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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purposes only*

RESULTS HIGHLIGHTS

- Turnover for the year ended 31 December 2016 amounted to approximately RMB4,117,573,000 (2015: RMB3,611,380,000), representing an increase of approximately 14.02% as compared with the year ended 31 December 2015.

- Profit attributable to the shareholders of the Company (the "Shareholders") for the year ended 31 December 2016 amounted to approximately RMB379,198,000 (2015: approximately RMB492,929,000), representing a decrease of approximately 23.07% as compared with the year ended 31 December 2015.

- The Directors did not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: RMB0.35 per share).

RESULTS

The board of Directors (the "Board") is pleased to present the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Turnover	*5*	**4,117,573**	3,611,380
Cost of sales		**(1,000,033)**	(1,134,104)
Gross profit		**3,117,540**	2,477,276
Other revenue	*5*	**43,215**	67,681
Other income	*7*	**76,856**	39,857
Selling and distribution expenses		**(2,309,501)**	(1,649,576)
General and administrative expenses		**(464,201)**	(363,314)
Finance costs	*6*	**(86)**	(52)
Profit before taxation	*7*	**463,823**	571,872
Taxation	*8*	**(83,155)**	(81,265)
Profit for the year		**380,668**	490,607
Other comprehensive income for the year, net of tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**89**	–
Total comprehensive income for the year		**380,757**	490,607
Profit/(loss) for the year attributable to:			
Owners of the Company		**379,198**	492,929
Non-controlling interests		**1,470**	(2,322)
		380,668	490,607
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**379,287**	492,929
Non-controlling interests		**1,470**	(2,322)
		380,757	490,607
Earnings per share attributable to owners of the Company *(RMB)*			
Basic and diluted	*10*	**0.622**	0.809

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Non-current assets			
Available-for-sale financial assets		**89,335**	70,287
Intangible assets		**6,843**	4,057
Prepayments to acquire technical know-how		**–**	8,021
Property, plant and equipment		**883,703**	754,293
Construction-in-progress		**99,636**	108,136
Prepaid lease payments		**97,895**	99,675
Deferred tax assets		**1,113**	1,218
Goodwill		**165**	165
		1,178,690	1,045,852
Current assets			
Inventories		**504,894**	241,986
Trade and bills receivables	*11*	**710,277**	524,848
Other receivables, deposits and prepayments		**294,834**	172,602
Financial assets at fair value through profit and loss		**1,038,006**	1,049,556
Fixed deposits		**85,022**	–
Cash and bank balances		**556,028**	605,333
		3,189,061	2,594,325
Current liabilities			
Trade and bills payables	*12*	**227,758**	130,188
Other payables and accruals		**993,701**	643,027
Deposits received		**79,533**	56,423
Tax payable		**63,164**	48,600
		1,364,156	878,238
Net current assets		**1,824,905**	1,716,087
Total assets less current liabilities		**3,003,595**	2,761,939

	2016 *RMB'000*	2015 *RMB'000*
Non-current liability		
Deferred income	**136,285**	89,526
Net assets	**2,867,310**	2,672,413
Capital and reserves		
Share capital	**60,960**	60,960
Other reserves	**84,416**	78,128
Retained earnings		
— Proposed final dividend	**–**	213,360
— Others	**2,673,716**	2,300,705
Equity attributable to owners of the Company	**2,819,092**	2,653,153
Non-controlling interests	**48,218**	19,260
Total equity	**2,867,310**	2,672,413

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 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 cooperative 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 mainly manufacturing and wholesale of medicines.

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 on 7 March 2017.

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 2016. A summary of the new HKFRSs are set out as below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

In the opinion of Directors, except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, 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.

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

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

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

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

The Directors 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 Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs will have a significant impact on the Group's financial performance and position.

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 and the applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange.

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.

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.

4. SEGMENT INFORMATION

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

The Group currently operates in one business segment in the manufacturing and selling of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the net profit of the Group and the reportable assets and liabilities report to the chief operating decision makers are the Group's assets and liabilities.

Revenue from major products

	2016	2015
	RMB'000	*RMB'000*
Pharmaceutical products	**4,117,573**	3,611,380

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB4,117,573,000 (2015: RMB3,611,380,000) are revenues of approximately RMB299,759,000 (2015: RMB442,921,000) which arose from sales to the Group's largest customer. For the year ended 31 December 2016, no individual customer contributed over 10% of the total revenue of the Group (2015: one customer amounting to approximately RMB442,921,000).

