SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

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

(Stock code: 8058)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2016

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

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

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

This announcement, for which the directors (the "Directors") of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or announcement misleading.

* *For identification purposes only*

SUMMARY

- The Group's sales for the three months ended 31 March 2016 was approximately RMB932,457,000, representing an increase of 20.11% when compared with that of the corresponding period of last year.

- The Group's profit attributable to shareholders for the three months ended 31 March 2016 was approximately RMB117,575,000, representing an increase of 8.66% when compared with that of the corresponding period of last year.

- The Board does not recommend the payment of any dividend for the three months ended 31 March 2016.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2016 (the "Period") and the comparative figures of the corresponding period of 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2016

		Unaudited three months ended 31 March	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Turnover	*3*	**932,457**	776,364
Cost of sales		**(279,182)**	(208,658)
Gross profit		**653,275**	567,706
Other revenue	*3*	**10,954**	15,249
Other income		**18,865**	2,400
Selling and distribution expenses		**(446,459)**	(396,448)
General and administrative expenses		**(94,284)**	(61,799)
Profit before taxation		**142,351**	127,108
Taxation	*4*	**(24,378)**	(18,822)
Profits for the Period		**117,973**	108,286
Other comprehensive income/(loss) for the Period, net of tax			
Item that may be reclassified subsequent to profit or loss:			
Exchange difference on translating foreign operations		**(6)**	–
Total comprehensive income for the Period		**117,967**	108,286

	Note	Unaudited three months ended 31 March 2016 RMB'000	2015 RMB'000
Profit attributable to:			
Owners of the Company		**117,575**	108,209
Non-controlling interests		**398**	77
		117,973	108,286
Total comprehensive income attributable to:			
Owners of the Company		**117,569**	108,209
Non-controlling interests		**398**	77
		117,967	108,286
Earnings per share attributable to owners of the Company *(RMB)*			
– basic and diluted	*6*	**19.29 cents**	17.76 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2016

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company with a registered capital of Renminbi ("RMB") 46 million by way of promotion. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on GEM of the Stock Exchange since 9 December 2005. Pursuant to the Extraordinary General Meeting held on 12 August 2014, the name of the Company change to Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.

The Company's registered office is located at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC.

The principal activities of the Company are manufacturing and selling of pharmaceutical products. The principal activities of its subsidiary are wholesale and manufacture of biochemical products and Chinese medicine.

The consolidated financial statements are presented in RMB, and all values are rounded to the nearest thousand (RMB'000) unless otherwise stated. These consolidated financial statements were approved for issue by the Board on 5 May 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3. TURNOVER AND OTHER REVENUE

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

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

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2016	2015
	RMB'000	*RMB'000*
Turnover		
Sales of manufactured pharmaceutical goods	**932,457**	776,364
Other revenue		
Interest income and gain on financial assets at fair value through profit or loss	**10,954**	15,249
Total revenue	**943,411**	791,613

4. TAXATION

	Unaudited three months ended 31 March	
	2016	2015
	RMB'000	*RMB'000*
PRC enterprise income tax	**24,378**	18,822

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

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

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2016 (2015: Nil).

6. EARNINGS PER SHARE

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

The calculation of basic earnings per share for the three months ended 31 March 2015 is based on the unaudited net profit of approximately RMB108,209,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the three months ended 31 March 2015.

Diluted earnings per share have been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2016 and 2015.

7. SHAREHOLDERS' FUND

	Attributable to owners of the Company								
	Share premium *RMB'000*	**Statutory surplus reserve fund** *RMB'000*	**Statutory public welfare fund** *RMB'000*	**Other reserve** *RMB'000*	**Exchange reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Sub-total** *RMB'000*	**Non-controlling interest** *RMB'000*	**Total** *RMB'000*
At 1 January 2016	31,139	41,272	6,033	(316)	–	2,514,065	2,592,193	19,260	2,611,453
Profit for the period	–	–	–	–	–	117,575	117,575	398	117,973
Other comprehensive loss for the period	–	–	–	–	(6)	–	(6)	–	(6)
Total comprehensive income/(loss) for the period	–	–	–	–	(6)	117,575	117,569	398	117,967
At 31 March 2016	**31,139**	**41,272**	**6,033**	**(316)**	**(6)**	**2,631,640**	**2,709,762**	**19,658**	**2,729,420**
At 1 January 2015	31,139	36,390	6,033	–	–	2,208,898	2,282,460	3,796	2,286,256
Profit for the period	–	–	–	–	–	108,209	108,209	77	108,286
As 31 March 2015	**31,139**	**36,390**	**6,033**	**–**	**–**	**2,317,107**	**2,390,669**	**3,873**	**2,394,542**

