



山東羅欣藥業股份有限公司
Shandong Luoxin Pharmacy Stock Co., Ltd.*

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

Stock Code : 8058

First Quarterly Report 2006

** For identification purposes only*

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This report, for which the directors (the “Directors”) of Shandong Luoxin Pharmacy Stock Co., Ltd. (“the Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (1) the information contained in this report is accurate and complete in all material respects and is not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- The Company's sales for the three months ended 31 March 2006 was RMB74,182,000, representing an increase of 44.2% when compared with that of the corresponding period of last year.
- The Company's profit attributable to shareholders for the three months ended 31 March 2006 was RMB12,455,000, representing an increase of 46.1% 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 2006.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2006 (UNAUDITED)

The board of Directors (the "Board") of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company") is pleased to announce the unaudited results of the Company for the three months ended 31 March 2006 (the "Period") and the comparative figures of the corresponding period of 2005 as follows:

	Note	Unaudited Three months ended 31 March	
		2006 RMB'000	2005 RMB'000
Turnover	3	74,182	51,456
Cost of sales		(45,028)	(30,045)
Gross profit		29,154	21,411
Other revenue	3	27	65
Other operating income		1,719	341
Selling and distribution expenses		(4,959)	(3,629)
General and administration expenses		(5,564)	(4,259)
Profit from operation		20,377	13,929
Finance costs	4	(1,787)	(1,202)
Profit from ordinary activities before taxation		18,590	12,727
Taxation	5	(6,135)	(4,200)
Profit attributable to shareholders		12,455	8,527
Dividends	6	—	—
Earnings per share (RMB)	7	0.02	0.02

All of the Company's activities are classed as continuing.

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

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 reorganization and was transformed into a joint stock limited liability company with a registered capital of RMB46 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.

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

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

The accounts are presented in thousands of units of Renminbi (RMB '000), unless otherwise stated. These accounts have been approved for issue by the board of Directors (the "Board") on 9 May 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed finance statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2005.

The accounts have been prepared under historical cost convention.

3. TURNOVER AND OTHER REVENUE

The principal activities of the Company are manufacturing and selling of pharmaceutical products. No business or geographical segment analysis is presented as all operations, assets and liabilities of the Company during the period are related to manufacturing and selling of pharmaceutical products, and all assets and customers are located in the PRC.

Revenues recognised are as follows:

	Unaudited Three months ended 31 March	
	2006 RMB'000	2005 RMB'000
Turnover		
Sales of manufactured goods	<u>74,182</u>	<u>51,456</u>
Other revenue		
Interest income on bank deposits	<u>27</u>	<u>65</u>
Total revenue	<u>74,209</u>	<u>51,521</u>

4. FINANCE COSTS

	Unaudited Three months ended 31 March	
	2006 RMB'000	2005 RMB'000
Interest on short-term bank loan	<u>1,787</u>	<u>1,202</u>

5. TAXATION

	Unaudited Three months ended 31 March	
	2006 RMB'000	2005 RMB'000
PRC income tax	<u>6,135</u>	<u>4,200</u>

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

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the unaudited net profit of approximately RMB12,455,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share has not been presented as there was no dilutive potential ordinary share outstanding during the three months ended 31 March 2006.

The calculation of basic earnings per share for the three months ended 31 March 2005 is based on the unaudited net profit of approximately RMB8,527,000, and the weighted average number of approximately 460,000,000 ordinary shares in issue during the period.

8. SHAREHOLDERS' FUND

	Share premium <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	New shares issuance costs <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2005	13,340	8,373	4,187	21,935	—	47,835
Profit for the period	—	—	—	8,527	—	8,527
2004 final						
dividends paid	—	—	—	—	—	—
Transfer	—	—	—	—	—	—
At 31 March 2005	<u>13,340</u>	<u>8,373</u>	<u>4,187</u>	<u>30,465</u>	<u>—</u>	<u>56,365</u>
At 1 January 2006	31,139	12,066	6,033	53,326	—	102,564
Profit for the period	—	—	—	12,455	—	12,455
2005 final						
dividends declared	—	—	—	—	—	—
Transfer	—	—	—	—	—	—
At 31 March 2006	<u>31,139</u>	<u>12,066</u>	<u>6,033</u>	<u>65,781</u>	<u>—</u>	<u>115,019</u>

INTERIM DIVIDENDS

On 22 March 2006, the Board recommended the payment of a final dividend of RMB0.02 per share in respect of the year ended 31 December 2005 to shareholders whose names appear in the register of members of the Company on 26 May 2006. This proposed final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 26 May 2006.

