed for reporting purposes as:

	2015 **RMB'000**	2014 RMB'000
Current assets (included in other receivables, deposits and prepayments) (Note 27)	**1,931**	1,127
Non-current assets	**99,675**	51,470
	101,606	52,597

	2015 **RMB'000**	2014 RMB'000
Long-term lease	**8,914**	8,948
Medium-term lease	**92,692**	43,649
	101,606	52,597

23. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2014: 25%).

The movements in the deferred tax assets are as follows:

	2015 RMB'000	2014 RMB'000
At the beginning of the year	523	1,216
Deferred taxation credited/(charged) to the consolidated statement of profit or loss and other comprehensive income (Note 10)	695	(693)
At the end of the year	1,218	523

	Provision RMB'000	Amortisation charge on purchased technical know-how RMB'000	Total RMB'000
At 1 January 2014	964	252	1,216
Charged to the consolidated statement of profit or loss and other comprehensive income	(441)	(252)	(693)
At 31 December 2014 and 1 January 2015	523	–	523
Credited to the consolidated statement of profit or loss and other comprehensive income	695	–	695
At 31 December 2015	1,218	–	1,218

All deferred tax assets are to be recovered after more than 12 months.

24. GOODWILL

The carrying amount of goodwill was allocated to cash-generating unit as follows:

	2015 **RMB'000**	2014 RMB'000
Manufacturing and selling of pharmaceutical products	**165**	165

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's manufacturing and selling of pharmaceutical products activity was not impaired. The recoverable amount was assessed by reference to the cash-generating unit's value in use.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 12%.

Cash flow projections during the budget period are based on the same expected gross margins and raw material price inflation throughout the budget period. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash-generating unit.

25. INVENTORIES

	2015 **RMB'000**	2014 RMB'000
Raw materials	**1,506**	62,862
Work-in-progress	**97,526**	13,641
Finished goods	**145,565**	202,592
	244,597	279,095
Less: Write-down of obsolete inventories	**(2,611)**	(812)
	241,986	278,283

25. INVENTORIES (Continued)

Movements in the write-down of obsolete inventories are as follows:

	2015 RMB'000	2014 RMB'000
Balance at the beginning of the year	812	849
Write-down of obsolete inventories during the year	2,366	–
Reversal of obsolete inventories written-down	(567)	(37)
Balance at the end of the year	2,611	812

The reversal of obsolete inventories written-down arose from sales of obsolete inventories recognised during the year.

The directors of the Company have assessed the net realisable values and conditions of the Group's inventories as at 31 December 2015 and have considered a write-down of obsolete inventories of approximately RMB2,611,000 (2014: RMB812,000) be made in respect of the net realisable value of the inventories.

26. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 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

26. TRADE AND BILLS RECEIVABLES (Continued)

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 RMB'000	2014 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.

As at 31 December 2015, amount of approximately RMB101,852,000 was receivable from three connected parties (Note 37). The amounts due are unsecured, interest-free and receivable within 90 days.

As at 31 December 2014, amount of approximately RMB86,678,000 was receivable from two connected parties (Note 37). The amounts due are unsecured, interest-free and receivable within 90 days.

(a) Included in the Group's trade and bills receivables balance are debtors with a carrying amount of approximately RMB18,041,000 (2014: RMB9,910,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group has recognised provision for impairment loss of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. The Group does not hold any collateral over these balances.

Details of the aging analysis of trade and bills receivables which are past due but not impaired are as follows:

	2015 RMB'000	2014 RMB'000
181 to 365 days	**18,041**	9,910

26. TRADE AND BILLS RECEIVABLES (Continued)

(b) Movements in the provision for impairment loss recognised in respect of trade receivables are as follows:

	2015 RMB'000	2014 RMB'000
Balance at the beginning of the year	1,315	1,651
Impairment loss recognised during the year	1,363	1,359
Written off during the year	–	(183)
Reversal of impairment loss recognised in respect of trade receivables	(1,087)	(1,512)
Balance at the end of the year	1,591	1,315

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. Accordingly, the directors of the Company have considered provision for impairment is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the provision for impairment loss recognised in respect of trade receivables.

27. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2015 RMB'000	2014 RMB'000
Other receivables and deposits	105,918	84,396
Prepayments (Note)	70,725	95,884
	176,643	180,280
Less: Provision for impairment loss recognised in respect of other receivables	(4,041)	(1,468)
	172,602	178,812

27. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Note:

Prepayments mainly comprised of prepayment of value-added tax, acquisition of plant and machinery, raw materials, packing materials and consumables, and acquisition of prepaid lease payments of approximately RMB14,920,000 (2014: RMB Nil), RMB12,231,000 (2014: RMB14,032,000) and RMB30,566,000 (2014: RMB34,865,000) respectively.

Movements in the provision for impairment loss recognised in respect of other receivables are as follows:

	2015	2014
	RMB'000	RMB'000
Balance at the beginning of the year	**1,468**	1,776
Impairment loss recognised during the year	**2,723**	815
Written off during the year	**(150)**	(27)
Reversal of impairment loss recognised in respect of other receivables	**–**	(1,096)
Balance at the end of the year	**4,041**	1,468

The reversal of impairment loss recognised due to the recovery of other receivables during the year ended 31 December 2014.

In determining the recoverability of other receivables, the Company considers any change in the credit quality of the other receivables. Included in the provision for impairment loss recognised in respect of other receivables are individually impaired other receivables with a balance of approximately RMB4,041,000 (2014: RMB1,468,000) which have been in financial difficulty. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected recoverable amounts. The Company does not hold any collateral over these balances.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
	RMB'000	RMB'000
Held for trading	**1,049,556**	1,227,361

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

2015

As at 31 December 2015, the financial assets at fair value through profit or loss represent eight principal and return-protected financial products ("Financial Products 2015") issued by several financial institutions in the PRC. The Financial Products 2015 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The directors of the Company recognised the fair value of the Financial Products 2015 as at the end of reporting period with reference to the discounted of expected return provided by those financial institutions.

2014

As at 31 December 2014, the financial assets at fair value through profit or loss represent six principal and return-protected financial products ("Financial Products 2014") issued by several financial institutions in the PRC. The Financial Products 2014 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The directors of the Company recognised the fair value of the Financial Products 2014 as at the end of reporting period with reference to the discounted of expected return provided by those financial institutions.

29. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

As at 31 December 2015, no bank deposits of the Group (2014: RMB29,189,000) are pledged as collateral for bills payables.

The annual effective interest rate on pledged bank deposits for the year ended 31 December 2014 is 3.08%.

Cash and cash equivalents of the Group are denominated in RMB and HK$ and bank deposits are placed with banks in the PRC and in Hong Kong. The remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

30. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 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 RMB'000	2014 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 and pledged by bank deposits. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

31. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Accrued salaries	**43,992**	52,058
Other payables	**550,850**	348,243
Receipt in advance	**48,185**	30,277
	643,027	430,578

31. OTHER PAYABLES AND ACCRUALS (Continued)

As at 31 December 2015, other payable mainly consist of accrued sales and distribution expenses of approximately RMB309,766,000, accrued social insurance and staff benefit of approximately RMB52,600,000 and other tax and fee payable of approximately RMB39,897,000.

As at 31 December 2014, other payable mainly consist of accrued sales and distribution expenses of approximately RMB175,739,000, accrued social insurance and staff benefit of approximately RMB51,261,000 and other tax and fee payable of approximately RMB20,448,000.

32. DEFERRED INCOME

Deferred income represent the government grant received by the Group.

During the years ended 31 December 2002 and 2003, the Group received government subsidies in cash of RMB20,380,000 pursuant to an approval obtained from the local government authority. The grants were to enable the Group to construct a new manufacturing plant to produce Chinese medicines. As at 31 December 2015 and 2014, the Group has not commenced the construction of the new manufacturing plant.

During the year ended 31 December 2015, the Group received certain government grants related to enable the Group to commence technical know-how research and development and construct of plant and equipment.

The government grant received for the Group to commence technical know-how research and development were recognised as income in profit or loss when the related research and development incurred. The government grant received for the Group to construct of plant and equipment were recognised as income in profit or loss on a systematic basis over useful life of related plant and machinery.

33. SHARE CAPITAL

		Nominal value		
	Number of shares	**Domestic shares**	**H-shares**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Registered, issued and fully paid:				
At 31 December 2014 and 2015				
(nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960

34. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity to the consolidated financial statements.

35. BANKING FACILITIES

The Group did not have banking facilities as at 31 December 2015 (2014: aggregate banking facilities of approximately RMB29,189,000 were fully utilised).

As at 31 December 2015, none (2014: RMB29,189,000) of the banking facilities were secured by pledged bank deposits (2014: RMB29,189,000).