Geographical information

The Group mainly operates in the PRC. During the year ended 31 December 2016, except for revenue of approximately RMB1,473,000 (2015: RMB1,592,000) 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 years ended 31 December 2016 and 2015, so no geographical analysis was presented.

5. TURNOVER AND OTHER REVENUE

	2016	2015
	RMB'000	*RMB'000*
Turnover		
Sales of manufactured pharmaceutical products	**4,117,573**	3,611,380
Other revenue		
Gain on financial assets at fair value through profit or loss		
— Realised	**32,797**	55,245
— Unrealised	**3,006**	4,556
	35,803	59,801
Interest income on bills receivables	**129**	143
Interest income on bank deposits	**2,532**	1,547
Sundry income	**4,751**	6,190
	43,215	67,681
Total revenue	**4,160,788**	3,679,061

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

	2016	2015
	RMB'000	*RMB'000*
Turnover		
System specified medicine	**1,948,667**	1,622,818
Anti-biotic medicine	**1,232,007**	1,211,250
Other specified medicine	**936,899**	777,312
	4,117,573	3,611,380

6. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Bills payables	**86**	52

7. PROFIT BEFORE TAXATION

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**933,306**	1,080,425
Depreciation of property, plant and equipment	**74,980**	60,261
Amortisation of prepaid lease payments	**1,518**	1,918
Write-down of obsolete inventories	**6,331**	2,366
Impairment loss recognised in respect of trade receivables	**3,722**	1,363
Impairment loss recognised in respect of other receivables	**1,334**	2,723
Employees benefit expenses (excluding Directors' and supervisors' remuneration)	**1,607,786**	1,267,725
Loss on disposal of property, plant and equipment	**2,076**	25,412
Research and development costs	**314,315**	253,607
Rental expenses	**3,245**	1,751
Advertising costs	**10,718**	4,368
Auditors' remuneration	**1,050**	1,151

and after crediting:

Other income		
Waiver of trade payables	**29**	552
Net exchange gain	**20,556**	8,362
Government grant	**40,047**	27,184
Penalty income	**8,596**	2,105
Reversal of obsolete inventories written-down	**2,031**	567
Reversal of impairment loss recognised in respect of trade receivable	**1,556**	1,087
Reversal of impairment loss recognised in respect of other receivables	**4,041**	–
	76,856	39,857

8. 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 ended 31 December 2016 (2015: Nil).

(ii) As described in the paragraph below, the Company is subjected to the PRC Enterprise Income Tax at a rate of 15% (2015: 15%). The subsidiaries of the Group are subjected to the PRC Enterprise Income Tax at a rate of 25% (2015: 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 2016 and 2015.

(iii) The Group is subjected to the PRC value-added tax ("VAT") at 17% (2015: 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:

	2016	2015
	RMB'000	*RMB'000*
Current taxation — Enterprise income tax	**83,050**	81,960
Deferred taxation	**105**	(695)
	83,155	81,265

9. DIVIDENDS

The dividend paid in 2016 and 2015 were RMB213,360,000 (RMB0.35 per share) and RMB182,880,000 (RMB0.30 per share) respectively.

The Directors did not recommend the payment of a final dividend of the year ended 31 December 2016 (2015: RMB213,360,000, RMB0.35 per share in respect of year ended 31 December 2015).

10. EARNINGS PER SHARE

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

	2016	2015
Profit attributable to owners of the Company *(RMB'000)*	**379,198**	492,929
Weighted average number of ordinary shares in issue *('000)*	**609,600**	609,600
Basic and diluted earnings per share *(RMB)*	**0.622**	0.809

During the year ended 31 December 2016 and 2015, there is no instrument with potential dilutive share issued by the Company. Therefore, the basic and diluted earnings per share for the respective years are equal.

11. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**638,215**	475,570
Bills receivables	**75,819**	50,869
	714,034	526,439
Less: Provision for impairment loss recognised in respect of trade receivables	**(3,757)**	(1,591)
	710,277	524,848

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

	2016	2015
	RMB'000	*RMB'000*
1 to 90 days	**615,006**	443,720
91 to 180 days	**81,674**	63,087
181 to 365 days	**13,597**	18,041
	710,277	524,848

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 2016 and 2015 are denominated in RMB.

12. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**227,758**	130,188
Bills payables	**–**	–
	227,758	130,188

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

	2016	2015
	RMB'000	*RMB'000*
1 to 90 days	**158,157**	88,021
91 to 180 days	**14,021**	6,587
181 to 365 days	**9,525**	6,738
Over 365 days	**46,055**	28,842
	227,758	130,188

Trade and bills payables as at 31 December 2016 and 2015 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.

13. ACQUISITION OF ASSETS

On 1 July 2016, the Group acquired 51% of the capital of Shandong Luoxin Pharmaceutical Group Runxin Pharmaceutical Company Limited, for an aggregate consideration of approximately RMB25,500,000 (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 2016	**25,500**

The assets acquired and liabilities recognised at the date of the Acquisition are as follows:

	RMB'000
Intangible assets — License	**2,786**
Cash and bank balances	**19,811**
Prepayment, deposit and other receivables	**38,841**
Property, plant and equipment	**1,064**
Accruals and other payable	**(12,502)**
Total identifiable net assets at fair value	**50,000**
Non-controlling interest	**(24,500)**
	25,500
Net cash outflow arising on acquisition:	
— Cash and cash equivalent paid	**(25,500)**
— Cash and cash equivalent acquired	**19,811**
	(5,689)

14. COMMITMENTS AND CONTINGENCIES

The Group had the following significant commitments:

(a) Operating leases

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**11,632**	878
In the second to fifth years, inclusive	**46,685**	–
	58,317	878

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 2016, not provided for in the consolidated financial statements were as follows:

	2016	2015
	RMB'000	*RMB'000*
Contracted but not provided for:		
— Purchase of technical know-how	**–**	140,134
— Purchase of property, plant and equipment	**84,014**	74,215

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

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

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to providing safe, reliable and high-tech pharmaceutical products and focused on the strategies of strengthening science and technology innovation, production optimisation as well as strengthening marketing and distribution systems. During the year ended 31 December 2016, in the face of numerous newly-implemented industry policies, the Group endeavoured to adjust its operating strategies in order to adapt to changes in the industry and market demands by investing additional resources in enhancing its production capabilities, building R&D teams and deploying product pipelines. However, the growth of the Group's sales results is facing greater pressure due to the industrial policies and the market environment.

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

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

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

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

- R&D of innovative drugs. The Group intends to further allocate capital to the Luoxin Biological Technology (Shanghai) Co. Ltd.* (羅欣生物科技(上海)有限公司) ("Shanghai R&D Centre") for the R&D of high-tech products through independent R&D, cooperation with institutions and R&D organisations and introduction from foreign projects etc., so as to expand the product portfolio of the Group.

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

BUSINESS REVIEW

During the year ended 31 December 2016, under the influence of factors such as the slowdown in the domestic economy, sustained decrease in tender prices and medical insurance premium control, the industry has been growing at a slower pace and witnessed further fragmentation. The Group upheld its underlying development strategies and endeavoured to achieve the targets of the 13th Five-Year Plan. It managed to maintain stable and healthy development in R&D, management, production, human resources and market network, thus laying a solid foundation for the future sustainable development of the Group.

Research and Development

1. Building Platform for Technology Research and Development

R&D and innovation are the core drivers of the long-term development of the Group. As early as in 1996, the Group established an R&D base for generic drugs in Shandong. In June 2014, the Group established the Shanghai R&D Centre in Shanghai Zhangjiang Hi-Tech Park, to reinforce its core competitive edge by leveraging the various advantages acquired from Shanghai Zhangjiang Hi-Tech Park. The Group will conduct R&D for high-tech projects and provide training to high-tech talents in the Shanghai R&D Centre. As at 31 December 2016, the Shanghai R&D Centre had a team of approximately 165 staff members. Their key members, who are well-known domestic and international experts with R&D experience in medicines in internationally prominent pharmaceutical

enterprises, have formed a R&D team that covers all phases of R&D on new drugs and will continue to expand its scale along with further enrichment of the product lines of the Company.