The Board does not recommend the payment of dividend for the three months ended 31 March 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 31 March 2006, the Company continued to actively expand its market and immensely attract its customers by taking advantage of its competitive edges gained from its large selection and diversification of products. As the Company offered both low-end and high-end products, the brand name of “Luoxin” was strengthened and its sales volume increased rapidly. Meanwhile, the Company expanded its sales team and upgraded the quality of its sales staff. The Company also enlarged its sales networks to cover 27 provinces and 4 municipalities in the People’s Republic of China (the “PRC”). Smooth sales channels for merchandising, logistics, hospitals, OTC and bulk medicines have been established. The Company strived to offer a wide and comprehensive range of products. The Company has also continuously held more promotional and marketing activities and increased the Company’s advertising budget. During the Period, the Company continued to optimise its product mix and to make sustained effort in research and development, as a result of which, fifteen new products with various specifications mainly for use in respiratory system, cephalosporins antibiotics and other broad-spectrum antibacterial drugs were

approved for production by the National Food and Drugs Authority. Benefiting from the diversification of products, the Company's competitiveness was obviously enhanced. This laid a solid foundation for the substantial development of the Company. In March 2006, the Company's product, Gatifloxacin for Injection, was awarded the certificate of Technological Advancement Awards Runner-up by the Science and Technology Reward Committee of Shandong Province (山東省科學技術獎勵委員會), which further recognised the technology development capability of the R&D team of the Company. While focusing on the development of new products, the Company has also made sustained effort in optimising its production technology, improving the quality of its products and saving more production costs to create competitive edges arising from product diversity for the continuous development of the Company.

Financial Review

For the three months ended 31 March 2006, the Company's unaudited turnover was approximately RMB74,182,000, representing an increase of approximately 44.2% when compared with approximately RMB51,456,000 for the corresponding period of last year.

For the three months ended 31 March 2006, the Company's unaudited cost of sales was approximately RMB45,028,000, representing an increase of 49.9% when compared with approximately RMB30,045,000 for the corresponding period of last year.

For the three months ended 31 March 2006, the Company's unaudited gross profit margin was 39.3% which was roughly maintained at the same level of 41.6% for the corresponding period of last year.

For the three months ended 31 March 2006, the Company's unaudited operating expenditure including selling, distribution, general and administrative expenses, amounted to approximately RMB10,523,000, representing an increase of 33.4% compared with approximately RMB7,888,000 for the corresponding period of last year. This represented a usual growth in operating expenditure driven by the turnover growth of the Company.

For the three months ended 31 March 2006, the Company's unaudited profit attributable to shareholders was approximately RMB12,455,000, representing an increase of 46.1% as compared with approximately RMB8,527,000 for the corresponding period of last year. The weighted average earnings per share were RMB0.02 (2005: RMB0.02).

Liquidity and Financial Resources

The Company's working capital is generally financed by its internally generated cash flow.

As at 31 March 2006, the Company's cash and cash equivalents amounted to approximately RMB158,650,000 (as at 31 March 2005: RMB112,726,000). As at 31 March 2006, its short term loan amounted to RMB99,700,000 (as at 31 March 2005: RMB84,700,000). Certain facilities and buildings of the Company were pledged to secure the bank loans of the Company.

The Company's gearing ratio as at 31 March 2006 was 27.66% (as at 31 March 2005: 29.72%), as calculated by dividing the amount of bank borrowings as at 31 March 2006 by total assets as at 31 March 2006 and then multiplied by 100%.

Pledged bank deposits/cash and cash equivalents

As at 31 March 2006, the Company's property, plant and equipment of RMB33,166,000 and bank deposit of RMB55,200 were pledged to secure the banking facilities of the Company respectively.

Major Acquisition and Disposal

For the three months ended 31 March 2006, the Company did not make any major acquisition or disposal.

