



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



2007

First Quarterly Report





Characteristics of the growth enterprise market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at <http://www.hkgem.com/in> in order to obtain up-to-date information on GEM-listed issuers.

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 three months ended 31 March 2007 was RMB102,172,000, representing an increase of 37.7% 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 2007 was RMB22,147,000, representing an increase of 77.8% 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 2007.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2007 (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 2007 (the "Period") and the comparative figures of the corresponding period of 2006 as follows:

	Note	Unaudited Three months ended 31 March	
		2007 RMB'000	2006 RMB'000
Turnover	3	102,172	74,182
Cost of sales		(58,409)	(45,028)
Gross profit		43,763	29,154
Other revenue	3	1,132	27
Other operating income		1,200	1,719
Selling and distribution expenses		(6,522)	(4,959)
General and administrative expenses		(5,179)	(5,564)
Profit from operation		34,394	20,377
Finance costs	4	(1,339)	(1,787)
Profit from ordinary activities before taxation		33,055	18,590
Taxation	5	(10,908)	(6,135)
Profit attributable to shareholders		22,147	12,455
Dividends	6	—	—
Basic and diluted earnings per share (RMB)	7	0.04	0.02



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 reorganisation 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 the 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 8 May 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed financial 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 2006.

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	
	2007	2006
	RMB'000	RMB'000
Turnover		
Sales of manufactured goods	<u>102,172</u>	<u>74,182</u>
Other revenue		
Interest income on bank deposits	<u>1,132</u>	<u>27</u>
Total revenue	<u>103,304</u>	<u>74,209</u>

4. FINANCE COSTS

	Unaudited	
	Three months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
Interest on short-term bank loan	<u>1,339</u>	<u>1,787</u>



5. TAXATION

	Unaudited	
	Three months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
PRC income tax	<u>10,908</u>	<u>6,135</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 2007 (2006: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2007 is based on the unaudited net profit of approximately RMB22,147,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share has been presented even though there were no dilutive events during the three months ended 31 March 2007 and 31 March 2006.

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.

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 2006	31,139	12,066	6,033	53,326	102,564
Profit for the period	—	—	—	12,455	12,455
At 31 March 2006	<u>31,139</u>	<u>12,066</u>	<u>6,033</u>	<u>65,781</u>	<u>115,019</u>
At 1 January 2007	31,139	18,109	6,033	95,260	150,541
Profit for the period	—	—	—	22,147	22,147
At 31 March 2007	<u>31,139</u>	<u>18,109</u>	<u>6,033</u>	<u>117,407</u>	<u>172,688</u>



INTERIM DIVIDENDS

On 13 March 2007, the Board recommended the payment of a final dividend of RMB0.02 per share in respect of the year ended 31 December 2006 to shareholders whose names appear in the register of members of the Company on 22 May 2007. 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 22 May 2007.

The Board does not recommend the payment of dividend for the three months ended 31 March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 31 March 2007, the profits attributable to the shareholders of the Company recorded a tremendous increase over the corresponding period of last year, and achieved satisfactory results. The Company has continued its strategy of sustainable development and attained distinguished advancement and progress in various aspects. The above achievements are the result of the great support and assistance from all the shareholders, customers, suppliers and business partners and friends, as well as the sustainable concerted effort of the management and employees. The major areas where the Company has put particular efforts to implement include persistence technology innovation; accelerating sales network construction; expanding product capacity to ease product shortage; improving competitiveness of products and accelerating the pace to perfect the Seven Systems which include corporate management system, cultural system, corporate organization system, capital operation system, technological innovation system, human resources system and marketing system, all contributed significantly to the development of the Company. “Luoxin” brand was recognized as a famous brand in Shandong province. In the “Power Ranking Medicine Enterprises in China 2006” sponsored by the Southern Economic Research Institute of Medicine of State Food and Drug Administration and Medicine Economic News, the Company was awarded the honorable title of “2006 Top Ten Growing Medicine Enterprises”. On 19 April 2007, the Company became one of the 2006 Top 100 enterprises in the pharmaceutical industry in China upon its accession to the “Top 100 Enterprises in Pharmaceutical Industry in China”. All these achievements demonstrate that the Company, accompanied by a growing reputation within the pharmaceutical industry in China, is gradually evolving into a renowned top-brand corporation.



Financial Review

For the three months ended 31 March 2007, the Company's unaudited turnover was approximately RMB102,172,000, representing an increase of approximately 37.73% when compared with approximately RMB74,182,000 for the corresponding period of last year.

For the three months ended 31 March 2007, the Company's unaudited cost of sales was approximately RMB58,409,000 representing an increase of approximately 29.72% when compared with approximately RMB45,028,000 for the corresponding period of last year.

For the three months ended 31 March 2007, the Company's unaudited gross profit margin was approximately 42.83%, representing an increase of approximately 8.98% when compared with approximately 39.3% for the corresponding period of last year.

For the three months ended 31 March 2007, the Company's unaudited operating expenditure, including sales and distribution costs and general administrative expenses, was approximately RMB11,701,000 representing an increase of approximately 11.19% when compared with approximately RMB10,523,000 for the corresponding period of last year. This represents a usual growth in operating expenditure driven by the turnover growth of the Company.