During the year ended 31 December 2016, the Group actively implemented the quality consistency evaluation for generic drugs in a comprehensive manner based on the national quality consistency evaluation policy. The first category for evaluation is the oral drugs category in National Essential Drugs List, which is required to be completed by the end of 2018 according to the national quality consistency evaluation policy. Currently, we have completed the registration of the reference listed drugs for this category while related R&D and applications are undergoing in a timely and orderly manner. The Group's quality consistency evaluation for other categories of drugs is also commencing by stages.

Furthermore, the Shanghai R&D Centre focuses on the R&D on innovative drugs. It has developed products by advanced technologies adopted through self-development, cooperation with institutions, R&D organisations and introduction from overseas projects. The Group's product lines will, therefore, be greatly enriched. As at 31 December 2016, the Shanghai R&D Centre has commenced various self-developed and co-developed R&D projects on new drugs and established cooperation relationships with renowned foreign pharmaceutical enterprises and leading domestic R&D institutions.

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

Item LXI-15028 (CJ-12420)

For pharmaceutical product LXI-15028 jointly developed with CJ HealthCare in Korea, we made the application for clinical trial approvals to the Shandong Food and Drug Administration* (山東省食品藥品監督管理局) ("SDFDA") in December 2016. The application has also been submitted to the Technical Evaluation Center of the China Food and Drug Administration* (中國國家食品藥品監督管理總局) ("CFDA") and is currently pending technical evaluation by the Technical Evaluation Center. The Company has been granted an exclusive right to develop, manufacture and commercialise the proposed pharmaceutical product LXI-15028 in the PRC, where the Company will be responsible for the development, manufacture, and commercial activities within the territory and bear the associated expenses.

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

The Company is one of the leaders in acid inhibition treatment market in the PRC. LXI-15028 will complement the Company's current growing business in this therapeutic area. Currently, the Company is accelerating the development process of LXI-15028 according to the schedule, with the clinical development stage scheduled to commence in 2017, in order to address the unmet needs of patients with acid-related diseases.

Item LXI-15029(SCC-31)

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

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

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

Currently, the Company has obtained or been awarded approvals to establish several scientific research platforms which include a state-accredited enterprise technology centre, a state-province joint engineering laboratory, the "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)*" (國家綜合性新藥研發技術大平台(山東)產業化示範企業), the "National Post-Doctoral Research Workshop*" (國家博士後科研工作站), the "Key High-Tech Enterprise under the State Torch Programme*" (國家火炬計劃重點高新技術企業), the "National Technological Innovation Demonstration Enterprise*" (國家技術創新示範企業), the "Pilot Enterprise on the Implementation of Management System for the Integration of Informatisation and Industrialisation*" (兩化融合管理體系貫標試點企業), the "Model Engineering Technology Research Centre of Shandong Province*" (山東省級示範工程技術研究中心), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory*" (山東省凍乾粉針劑藥物重點實驗室), the "Shandong Lyophilized Powder Injection Pharmaceutical Engineering Laboratory*" (山東省凍乾粉

針劑藥物工程實驗室), the "Taishan Scholar — Pharmaceutical Expert Consultant*" (泰山學者 — 藥學特聘專家), and the "Enterprise Academician Workstation of Shandong Province*" (山東省企業院士工作站). Together, they formed a strong platform for talent accumulation, R&D and technology advancement, and further strengthened the R&D capabilities and overall competitiveness of the Group.

2. New Products

For the year ended 31 December 2016, the Company obtained nine pharmaceutical production approvals. As at 31 December 2016, the Group had obtained a total of 313 pharmaceutical production approvals and six antiseptic germicide production approvals.

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

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

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

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

(5) The Group's meropenem for injection (注射用美羅培南) with specifications of 0.25g and 0.5g were granted production approval by the CFDA on 25 October 2016. The product is mainly used for the treatment of bacterial infection caused by one or more species of meropenem sensitive bacteria for adults and children, including pneumonia (including nosocomial pneumonia), urinary tract infection, gynecological infection (e.g. endometritis and pelvic inflammatory disease), skin and soft tissue infection, meningitis and septicemia.

(6) The Group's cefoperazone sodium and tazobactam sodium for injection (注射用頭孢哌酮鈉他唑巴坦鈉) (8:1) with specifications of 1.125g and 2.25g were granted production approval by the CFDA on 23 December 2016. The product is mainly used for the treatment of medium and heavy infection caused by beta-lactamase-producing bacteria resistant to and sensitive to sole cefoperazone tablets.