36. COMMITMENTS AND CONTINGENCIES

The Group had the following significant 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	**74,215**	301,805

37. RELATED PARTY TRANSACTIONS

Key management compensation for the year ended 31 December 2015 and 2014 was disclosed in Note 14.

Apart from those as disclosed under Note 26 and elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2015 RMB'000	2014 RMB'000
Sales of chemical medicine to Luoxin Pharmaceutical Group Co., ("Luoxin Pharmaceutical Group") (note (i))	442,921	206,829
Sales of chemical medicines to Shandong Luosheng Pharmacy Co., Ltd. ("Shandong Luosheng") (note (ii))	49,026	48,194
Sales of chemical medicines to Shandong Mingxin Pharmacy Co., Ltd. ("Shandong Mingxin") (note (iii))	39,950	31,181

Notes:

(i) Luoxin Pharmaceutical Group was the shareholder and promoter of the Company. Mr. Liu Baoqi is the director for both Luoxin Pharmaceutical Group and the Company. As at 31 December 2015, amount of approximately RMB72,871,000 (2014: RMB57,798,000) due from Luoxin Pharmaceutical Group is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 26.

(ii) Shandong Luosheng was the fellow subsidiary of which Luoxin Pharmaceutical Group is holding 51% of the equity interests of Shandong Luosheng. Mr. Liu Baoqi and Mr. Liu Zhenhai are also the directors of Shandong Luosheng. As at 31 December 2015, amount of approximately RMB12,421,000 (2014: RMB7,771,000) due from Shandong Luosheng is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 26.

(iii) Shandong Mingxin was the fellow subsidiary of which Luoxin Pharmaceutical Group is holding 51% of the equity interests of Shandong Mingxin. Mr. Liu Baoqi and Mr. Liu Zhenhai are also the directors of Shandong Mingxin. As at 31 December 2015, amount of approximately RMB16,560,000 (2014: RMB21,109,000) due from Shandong Mingxin is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 26.

The above transactions constitute connected transactions under GEM Listing Rules. Please also refer to "Connected Transactions and Continuing Connected Transactions" under "Report of the Directors".

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries	**166,250**	133,009
Available-for-sale financial assets	**56,000**	41,000
Prepayments to acquire technical know-how	**8,021**	11,764
Property, plant and equipment	**393,385**	389,319
Construction-in-progress	**54,851**	97,330
Prepaid lease payments	**18,046**	18,447
Deferred tax assets	**1,218**	523
	697,771	691,392
Current assets		
Inventories	**271,696**	321,693
Amounts due from subsidiaries	**660,555**	225,079
Trade and bills receivables	**480,488**	308,295
Other receivables, deposits and prepayments	**112,991**	86,155
Financial assets at fair value through profit and loss	**999,514**	1,227,361
Pledged bank deposits	**–**	26,250
Cash and bank balances	**284,048**	63,042
	2,809,292	2,257,875

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	2015 RMB'000	2014 RMB'000
Liabilities		
Current liabilities		
Trade and bills payables	**113,107**	150,530
Other payables and accruals	**580,021**	302,591
Deposits received	**56,061**	51,388
Dividend payable	**–**	2,592
Tax payable	**48,135**	39,908
	797,324	547,009
Net current assets	**2,011,968**	1,710,866
Total assets less current liabilities	**2,709,739**	2,402,258
Non-current liability		
Deferred income	**54,356**	20,380
Net assets	**2,655,383**	2,381,878
Capital and reserves		
Share capital	**60,960**	60,960
Other reserves	**67,652**	67,652
Retained earnings		
– Proposed final dividend	**213,360**	182,880
– Others	**2,313,411**	2,070,386
Total equity	**2,655,383**	2,381,878

Approved by the Board of Directors on 21 March 2016 and signed on its behalf by:

Liu Baoqi
Director

Liu Zhenteng
Director

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

A summary of the Company's reserves is as follows:

	Share Premium RMB'000	Statutory surplus reserve fund RMB'000 (Note (i))	Statutory public welfare fund RMB'000 (Note (ii))	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	31,139	30,480	6,033	1,967,620	2,035,272
Profit and total comprehensive income for the year	–	–	–	468,526	468,526
Dividend paid	–	–	–	(182,880)	(182,880)
At 31 December 2014 and 1 January 2015	**31,139**	**30,480**	**6,033**	**2,253,266**	**2,320,918**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**456,385**	**456,385**
Dividend paid	**–**	**–**	**–**	**(182,880)**	**(182,880)**
At 31 December 2015	**31,139**	**30,480**	**6,033**	**2,526,771**	**2,594,423**
Representing:					
Proposed 2015 final dividends				**213,360**	
Others				**2,313,411**	
Retained earnings as at 31 December 2015				**2,526,771**	

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Notes:

(i) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the entities in the PRC are required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory surplus reserve fund until the fund aggregates to 50% of the entity's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

During the years ended 31 December 2015 and 2014, no appropriation has been made by the Company because the statutory surplus reserve fund of the Company has reached 50% of the Company's registered capital.