DIVIDENDS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Given the escalating medical reform and frequent policy introduction for the pharmaceutical industry, together with new classification method for registration of pharmaceutical products and centralisation for the purchase of pharmaceutical products on a volume-and-price basis, the pharmaceutical industry is faced with enormous challenges. However, under the influence of various factors, such as aging population, accelerating processes of industrialisation and urbanisation, increasing household income, expanded medical insurance coverage in the PRC, growth in demands in the pharmaceutical industry in the PRC will sustain. Particularly, enterprises that have strong technological innovation capabilities and robust management and marketing systems will grow ever more vigorously after the fluctuations.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to providing safe, reliable and high-tech pharmaceutical products and focused on the strategies of strengthening science and technology innovation, production optimisation as well as strengthening marketing and distribution systems. During the Period, 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, under the influence of factors such as the slowdown in the domestic economy, sustained decrease in tender prices and medical insurance premium control, the industry has been growing at a slower pace and witnessed further fragmentation. The Group upheld its underlying development strategies and endeavoured to achieve the targets of the 13th Five-Year Plan. It managed to maintain stable and healthy development in research and development (the "R&D"), management, production, human resources, market network, and keep creating new growth points, thus laying a solid foundation for future development of the Group.

Research and Development

1. Building Research and Development Platform

R&D and innovation are the core drivers of the long-term development of the Group. As early as in 1996, the Group constructed an R&D base for generic drugs in Shandong and 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, which leverages various advantages in Shanghai Zhangjiang Hi-tech Park to reinforce its core competitive edge. The Group will conduct its R&D for high-tech projects and give training to high-tech talents in the Shanghai R&D Centre. As at 31 March 2016, the Shanghai R&D Centre has a team of approximately 90 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 virtually 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 institutions, and R&D institutions and introduction from overseas projects. The Group's production lines will, therefore, be greatly enriched. As at 31 March 2016, 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.

Currently, the Group has been leading the domestic and global R&D and sales of two potential innovative medicines, including:

Item CJ-12420

For pharmaceutical product item CJ-12420 jointly developed with CJ HealthCare of Korea, we expect to make the clinical trial application to the China Food and Drug Administration in the near future. The Company has been granted an exclusive right to develop, manufacture and commercializes the proposed pharmaceutical product CJ-12420 in mainland China, where we will be responsible for the development, manufacture, and commercial activities within the territory and bear the associated expenses.

CJ-12420 is a potassium-competitive acid blocker (P-CAB) in Phase 3 development for the treatment of reflux esophagitis and other acid-related gastrointestinal diseases. CJ-12420 competitively inhibits the binding of potassium ions to H+, K+-ATPase in the final step of gastric acid secretion in gastric parietal cells, which has the potential to provide a strong and sustained acid secretion inhibitory effect.

The Company is one of the leaders in acid inhibition treatment market in China. CJ-12420 will complement the Company's current growing business in this therapeutic area. We intend to accelerate the development of CJ-12420, making it a new treatment option to address the unmet needs of patients with acid-related diseases.

Item SCC-31

For pharmaceutical product item SCC-31 jointly developed with Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("SIMM") (中科院上海藥物所) and Fudan University (復旦大學), we has submitted the investigation of new drug application to the China Food and Drug Administration ("CFDA") (中國國家食品藥品監督管理總局) and we expect the same to be made to related foreign drug administrative authorities in the near future. The Company has the exclusive right to research and develop, manufacture and commercialize the product in mainland China, Hong Kong and Macau. We also co-owns the right of the pharmaceutical with our partners in markets beyond mainland China, Hong Kong and Macau, and we will work together to expedite the R&D of the pharmaceutical product.

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

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

Currently, the Company has obtained 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.

2. *New Products*

For the three months ended 31 March 2016, the Company has obtained two pharmaceutical production approvals. As at 31 March 2016, the Group had obtained 306 pharmaceutical production approvals and six antiseptic germicide production approvals.

The Group has added the specifications of 0.25g and 0.75g to its self-developed levofloxacin hydrochloride tablets, which were granted production approval from the China Food and Drug Administration on 22 March 2016. The product is mainly used for the prevention and treatment of bacterial infection caused by proven or highly suspected sensitive bacteria.

3. Patents and achievements

(1) As at 31 March 2016, the Group had 100 invention patents pending for registration in the PRC. As at 31 March 2016, the Group had 133 invention patents registered in the PRC.

(2) As at 31 March 2016, the Group had 306 production approvals.