3. Patents and Achievements

(1) As at 31 December 2016, the Group had 119 invention patents pending for registration in the PRC, and had 147 invention patents registered in the PRC.

(2) As at 31 December 2016, the Group had 313 production approvals, and six antiseptic germicide production approvals.

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

(4) For the year ended 31 December 2016, the Group had 13 research projects being admitted to various major construction projects at national, provincial and municipal levels, and independent innovation projects, and won science and technology awards at national, provincial and municipal levels for 125 product technologies.

(5) As at 31 December 2016, the Group had eight products being admitted to the National Major Innovative Drug Projects, 10 projects being admitted to the State Torch Programme, and four projects being admitted to the State Key New Products Programme.

Production and Management

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

1. Construction of Production Facilities

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

(1) *Pharmaceutical preparations:* the Company completed the civil construction of an anti-tumor drip and water injection workshop and a facility of purification and equipment, the equipment adjustment of which has been completed and entered into the early stage of certification. The 1601 solid workshop was renovated and successfully obtained GMP certification. The 1305 and 1306 mixing powder workshops have completed construction and passed the on-site inspection by SDFDA, and have both obtained approvals for mixing powder injection. Yuxin was granted the Drug Manufacturing Certificate and Sanitary License for Manufacturing Enterprise for solid injections (i.e. tablets, capsules and granules), injections (i.e. lyophilized powder injection), large-volume injections, inhalators and sprays. Installation of the automated storage system was completed and put into operation. The constructions of its infusion workshop, spray workshop, inhalator powder workshop and ancillary facilities were completed and put into operations. Solid workshop has obtained GMP certification. The 2503 and 2505 lyophilized powder injection workshops have both passed and obtained GMP certificates on 23 November 2016, and have been put to full productions.

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

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

2. *External Investment*

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

Sales and Marketing

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

For the year ended 31 December 2016, the Group's turnover amounted to approximately RMB4,117,573,000, representing an increase of approximately 14.02% from RMB3,611,380,000 for the corresponding period of last year. The increase was mainly attributable to the Group's continuing upgrading of the product portfolio, boosting the sales of high value-added products and the acceleration of sales network development to increase the market share of its products at different levels.

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

	Sales RMB'000		**Percentage of total turnover**	Percentage of total turnover	
Indications and usage	**January to December 2016**	January to December 2015	**from January to December 2016**	from January to December 2015	Growth rate (%)
System specified medicine	**1,948,667**	1,622,818	**47.33%**	44.94%	20.08%
Antibiotic medicine	**1,232,007**	1,211,250	**29.92%**	33.54%	1.71%
Other specified medicine	**936,899**	777,312	**22.75%**	21.52%	20.53%
Total	**4,117,573**	3,611,380	**100%**	100%	14.02%

Key Products

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

羅欣津® (Luoxinjin) (Roxithromycin and Ambroxol Hydrochloride Tablets), a category 3.2 new drug developed by the Group with new drug certification by the CFDA. As proven by clinical studies, compared to sole roxithromycin tablets, the compound preparations carry

greater effect in the treatment of respiratory infection with obvious relieving effect on the clinical manifestations like coughing and wheezing, and reduces the pain of the patients, thus offering strong appeal in clinical medication.

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

Financial Review

For the year ended 31 December 2016, the Group's audited turnover was approximately RMB4,117,573,000, representing an increase of approximately 14.02% from RMB3,611,380,000 of last year. Nevertheless, the overall selling prices, particularly to those products launched for some time, were in decreasing trend. 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 2016, the audited cost of sales was approximately RMB1,000,033,000, representing a decrease of approximately 11.82% from approximately RMB1,134,104,000 of last year. The reason for decreasing cost of sales was partly due to the Group that utilized more self produced bulk medicines in productions.

For the year ended 31 December 2016, the audited gross profit margin was approximately 75.71%, representing an increase of approximately 7.11% from approximately 68.60% of last year.