Significant Investments

For the three months ended 31 March 2006, the Company did not have any significant investment.

Contingent Liabilities

As at 31 March 2006, the Company did not have any substantial contingent liabilities.

Prospects

The Company shall continue to specialise in technological research, production and sales of pharmaceutical products, and to enhance its core competitiveness in order to generate income. The Company shall continue to strengthen the cooperation with its research and development partners and increase the capacity of its own research team and shall keep on launching new products. In 2006, the Company seeks to launch the Rhodiola for Injection, a traditional Chinese medicine product for injection and thirty other new products in the market. The Directors believe that the pharmaceutical industry will grow even faster in 2006 as the population in the PRC is increasing together with the accelerating pace of urbanisation and industrial modernisation in the PRC, and under the influence of globalisation. As a result, the Company shall also enjoy substantial and rapid growth, which will generate substantial profit and returns. The Company is focused on realising the business objectives as stated in the prospectus issued by the Company on 29 November 2005.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2006, the interests and short positions of each Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (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:

Long position of domestic shares of the Company as at 31 March 2006

Name of Director	Capacity/ Nature of Interest	Number of domestic shares	% of total domestic shares	% of the Company's issued share capital
Liu Baoqi (劉保起) (Note)	Interest of controlled corporation	230,000,000	51.68%	37.73%
Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

Note: These 230,000,000 domestic shares are registered in the name of Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin"). Liu Baoqi (劉保起) is interested in 51.72% of the registered share capital of Linyi Luoxin. As Liu Baoqi (劉保起) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Linyi Luoxin. For the purpose of the SFO, Liu Baoqi (劉保起) is deemed to be interested in the entire 230,000,000 domestic shares held by Linyi Luoxin.

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

The register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors.

Long position of domestic shares of the Company as at 31 March 2006

Name	Capacity/ Nature of Interest	Number of domestic shares	% of total domestic shares	% of the Company's issued share capital
Linyi Luoxin	Beneficial Owner	230,000,000	51.68%	37.73%
Zuo Hongmei (左洪梅)	Family interest (Note 1)	230,000,000	51.68%	37.73%
Cao Tingting (曹婷婷)	Family interest (Notes 2&4)	35,000,000	7.86%	5.74%
Liu Zhendong (劉振東)	Beneficial Owner (Note 4)	35,000,000	7.86%	5.74%
Chen Weiwei (陳偉偉)	Family interest (Notes 3&4)	35,000,000	7.86%	5.74%
Linyi City People's Hospital	Beneficial Owner (Note 4)	34,560,000	7.77%	5.67%
Pinyi County People's Hospital	Beneficial Owner (Note 4)	34,560,000	7.77%	5.67%

Notes:

- These 230,000,000 domestic shares are registered in the name of Linyi Luoxin. Linyi Luoxin is owned as to approximately 51.72% by Liu Baoqi (劉保起). As Liu Baoqi (劉保起) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Linyi Luoxin, for the purpose of the SFO, Liu Baoqi (劉保起) is deemed to be interested in the entire 230,000,000 domestic shares held by Linyi Luoxin. Zuo Hongmei (左洪梅), as wife of Liu Baoqi (劉保起), is taken to be interested in the entire 230,000,000 domestic shares held by Liu Baoqi (劉保起).

2. These 35,000,000 domestic shares are registered in the name of Liu Zhenhai (劉振海), for the purpose of the SFO, Cao Tingting (曹婷婷), as wife of Liu Zhenhai (劉振海), is taken to be interested in the entire 35,000,000 domestic shares held by Liu Zhenhai (劉振海).
3. These 35,000,000 domestic shares are registered in the name of Liu Zhendong (劉振東), for the purpose of the SFO, Chen Weiwei (陳偉偉), as wife of Liu Zhendong (劉振東), is taken to be interested in the entire 35,000,000 domestic shares held by Liu Zhendong (劉振東).
4. Each of Cao Tingting (曹婷婷), Liu Zhendong (劉振東), Chen Weiwei (陳偉偉), Linyi City People's Hospital and Pinyi County People's Hospital are not considered to be a substantial shareholder for the purpose of the GEM Listing Rules as each of them is only interested in less than 10% of the total issued share capital of the Company.

