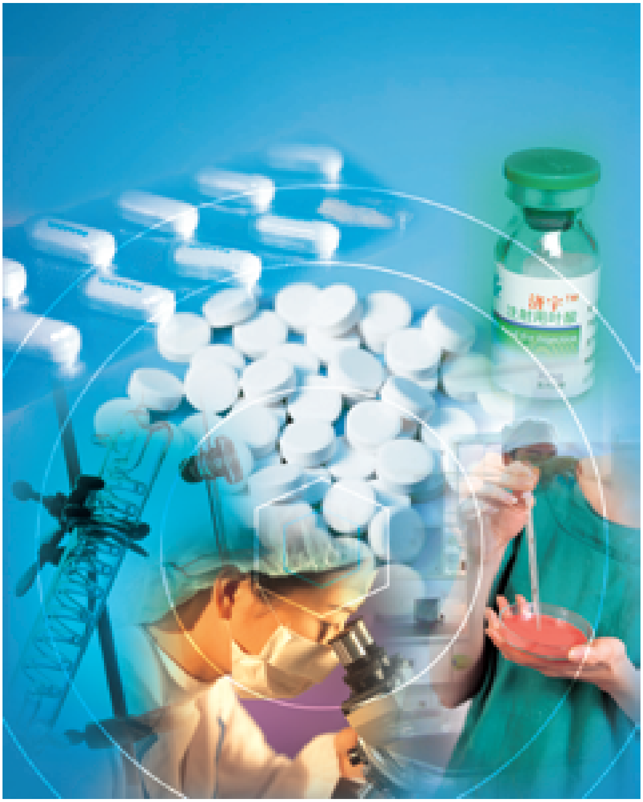
山東羅欣藥業股份有限公司
Shandong Luoxin Pharmacy Stock Co., Ltd.*

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

Stock Code : 8058



Third Quarterly Report 2006

* *For identification purposes only*

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole any part of the contents of this report.

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 nine months ended 30 September 2006 was RMB226,004,000, representing an increase of 30.01% when compared with that of the corresponding period of last year.

- The Company's profit attributable to shareholders for the nine months ended 30 September 2006 was RMB41,894,000, representing an increase of 57.11% when compared with that of the corresponding period of last year.

- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2006.

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2006 (UNAUDITED)

The board of Directors (the "Board") of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company" or "we") is pleased to announce the unaudited results of the Company for the three months and nine months ended 30 September 2006 (the "Period") and the comparative figures of the corresponding periods of 2005 as follows:

		Unaudited Three months ended 30 September		**Unaudited Nine months ended 30 September**	
		2006	2005	**2006**	2005
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	3	**78,946**	65,374	**226,004**	173,842
Cost of sales		**(42,872)**	(34,283)	**(128,118)**	(101,268)
Gross profit		**36,074**	31,091	**97,886**	72,574
Other revenue	3	**313**	520	**1,001**	1,027
Other operating income		**626**	644	**2,988**	1,184
Selling and distribution expenses		**(5,168)**	(7,502)	**(17,264)**	(17,214)
General and administration expenses		**(6,079)**	(5,704)	**(16,233)**	(13,356)
Profit from operation		**25,766**	19,049	**68,378**	44,215
Finance costs	4	**(1,852)**	(986)	**(5,850)**	(4,159)
Profit from ordinary activities before taxation		**23,914**	18,063	**62,528**	40,056
Taxation	5	**(7,885)**	(6,359)	**(20,634)**	(13,390)
Profit attributable to shareholders		**16,029**	11,704	**41,894**	26,666
Dividends	6	**—**	—	**—**	—
Earnings per share (RMB)	7	**2.63 cents**	2.54 cents	**6.87 cents**	5.80 cents

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

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

Notes:

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 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 Company is principally engaged in the development, manufacture and sale of pharmaceutical products.

Unless stated otherwise, the accounts are presented in thousands of units of Renminbi (RMB '000). These accounts have been approved for issue by the Board on 24 October 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 REVENUE

The principal activities of the Company are the development, manufacture and sale 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 the development, manufacture and sale of pharmaceutical products, and all assets and customers are located in the PRC.