For the three months ended 31 March 2007, the Company's unaudited profits attributable to the shareholders was approximately RMB22,147,000, representing an increase of approximately 77.82% when compared with approximately RMB12,455,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.04 (2006: RMB0.02).

Liquidity and Financial Resources

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

As at 31 March 2007, the Company's cash and cash equivalents amounted to approximately RMB174,841,000 (as at 31 March 2006: RMB158,650,000). As at 31 March 2007, its short term loan amounted to RMB86,900,000 (as at 31 March 2006: RMB99,700,000). The Company's bank borrowings were mainly secured by certain equipment and buildings of the Company.

The Company's gearing ratio as at 31 March 2007 was 20.77% (as at 31 March 2006: 27.66%), was calculated by dividing the amount of bank borrowings as at 31 March 2007 by total assets as at 31 March 2007 and then multiplied by 100%.



Pledged Bank Deposit/Cash and Cash Equivalents

As at 31 March 2007, the Company's property, plant and equipment of RMB32,898,000 and bank deposit of RM5,055,200 were pledged to secure the banking facilities of the Company.

Major Acquisition and Disposals

For the three months ended 31 March 2007, the Company did not make any major acquisition or disposal.

Significant Investments

For the three months ended 31 March 2007, the Company did not have any significant investment.

Contingent Liabilities

As at 31 March 2007, 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 fringe benefits are at appropriate levels.

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



Prospects

The Company will continue to focus on the scientific research, production and sales of pharmaceutical products. The Company will implement the strategy of sustained development and adhere to its guiding principles of becoming a “Technology-driven enterprise with determination and efforts” by constantly developing new patented products, exploring new areas of potential growth, expanding more mature market networks, enhancing its brand name and upgrading its core competitiveness so as to bring about continuous flow of revenue to the Company. The Company will also capture new opportunities to speed up its development so as to achieve higher product quality, improving its brand name, reduce production costs on a continued basis, accelerate expansion of scale of sales to attain scale advantage and to boost technological innovation. The directors believe, with these measures implemented and opportunities grasped, that the company will achieve better and faster growth and results will improve significantly. Under the upward trend of the pharmaceutical industry, the Company is equipped with the prerequisites for rapid and continued development to bring about substantial and rapid growth which in turn generates substantial profits and returns.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 8 May 2007.

DIRECTOR'S AND SUPERVISOR'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2007, 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 2007

Name of director	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Mr. Liu Baoqi ("Mr. Liu") (劉保起) (Note 1)	Interest of controlled corporation	230,000,000	51.68%	37.73%
Mr. Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

Note 1: These 230,000,000 domestic shares are registered in the name of Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin"). Mr. Liu is interested in 51.72% of the registered share capital of Linyi Luoxin. As Mr. Liu 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, Mr. Liu 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 2007 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 chief executives.

Long position of domestic shares of the Company, as at 31 March 2007

Name	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's 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 (note 2)	35,000,000	7.86%	5.74%
Liu Zhendong (劉振東)	Beneficial Owner	35,000,000	7.86%	5.74%
Chen Weiwei (陳偉偉)	Family interest (note 3)	35,000,000	7.86%	5.74%
Linyi City People's Hospital	Beneficial Owner	34,560,000	7.77%	5.67%
Pinyi County People's Hospital	Beneficial Owner	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 Mr. Liu. As Mr. Liu 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, Mr. Liu is deemed to be interested in the entire 230,000,000 Domestic Shares held by Linyi Luoxin. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 230,000,000 Domestic Shares held by Mr. Liu.
2. These 35,000,000 Domestic Shares are registered in the name of Liu Zhenhai (劉振海) (“Mr. ZH Liu”), for the purpose of the SFO, Cao Tingting (曹婷婷), as the wife of Mr. ZH Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZH Liu.
3. These 35,000,000 Domestic Shares are registered in the name of Liu Zhendong (劉振東) (“Mr. ZD Liu”), for the purpose of the SFO, Chen Weiwei (陳偉偉), as the wife of Mr. ZD Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZD Liu.
4. Each of Cao Tingting, Mr. ZD Liu, Chen Weiwei, 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 registered share capital of the Company.



AUDIT COMMITTEE

An audit committee (the “Audit Committee”) was established on 20 November 2005 and its current members include:

Mr. Foo Tin Chung, Victor (*Chairman*) (傅天忠)

Mr. Fu Hongzheng (付宏征)

Ms. Li Hongjian (李宏健)

The Company has established the Audit Committee with written terms of reference in compliance with paragraph C3 of the Code 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 the 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 unaudited 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 sold any of the Company’s listed securities during the Period.



COMPETING BUSINESS

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

Linyi Luoxin

Mr. Liu 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 will 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 had received 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 with limited liability established in the PRC, holding 3.28% of the registered 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 does not engage in development and manufacturing of medicine products and it does not have any 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 Company's products.



Lijun Group Limited Liability Company (“Lijun Group”)

Lijun Group is a company with limited liability established in the PRC, holding approximately 1.42% of the registered share capital of the Company. Its scope 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 registered share capital of the Company. Linyi Municipal Pharmacy is principally engaged in the sale of Chinese medicines and chemical medicines, medical equipment and health products in Linyi City and nearby districts. To the best knowledge of the Directors, Linyi Municipal Pharmacy does not and will not engage in the development and manufacturing of medicine products and it does not have any 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 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 2007, 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 had any interest in 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, 8 May 2007