The statutory surplus reserve fund shall only be used to make good previous years' losses, to expand the entity's production operations, or to increase the capital of the entity. Upon approval by a resolution passed at a shareholders' general meeting, the entity may transform its statutory surplus reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(ii) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the contribution to statutory public welfare fund by the entities is voluntary. This fund can only be used to provide staff welfare facilities and other collective benefits to the company's employees. This fund is non-distributable other than in liquidation. The directors consider that no provision to be made for the years ended 31 December 2015 and 2014.

39. ACQUISITION OF ASSETS

On 28 February 2015, the Group acquired 100% of the entire capital of Jinan Luoxin Pharmacy 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 – Licenses (Note 18)	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
Net cash inflow arising on acquisition:	
– Cash and cash equivalent acquired	34

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

40. CHANGE IN OWNERSHIP INTERESTS IN A SUBSIDIARIES

On 20 April 2015, the Group disposed 36.94% equity interest of Jinan Luoxin by way of increasing the registered capital of Jinan Luoxin from RMB3,000,000 to RMB50,000,000. The Group agreed to pay RMB28,530,000 of the increased capital of Jinan Luoxin. The non-controlling interests of Jinan Luoxin agreed to pay RMB18,470,000 for the increase capital of Jinan Luoxin. The Group recognised an increase of non-controlling interests and decrease in other reserve of approximately RMB18,755,000 and RMB285,000 respectively.

On 12 August 2015, the Group further acquired 2.00% equity interest of Jinan Luoxin by way of paying RMB1,000,000 of the capital of Jinan Luoxin. The Group recognised a decrease of non-controlling interest and decrease in other reserve of approximately RMB969,000 and RMB31,000 respectively.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

FIVE YEARS FINANCIAL SUMMARY

	For the year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**3,611,380**	2,766,788	2,529,464	2,228,257	1,626,848
Cost of sales	**(1,134,104)**	(874,060)	(884,393)	(725,977)	(624,217)
Gross profit	**2,477,276**	1,892,728	1,645,071	1,502,280	1,002,631
Other revenue	**67,681**	78,743	49,838	29,878	9,023
Other income	**39,857**	26,585	12,046	6,267	15,614
Selling and distribution expenses	**(1,649,576)**	(1,259,076)	(1,066,095)	(896,150)	(403,313)
General and administrative expenses	**(363,314)**	(211,034)	(137,364)	(124,031)	(127,621)
Share of profit of an associate	**–**	–	–	–	5,873
Finance costs	**(52)**	(21)	(9)	(90)	(168)
Profit before taxation	**571,872**	527,925	503,487	518,154	502,039
Taxation	**(81,265)**	(84,060)	(74,785)	(78,045)	(75,355)
Profit for the year	**490,607**	443,865	428,702	440,109	426,684
Profit/(loss) attributable to:					
Owners of the Company	**492,929**	443,553	428,585	439,874	426,556
Non-controlling interests	**(2,322)**	312	117	235	128
	490,607	443,865	428,702	440,109	426,684
Dividends	**213,000**	182,880	182,880	182,880	121,920
Earnings per share attributable to owners of the Company (RMB)	**0.809**	0.728	0.703	0.722	0.700

FIVE YEARS FINANCIAL SUMMARY

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets & Liabilities					
Total assets	**3,640,177**	3,073,693	2,667,700	2,288,547	1,937,283
Total liabilities	**(967,764)**	(726,477)	(581,469)	(449,608)	(411,533)
	2,672,413	2,347,216	2,086,231	1,838,939	1,525,750
Capital and reserves					
Equity attributable to owners of the Company	**2,653,153**	2,343,420	2,082,747	1,837,042	1,519,088
Non-controlling interests	**19,260**	3,796	3,484	1,897	6,662
	2,672,413	2,347,216	2,086,231	1,838,939	1,525,750