Revenues recognised are as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Turnover				
Sale of manufactured goods	**78,946**	65,374	**226,004**	173,842
Other revenue				
Interest income on bank deposits	**313**	520	**1,001**	1,027
Total revenue	**79,259**	65,894	**227,005**	174,869

4. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on short-term bank loan	**1,852**	986	**5,850**	4,159

5. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax	**7,885**	6,359	**20,634**	13,390

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 payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

7. EARNINGS PER SHARE

The basic earning per share for the nine months ended 30 September 2006 is calculated based on the unaudited net profit of approximately RMB41,894,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earning per share has not been presented as there were no dilutive potential ordinary shares outstanding during the nine months ended 30 September 2006.

The basic earning per share for the nine months ended 30 September 2005 is calculated based on the unaudited net profit of approximately RMB26,666,000, and the weighted average number ordinary shares in issue of approximately 460,000,000 during the period.

8. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	13,340	8,373	4,187	21,935	47,835
Profit for the period	—	—	—	26,666	26,666
At 30 September, 2005	13,340	8,373	4,187	48,601	74,501
At 1 January 2006	31,139	12,066	6,033	41,134	90,372
Profit for the period	—	—	—	41,894	41,894
At 30 September, 2006	31,139	12,066	6,033	83,028	132,266

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the nine months ended 30 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the profits attributable to the shareholders of the Company recorded a tremendous increase over the same period last year, and achieved satisfactory results. The Company has carried on its sustainable development strategy and attained distinguished advancement and progress in various aspects. There were five key factors attributable to the promotion of the sustainable development of the Company and the rapid enhancement of results.

1. The newly expanded capacities of the Company were put into use: Since April 2005, the products of the Company had been in short supply due to limited capacities. The Company, therefore, decided promptly on the second phase construction project. By installing 5 new production lines, the number of the production lines for powder for injection increased from 2 to 7, and the annual production capacity was enhanced from originally 150 million doses to currently 500 million doses. The new workshop for production of Cephalosporin products for oral consumption provided a new production capacity and formed a growth sector. By the construction of a new workshop for production of bulk medicines, the annual productivity of bulk medicines reached 1,200 tons. The new workshop for production of lyophilized powder for injection was put into operation in September during the year. By putting the new capacities into operation, the Company better served the market demand and created strong, new growth sectors. The enlargement of production scale significantly reduced costs of purchase and production, effectively facilitating the growth of the Company's results.

2. The technological development of the Company expedited the launch of new products and the new growth sectors contributed to the growth of the operating results: The rapid and persistent growth of the Company's results depended largely on the increasing effort made in technology innovation, the timely adjustment of the product mix, the strengthening of antibiotics products and the speeding up of the research and development of new antibiotics as well as the exploration of various specialized medicines. For examples: (1) The Company speeded up the launch of new-generation antibiotics products ("3-H" antibiotics products), so as to avoid the impacts arising from the price reduction of existing antibiotics products. The sales of newly launched new-generation antibiotics products, such as Luoshan (Cefathiamidine for Injection), Luoxinwei (Cefepime Hydrochloride for Injection), Luohang (Cefpiramide Sodium for Injection), increased rapidly. (2) The newly launched specialized medicines, "3-H" products (namely high-tech, high quality and high-value added products), contributed to the growth of results and secured the sustainable development of the Company. As of the end of 2005, the Company had 151 products in the market, 78 of which were granted approvals for production in the year 2005. For the nine months ended 30 September 2006, the Company had 51 new products in various specifications, including drugs for digestive system, circulatory system, and respiratory system, and antineoplastic drugs, approved for production by the State Food and Drug Administration. Specialized medicines accounted for half of the total types of products of the Company. Increasing diversification of products further optimized our product mix. The launching of such new products gave significant impetus to the growth of the results during the first nine months of the year. Our effective and high added-value products with great market potential generated higher gross profit margin, resulting in a considerable growth in the results of the Company. (3) The Company would speed up the progress of launching the Rhodiola for Injection, an exclusive patented traditional Chinese medicine product for cardiovascular diseases, which has been granted a patent certificate for a protection period of 20 years. Following its launch, the Company will achieve sustained development at a rapid pace. Besides, the Company will strive to launch approximately 30 more new products this year, so as to further boost the momentum of our growth. Such newly launched products will, in turn, create our new economic growth sectors, and secure the development of the Company in the next stage as well as the persistent growth of results.