For the year ended 31 December 2016, the audited operating cost was approximately RMB2,773,702,000, representing an increase of approximately 37.80% from approximately RMB2,012,890,000 of last year. The increase of operating expenditure was due to the following reasons:

1. the subsidiaries, Jinan Luoxin Pharmaceutical Company Limited* (濟南羅欣醫藥有限公司), Chongqing Maomin Pharmacy Co., Ltd.* (重慶茂民醫藥有限公司) 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 R&D;

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 2016, the audited profit attributable to the Shareholders was approximately RMB379,198,000, representing a decrease of approximately 23.07% from approximately RMB492,929,000 of last year. Weighted average earnings per share were RMB0.622 for the year ended 31 December 2016 (as at 31 December 2015: RMB0.809).

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB556,028,000 (as at 31 December 2015: approximately RMB605,333,000). As at 31 December 2016, the Group did not have any borrowings (as at 31 December 2015: nil).

Fixed Deposits/Cash and Cash Equivalents

As at 31 December 2016, the Group did not have pledged bank deposits (as at 31 December 2015: nil).

Financial Assets at Fair Value through Profit or Loss

As at 31 December 2016, the Group had financial assets at fair value through profit or loss of investment amount of approximately RMB1,035,000,000 (as at 31 December 2015: approximately RMB1,045,000,000). Such financial assets comprised 11 investments in wealth management products, offered by licensed banks in the PRC. A summary of the financial assets as at 31 December 2016 is as follows:

Investment Amount	**Investment period**	**Fixed investment return per annum**
(RMB)		
45,000,000	12/2016–1/2017	4.00%
50,000,000	12/2016–2/2017	3.30%
50,000,000	12/2016–2/2017	3.30%
160,000,000	12/2016–3/2017	3.05%
100,000,000	9/2016–3/2017	3.00%
200,000,000	11/2016–5/2017	3.30%
100,000,000	12/2016–6/2017	3.15%
70,000,000	Redeemable on demand	2.85%
120,000,000	Redeemable on demand	2.85%
40,000,000	Redeemable on demand	2.85%
100,000,000	12/2016–3/2017	3.05%

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

Save as disclosed in note 13 to the financial statements, for the year ended 31 December 2016, the Group did not have any major acquisition or disposal.

SIGNIFICANT INVESTMENT

For the year ended 31 December 2016, the Group did not make any significant investment.

CONTINGENT LIABILITIES

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

EXCHANGE RISK

As at 31 December 2016, the Group operated and conducted business in the PRC, and all of the Group's transactions, assets and liabilities were denominated in RMB, except that some imported equipment and raw materials used in R&D and 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 offshore 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 forward, as one of the key industries supported by the 13th Five-Year Plan, the pharmaceutical industry will be provided with more resources by the PRC government in terms of pharmaceutical and medical equipment.

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

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

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

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

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

The Group will also step up its effort on the establishment of its sales teams and proactively broaden its more extensive sales network so as to enhance the market share of its products and continue to improve its competitiveness.

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

CORPORATE GOVERNANCE

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

In the opinion of the Directors, the Company complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (the "CG Code") for the year ended 31 December 2016, except the following:

Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Due to business trip and other overseas engagement, one executive Director, two non-executive Directors and three independent non-executive Directors were unable to attend the annual general meeting of the Company (the "AGM") held on 22 June 2016 in person. However, in order to understand the view of the Shareholders, they joined the AGM by telephone and video conference system, respectively.

AUDIT COMMITTEE

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

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

The Audit Committee meets regularly to review financial reporting matters and the Company's internal control policies and procedures issues and risk management issues; and considers how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors of the Company in relation to the planning and scope of audit work. The audited results of the Group for the year ended 31 December 2016 have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group has not redeemed, purchased or sold any of its listed securities during the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

The Company will issue a notice of the forthcoming AGM and advise the period of the closure of register of members for attending the AGM in due course.

Entitlement to Final Dividend

The Directors did not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: RMB0.35 per ordinary share).

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

The PRC, 7 March 2017

As at the date of this announcement, the Board comprises 10 Directors, of which Mr. Liu Baoqi (劉保起), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生), Mr. Chen Yu (陳雨) and Mr. Liu Zhenteng (劉振騰) are executive Directors; Mr. Liu Zhenhai (劉振海) is a non-executive Director; Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征), Prof. Du Guanhua (杜冠華) and Ms. Huang Huiwen (黃慧文) are independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 this announcement misleading.

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