AUDIT COMMITTEE

The Audit Committee was established on 20 November 2005 and its current members include:

Foo Tin Chung, Victor (*Chairman*) (傅天忠)
Fu Hongzheng (付宏征)
Shao Youmei (邵幼梅)

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with paragraph C.3 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures. The appointments of the Audit Committee members are based on their broad experience in medical field and professional knowledge on financial reporting and management.

The Audit Committee meets regularly to review the financial reporting matters and internal control policies and procedures issues; and see how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The quarterly results of the Company for the Period have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the Period. The Company has not purchased or disposed any of the Company's listed securities during the Period.

COMPETING BUSINESS

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

Linyi Luoxin

Liu Baoqi is an executive director and chairman of Linyi Luoxin and a controlling shareholder holding 37.73% of the registered capital of Linyi Luoxin.

Before non-competition undertaking in favour of the Company was signed by Linyi Luoxin on 7 November 2002, Linyi Luoxin was engaged in the sales of chemical medicines, Chinese medicines, medical equipment, health and beauty products. Since the execution of the non-competition undertaking, Linyi Luoxin has undertaken to cease its chemical medicine business. In June 2005, Linyi Luoxin signed a supplementary non-competition undertaking whereby it has undertaken to carry out its sales activities in Linyi City only and confirmed that its customers are small and mid-sized medical institutions which are below county-level hospital. The Company will receive from Linyi Luoxin an annual confirmation in respect of the compliance of these undertakings.

Qingdao Guofeng Group Jiaozhou Pharmacy Limited (“Qingdao Guofeng Jiaozhou”)

Qingdao Guofeng Jiaozhou is a company established in the PRC with limited liability, holding 3.28% of the issued share capital of the Company. It is principally engaged in the sales of Chinese medicines, medical medicines, bio-chemical medicines, medical equipment and health products. To the best knowledge of the Directors, Qingdao Guofeng Jiaozhou has not engaged in the development and manufacture of medicine products and it has no research and development and production capabilities for medicine manufacturing in the PRC.

Qingdao Guofeng Jiaozhou serves as a regional distributor in Qingdao city and Jiaozhou district and procures medicine products from other suppliers in the PRC.

The Directors advised that some of the medicine products sold by Qingdao Guofeng Jiaozhou which have same or similar curative effects with those of the Company may be in competition with the products of Company.

Lijun Group Limited Liability Company (“Lijun Group”)

Lijun Group is a company established in the PRC with limited liability, holding approximately 1.42% of the issued share capital of the Company. Its cope of business mainly includes development, production and sales of Chinese medicines, chemical medicines and medical equipment.

The Directors advised that some of the medicine products sold by Lijun Group which have same or similar curative effects with those of the Company may be in competition with the Company's products.

Linyi Municipal Pharmacy Group Company (“Linyi Municipal Pharmacy”)

Linyi Municipal Pharmacy is a State-owned enterprise established in the PRC, holding approximately 1.42% of the issued share capital of the Company. Linyi Municipal Pharmacy is principally engaged in the sale of Chinese and chemical medicines, medical equipment and health products in Linyi City and nearby districts. To the best knowledge of the Directors, Linyi Municipal Pharmacy has not and will not engage in the development and manufacture of medicine products and it has no research and development and production capabilities for medicine manufacturing in the PRC.

Linyi Municipal Pharmacy serves as a regional distributor in Linyi city and nearby districts, and procures medicine products from other suppliers in the PRC. The Directors advised that some of the medicine products sold by Linyi Municipal Pharmacy which have same or similar curative effects with those of the Company may be in competition with the products of the Company.

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

COMPLIANCE ADVISER'S INTERESTS

As at 31 March 2006, as notified by the Company's compliance adviser, Kingsway Capital Limited (the "Compliance Adviser"), neither the Compliance Adviser nor any of its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company.

Pursuant to the compliance adviser agreement dated 28 November 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser shall receive a fee for acting as the Company's compliance adviser for the period from 9 December 2005 to 31 March 2008.

By Order of the Board
Shandong Luoxin Pharmacy Stock Co., Ltd.
Liu Baoqi
Chairman

Hong Kong, 9 May 2006