3. The increase of market share of our products and the results of sales ensued from the sound and accessible sales network of the Company fostered the growth in efficiency: The Company had made sustained efforts in market development through constantly adjusted and innovated market developing strategies and speeding up of the establishment of the sales team and a sales network. Currently, the Company has formed a sale team of more than 300 people and established offices in various provinces and municipalities throughout the country. Intensive and accessible sales channels for merchandising, logistics, end-user marketing, OTC and bulk medicines had been established. Furthermore, the Company has implemented market developing strategies determined by separate product lines, thus changing the situation that a fine range of products was offered but market needs were not well catered for, which bring forth the growth in the results.

4. The effective strengthening of the brand of the Company became a stronger competitive advantage: The Company strengthened its brand by technological innovation, technical improvement, enhanced GMP management, quality upgrade and integrity promotion. Our brand stimulated the sales, and the sales in turn strengthened our brand. Meanwhile, the strengthening of our brand led to the increase of price and efficiency. For example: (1) The Company launched Cefepime Dihydrochloride for Injection, the fourth and latest generation of Cephalosporin antibiotics, last year. As the Company employed the latest production technology to promote the quality of the product, the product was well received by patients and healthcare professionals and recorded a sharp increase in sales. A new brand was gradually building up. (2) The Company launched Omeprazole Capsules, a kind of anti-ulcer drugs, for digestive system. Currently, our Omeprazole Capsules aroused the interests of our counterparts over the country because of their high quality and effectiveness, and were well received by distributors, patients and healthcare professionals. The sales volume of the product was among the top rank on the national level. Following Omeprazole, Lansorazole, the second proton pump inhibitor for anti-ulcer in the world, was developed. Its launch would bring us considerable returns to the results. (3) The Company first launched Gatifloxacin for Injection and Gatifloxacin Capsules under class 1 of State class new medicine in China in 2003. The sales of Gatifloxacin for Injection ranked No.1 among the national sales of lyophilized powder for injection, and Gatifloxacin Capsules No.3 of the national sales of mixed preparation products last year. Such products were produced under lyophilization and vacuum/pressure processes, which are the most advanced technology in the country that offers the product higher stability and better quality.

In March 2003, Gatifloxacin for Injection was awarded the certificate of Technological Advancement Awards (2nd Prize) by the Science and Technology Reward Committee of Shandong Province, which in turn promoted and established the brand name of the Company.

The enhancement of the goodwill and brand name of the Company fostered the market development. The penetration of Luoxin products into the market, accompanied by advertisements, led to the rapid enhancement of the goodwill and brand name of Luoxin, fueling the extension of market share.

5. Low costs and diversity turned into stronger competitive edges of the Company: The Company had established a comprehensive production model, which covered the production of bulk medicines to preparation products. The comprehensive product chain, together with the fast expansion of scale of production, further lowered our production costs and operating costs. In addition, the launching of high-tech products continuously and the establishment of brand name achieved a competitive edge from diversity, resulting in the improvement in results.

   Based on the aforesaid, upon the parallel progression of various aspects of the Company, the overall reputation of the brand was effectively boosted. The Company, accompanied by a growing reputation within the pharmaceutical industry of China, is gradually evolving into a renowned top-brand enterprise.

Financial Review

For the nine months ended 30 September 2006, the Company's unaudited turnover was approximately RMB226,004,000, representing an increase of approximately 30.01% when compared with approximately RMB173,842,000 for the corresponding period of last year.

For the nine months ended 30 September 2006, the unaudited cost of sales was approximately RMB128,118,000, representing an increase of 26.51% when compared with approximately RMB101,268,000 for the corresponding period of last year.