(3) As at 31 March 2016, the Group had 48 certificates of new drugs.

(4) For the year ended 31 March 2016, the Group had 5 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 March 2016, the Group had 6 products being admitted to the National Major Innovative Drug Projects of the 12th Five-Year Plan, 10 projects being admitted to the State Torch Programme and 4 projects being admitted to the State Key New Products Programme.

Production and Management

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

1. Construction of Production Facilities

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

(1) Pharmaceutical preparations: Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. completed the civil construction of an anti-tumor drip and water injection workshop and a facility of purification and equipment, which entered the stage of equipment adjustment and certification. The 1601 solid workshop was renovated and successfully passed good manufacturing practice ("GMP") certification. Shandong Yuxin Pharmaceutical Co., Ltd. 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 I of the pharmaceutical raw materials project of Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Co., Ltd., 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 GMP certification and have been put into use. The phase II 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 research 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. Currently, 42 types of pharmaceutical raw materials have completed GMP certification, and one of the types has passed Korean GMP certification.

(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.

2. External Investment

During the period under review, the Company did not have any significant external investment.

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. Further implementation of classification and treatment results in continuous growth for the primary medical terminal market. The Group boosts the development of primary market and keeps exploring the third terminal markets, such as primary medical institutions, in order to expand its market share in the primary market. Currently, the Group's sales team in the third terminal market has been growing steadily, with increasing unit output, coverage area and industry reputation.

During the Period, the Group's turnover was approximately RMB932,457,000, representing an increase of approximately 20.11% from approximately RMB776,364,000 for the corresponding period of last year. The increase was mainly attributable to ongoing enhancement of product portfolio and promotion of sales of products with high added values by the Group as well as the prompt establishment of sales network to increase market share of the Group's products at different levels.

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

Indications and usage	Sales RMB'000 January to March 2016	Sales RMB'000 January to March 2015	Percentage of total turnover from January to March 2016	Percentage of total turnover from January to March 2015	Growth rate (%)
System specified medicine	419,475	334,092	44.99%	43.03%	25.56%
Antibiotic medicine	276,886	288,078	29.69%	37.11%	-3.89%
Other system specified medicine	236,096	154,194	25.32%	19.86%	53.12%
Total	932,457	776,364	100%	100%	20.11%

KEY PRODUCTS

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

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

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

Financial Review

The Group's unaudited turnover for the three months ended 31 March 2016 was approximately RMB932,457,000, representing an increase of approximately 20.11% from approximately RMB776,364,000 for the corresponding period of last year. The increase was attributable to the Group's continuing upgrade to the product portfolio and boosting the sales of high value-added products and the acceleration of sales network development to increase the market share of its products.

The unaudited cost of sales for the three months ended 31 March 2016 was approximately RMB279,182,000, representing an increase of approximately 33.80% from approximately RMB208,658,000 for the corresponding period of last year.

The unaudited gross profit margin for the three months ended 31 March 2016 was approximately 71.35%, representing a decrease of approximately 1.77 percentage points from approximately 73.12% for the corresponding period of last year. While both turnover and cost of sales increases, gross profit margin decrease was partly attributable to re-sell of products by subsidiaries with lower gross margin.

The unaudited operating expenditure for the three months ended 31 March 2016 was approximately RMB540,743,000 representing an increase of approximately 18.00% from approximately RMB458,247,000 for the corresponding period of last year.

The increase in operating expenditure was due to the following reasons:

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

2. 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. But these selling and distribution expenses increase in a more steady growth in this Period comparative to last year's quarter.

The unaudited profit attributable to the Shareholders for the Period was approximately RMB117,575,000, representing an increase of approximately 8.66% from approximately RMB108,209,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB19.29 cents for the Period.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 31 March 2016, the Group's cash and cash equivalents amounted to approximately RMB563,769,000 (excluding pledged bank deposits) (as at 31 March 2015: RMB102,158,000).

As at 31 March 2016, the Group did not have any borrowings (as at 31 March 2015: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2016, the Group did not have bank deposits pledged as security for remittance under acceptance (as at 31 March 2015: RMB4,571,000).

Financial Assets at Fair Value through Profit or Loss

As at 31 March 2016, the Group had financial assets at fair value through profit or loss of carrying amount of approximately RMB1,006,389,000 (as at 31 March 2015, carrying amount: RMB1,341,500,000). Such financial assets comprised seven investments in wealth management products, offered by licensed banks in the PRC.