For the nine months ended 30 September 2006, the unaudited gross profit margin was 43.31%, representing an increase of 1.56 points when compared with 41.75% for the corresponding period of last year.

For the nine months ended 30 September 2006, the unaudited operating expenditure amounted to approximately RMB33,497,000, representing an increase of 9.57% when compared with approximately RMB30,570,000 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 nine months ended 30 September 2006, the unaudited profits attributable to the shareholders was approximately RMB41,894,000, representing an increase of 57.11% when compared with approximately RMB26,666,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.069.

Liquidity and Financial Resources

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

As at 30 September 2006, the Company's cash and cash equivalents amounted to approximately RMB150,288,000 (as at 30 September 2005: RMB152,844,000). As at 30 September 2006, its short term loans amounted to RMB85,700,000 (as at 30 September 2005: RMB105,700,000). The Company's bank borrowings are mainly secured by its certain equipment and buildings.

The Company's gearing ratio as at 30 September 2006 was 22.68% (as at 30 September 2005: 33.05%), as calculated by dividing the amount of bank borrowings as at 30 September 2006 by the total asset value as at 30 September 2006 and then multiplied by 100%.

Pledged Bank Deposits, Cash and Cash Equivalents

As at 30 September 2006, the Company's property, plant and equipment of RMB33,166,000 and bank deposits of RMB55,200 were respectively pledged to secure the banking facilities of the Company.

Major Acquisition and Disposal

For the nine months ended 30 September 2006, the Company did not make any major acquisition or disposal.

Significant Investments

For the nine months ended 30 September 2006, the Company did not have any significant investment.

Contingent Liabilities

As at 30 September 2006, the Company did not have any substantial contingent liabilities.

Exchange Risk

The Company operates and conducts business in the PRC and all the Company's transactions, assets and liabilities are denominated in Renminbi.

All the Company's cash and cash equivalents and pledged deposits are denominated in Renminbi, while bank deposits are placed with banks in the PRC. Any remittances from the PRC are subject to the restrictions on exchange control implemented by the PRC Government.

Employees and Remuneration Policies

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Company and raising its profitability. The Company determines employees' salaries based on their performance, working experience and the prevailing salaries in the market, while other remuneration and welfare are at appropriate levels.

The Company has established a remuneration committee to make recommendations to the overall strategy of remuneration policies.

Prospects

The Company shall continue to specialize in the scientific research, production and sales of pharmaceutical products. The Company will implement the strategy of sustained development and stick with its guiding principles of strategy of becoming a "Technology-driven enterprise with determination and efforts", constantly exploring new exclusive patented products, uncovering new areas of potential growth, establishing more established market networks, enhancing its brand name and eventually elevating its core competitiveness so as to persistently bring about more revenue to the Company.

The Company shall continue to strengthen the cooperation with its research and development partners and increase the capacity of its own research team and keep on launching new products with high science and technology content, high quality and high added value. The Company shall speed up the progress of launching the Rhodiola for Injection, an exclusive patented traditional Chinese medicine product for injection and thirty odd other new products to the market. Through employing the process of vertical integration into the production of bulk material and preparation medicines, we will capitalize and strengthen our competitiveness on product differentiation and low cost which in turn provides drives and assurance to the sustained development of the Company.

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 urbanization and industrial modernization in the PRC, and under the influence of globalization. The Company submits itself to the concept of value of "benefiting the shareholders, rewarding the staff, consolidating the enterprise". With the persistent growth of the pharmaceutical industry, the Company is equipped with the prerequisites for sustained development to bring about sustained development at a rapid pace. The Company will also achieve substantial and rapid advancement which generates substantial profit and returns. As a result, the Company is focused on realizing the business objectives as stated in the prospectus issued by the Company.

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

As at 30 September 2006, the interests and short positions of each Director and supervisor 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 30 September 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 30 September 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 30 September 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%

Name	Capacity/ Nature of Interest	Number of domestic shares	% of total domestic shares	% of the Company's issued share capital
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:

1. 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 egaged 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 30 September 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, 24 October 2006