Summary of the initial investment amount of the financial assets as at 31 March 2016 are as follows:

Initial investment amount *(RMB)*	**Investment period**	**Fixed investment return % per annum**
100,000,000	12/2015 – 4/2016	3.60%
110,000,000	12/2015 – 5/2016	3.60%
50,000,000	12/2015 – 6/2016	3.60%
300,000,000	1/2016 – 7/2016	3.40%
130,000,000	1/2016 – 4/2016	3.35%
210,000,000	3/2016 – 6/2016	3.15%
100,000,000	3/2016 – 6/2016	3.15%

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

As at 31 March 2016, the Group did not have any major acquisition or disposal.

SIGNIFICANT INVESTMENT

As at 31 March 2016, the Group did not make any significant investment.

CONTINGENT LIABILITIES

As at 31 March 2016, the Group did not have any substantial contingent liabilities.

EXCHANGE RISK

As at 31 March 2016, the Group operated and conducted business in the PRC, and all of the Group's transactions, assets and liabilities were denominated in RMB, except that some imported equipment and raw materials 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 the Cayman Islands in July 2015. Most of the Group's cash and cash equivalents and pledged deposits were denominated in RMB while bank deposits were placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government. The Group's bank deposits denominated in USD were placed in off-shore USD account opened by Luoxin Hong Kong Holdings Limited with banks in the PRC.

EMPLOYEES AND REMUNERATION POLICY

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

The Group has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

PROSPECTS

Looking ahead, as 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.

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 by the relevant authority in 2015, with an aim to encourage innovative research of drugs in terms of clinical value, optimise the examination and approval procedures of new drugs, and accelerate the examination of new drugs in urgent clinical needs. Meanwhile, with the full implementation of new GMP, not only can it raise the technology standards of the industry and strengthen regulation, but also eliminate obsolete capacity and enhance industry concentration. In addition, the State Council of the PRC issued "Made in China 2025" plan in May 2015 and announced the country's first ten-year action plan focusing on promoting manufacturing. Bio-medicine and high-end medical equipment are listed as one of the ten key sectors. It proposed to vigorously develop new chemical medicine, traditional Chinese medicine and bio-medicine intended to treat serious illnesses.

2016 will be at the same time a stressful and promising year. Factors such as the sustained decrease in tender prices and medical insurance premium control have brought real pressure to the industry. However, there is a silver lining in the introduction of standardised generic drug rating, reform on registration category for chemical drugs and reform on assessment and approval for pharmaceutical products, which create new demands and opportunities for R&D and innovation of pharmaceutical industries. Overall, the measures favour the development of innovative enterprises and expand the room of development for competitive enterprises.

The Group will continue to pursue the strategic direction of a "technology-driven enterprise with determination and efforts". By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investments in scientific research to consolidate its standing in scientific researches and technologies, and to enhance the capabilities of its R&D team. The Group strives for developing more products with more advanced technology, of better quality and higher added value.

The Group also aims at reducing production costs and expanding production scale so as to stay competitive through economies of scale, low production costs and differentiation. With the completion of construction and commencement of production of the Group's new production bases of "Yuxin" (裕欣) and "Hengxin" (恒欣), our production capacity has been enhanced to satisfy growing market demands for pharmaceutical products. Meanwhile, the Group will increase the number of new dosage types and effectively expand the R&D scope of new drugs, thus facilitating the comprehensive development of the Group's business.

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 management believes that the Group will continue to achieve health development with its operating advantages in abundant product resources, a talented R&D team which is rapidly expanding, extensive domestic sales networks and strong production capacity.

APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Period were approved by the Board on 5 May 2016.

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

As at 31 March 2016, the interests and short positions of each of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

1. Long position of domestic shares of the Company ("Domestic Shares") as at 31 March 2016:

Name of Director	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
Mr. Liu Baoqi *(Note 1)*	Interest of controlled corporation	325,639,949	73.17%	53.42%

2. Interest in Shandong Luoxin Holdings Co., Ltd.* (山東羅欣控股有限公司) ("Luoxin Holdings") as at 31 March 2016:

Name of Director	Capacity/Nature of interest	Number of shares in Luoxin Holdings	Approximate % of issued share capital of Luoxin Holdings
Mr. Liu Baoqi *(Note 1)*	Beneficial Owner	25,865,000	51.73%
Ms. Li Minghua *(Note 2)*	Beneficial Owner	7,450,000	14.90%
Mr. Liu Zhenhai *(Note 3)*	Beneficial Owner	5,000,000	10.00%
Mr. Han Fengsheng *(Note 4)*	Beneficial Owner	1,000,000	2.00%
Mr. Liu Zhenteng *(Note 5)*	Beneficial Owner	10,685,000	21.37%

Note 1: As at 31 March 2014, these 325,639,949 Domestic Shares were registered in the name of Luoxin Pharmaceutical Group Co., Ltd. ("Luoxin Pharmaceutical Group", formerly known as Linyi Luoxin Pharmacy Company Limited). Mr. Liu Baoqi ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmaceutical Group. On 21 May 2014, these 325,639,949 Domestic Shares were sold to Luoxin Holdings. As at 31 March 2016, Mr. Liu was interested in 51.73% of the registered share capital of Luoxin Holdings and was entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Holdings.

Note 2: As at 31 March 2014, Ms. Li Minghua ("Ms. Li") was interested in 16.00% of the registered share capital of Luoxin Holdings. On 23 June 2014, Ms. Li sold 550,000 shares of Luoxin Holdings to another independent third party. As at 31 March 2016, Ms. Li was interested in 14.90% of the registered share capital of Luoxin Holdings.

Note 3: As at 31 March 2016, Mr. Liu Zhenhai was interested in 10.00% of the registered share capital of Luoxin Holdings.

Note 4: As at 31 March 2016, Mr. Han Fengsheng was interested in 2.00% of the registered share capital of Luoxin Holdings.

Note 5: On 25 March 2016, Mr. Liu Zhenteng acquired 10,685,000 shares of Luoxin Holdings from another independent third party. As at 31 March 2016, Mr. Liu Zhenteng was interested in 21.37% of the registered share capital of Luoxin Holdings.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial Shareholders (not being a Director or chief executive of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2016, the Company had been notified of the following substantial Shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the Directors and chief executive of the Company.

1. Long position of Domestic Shares, as at 31 March 2016 :

Name	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
Luoxin Holdings	Beneficial owner	325,639,949	73.17%	53.42%

2. Long position of H-Share, as at 31 March 2016:

Name	Capacity/Nature of interest	Number of H-Share	Approximate % of total issued H-Shares	Approximate % of Company's share capital
GL Capital Management GP Limited *(Note 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%
Deutsche Bank Aktiengesellschaft	NIL *(Note 10)*	7,910,144	4.81%	1.34%

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 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. 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.

3. Short position of H-Shares, as at 31 March 2016:

Name	Capacity/ Nature of interest	Number of H-Share	Approximate % of total issued H-Shares	Approximate % of Company's share capital
Deutsche Bank Aktiengesellschaft	NIL *(Note 10)*	220,000	0.13%	0.04%

Note 10: As shown on the form of disclosure of interest filed by Deutsche Bank Aktiengesellschaft on 25 November 2015.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that during the three months ended 31 March 2016, the Company has complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in the prevailing Appendix 15 of the GEM Listing Rules (the "New CG Code") which was put into effect on 1 April 2012.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 20 November 2005 with written terms of reference revised on 13 March 2012 in compliance with the New CG Code. The duties of the Audit Committee are to review and supervise the financial reporting process and the internal control policies and procedures of the Company. The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (the chairman), Mr. Fu Hongzheng, Prof. Chen Yun Zhen and Prof. Du Guanhua.

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

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors during the three months ended 31 March 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

COMPETING BUSINESS

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

Luoxin Pharmaceutical Group

Up to 21 May 2014, Luoxin Pharmaceutical Group was the controlling Shareholder of the Company which held 53.42% of the Company's then total issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmaceutical Group and a controlling shareholder holding 51.73% of the registered capital of Luoxin Pharmaceutical Group.

Luoxin Pharmaceutical Group was engaged in the sales of chemical medicines, Chinese medicines, medical equipment and health and beauty products. Pursuant to a non-competition undertaking in favour of the Company signed by Luoxin Pharmaceutical Group on 7 November 2002, Luoxin Pharmaceutical Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmaceutical Group signed a supplementary non-competition undertaking pursuant to which it would carry out its sales activities restricted only to those products which are purchased from the Group in Linyi City and confirmed that its customers are small and medium sized medical institutions, i.e. hospitals below county-level. The Company received from Luoxin Pharmaceutical Group an annual confirmation in respect of the compliance with these undertakings. On 21 May 2014, Luoxin Pharmaceutical Group sold its entire shareholding of the Company to Luoxin Holdings which represented 53.42% of the Company's then total issued share capital. The chairman of the Company, Mr. Liu, is also the executive director and controlling shareholder holding 51.73% of the registered capital of Luoxin Holdings.

Save as disclosed above, none of the Directors, the substantial Shareholders or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

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

PRC, 5 May 2016

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

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