



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



INTERIM REPORT 2007

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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 turnover for the six months ended 30 June 2007 was RMB226,049,000, representing an increase of 53.71% when compared with that of the corresponding period of last year.
- The Company's profit attributable to shareholders for the six months ended 30 June 2007 was RMB51,425,000, representing an increase of 98.82% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) of Shandong Luoxin Pharmacy Stock Co., Ltd. (the “Company”) is pleased to announce the unaudited condensed interim results of the Company for the six months ended 30 June 2007 (the “Period”) and the comparative figures of the corresponding period of 2006 as follows:

CONDENSED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover, net	3	123,877	72,876	226,049	147,058
Cost of sales		(67,341)	(40,218)	(125,750)	(85,246)
Gross profit		56,536	32,658	100,299	61,812
Other revenue	3	900	661	2,032	688
Other income		1,369	643	2,569	2,362
Selling and distribution expenses		(6,419)	(7,137)	(12,941)	(12,096)
General and administrative expenses		(6,805)	(4,590)	(11,984)	(10,154)
Profit from operations	4	45,581	22,235	79,975	42,612
Finance costs	5	(1,882)	(2,211)	(3,221)	(3,998)
Profit before taxation		43,699	20,024	76,754	38,614
Income tax expense	6	(14,421)	(6,614)	(25,329)	(12,749)
Profit attributable to shareholders		29,278	13,410	51,425	25,865
Dividends	7	—	—	—	—
Earnings per share (RMB) – basic and diluted	8	4.80 cents	2.20 cents	8.44 cents	4.24 cents



CONDENSED BALANCE SHEET

As at 30 June 2007

	Notes	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Non-current assets			
Purchased technical know-how	9	2,172	2,719
Prepayments to acquire technical know-how		18,905	11,260
Property, plant and equipment	10	110,466	110,716
Land use rights	11	1,792	1,812
Deferred tax assets		3,309	3,309
		<u>136,644</u>	<u>129,816</u>
Current assets			
Inventories		66,028	74,926
Trade and bills receivables	12	50,340	38,119
Other receivables, deposits and prepayments		16,928	16,438
Pledged bank deposits		55	22,233
Cash and cash equivalents		148,809	117,391
		<u>282,160</u>	<u>269,107</u>
Current liabilities			
Trade and bills payables	13	39,556	43,001
Other payables and accruals		38,967	34,096
Deposits received		6,514	5,940
Tax payable		10,753	5,305
Short-term bank loans		51,900	78,700
		<u>147,690</u>	<u>167,042</u>
Net current assets		<u>134,470</u>	<u>102,065</u>
Total assets less current liabilities		<u>271,114</u>	<u>231,881</u>
Non-current liabilities			
Deferred income		20,380	20,380
Total assets and liabilities		<u>250,734</u>	<u>211,501</u>
Capital and reserves			
Share capital	14	60,960	60,960
Reserves		189,774	150,541
Total equity		<u>250,734</u>	<u>211,501</u>



CONDENSED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to shareholders of the Company					Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	
At 1 January 2006, audited	60,960	31,139	12,066	6,033	53,326	163,524
Profit attributable to shareholders	-	-	-	-	60,169	60,169
Transfer from retained earnings to statutory funds	-	-	6,043	-	(6,043)	-
Dividend paid	-	-	-	-	(12,192)	(12,192)
At 31 December 2006 and 1 January 2007, audited	60,960	31,139	18,109	6,033	95,260	211,501
Profit attributable to shareholders	-	-	-	-	51,425	51,425
Dividend paid	-	-	-	-	(12,192)	(12,192)
At 30 June 2007, unaudited	60,960	31,139	18,109	6,033	134,493	250,734



CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Unaudited	
	Six months ended	
	30 June	
	2007	2006
	RMB'000	RMB'000
Net cash inflow from operating activities	48,271	38,528
Net cash outflow from investing activities	(12,231)	(15,937)
Net cash outflow from financing activities	(4,622)	(9,283)
Net increase in cash and cash equivalents	31,418	13,308
Cash and cash equivalents, beginning of the Period, audited	<u>117,391</u>	<u>155,503</u>
Cash and cash equivalents, end of the Period	<u>148,809</u>	<u>168,811</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>148,809</u>	<u>168,811</u>



NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board on 26 July 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim 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 Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2006.

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



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 Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Turnover		
Sales of manufactured goods	<u>226,049</u>	<u>147,058</u>
Other revenue		
Interest income on bank deposits	<u>2,032</u>	<u>688</u>
Total revenue	<u>228,081</u>	<u>147,746</u>

4. PROFIT FROM OPERATIONS

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Operating profit of the Company was determined after charging the following:		
Directors' and supervisors' emoluments	401	304
Depreciation	4,511	3,527
Loss on disposal of property, plant and equipment	131	497
Amortisation of prepaid lease payment	20	20
Amortisation of purchased technical know-how (included in cost of sales)	622	553
Impairment loss recognised in respect of trade receivables	281	96
Employee benefit expense	13,829	14,888
Research and development costs	1,054	1,765
Advertising costs	<u>2,490</u>	<u>1,969</u>

5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Bank loans wholly repayable within five years	<u>3,221</u>	<u>3,998</u>

6. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
PRC income tax	<u>25,329</u>	<u>12,749</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.

The Company is subject to the PRC enterprise income tax at a rate of 33%.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the unaudited net profit of approximately RMB51,425,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the unaudited net profit of approximately RMB25,865,000, 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 potential ordinary shares outstanding during the six months ended 30 June 2006 and 2007.



9. PURCHASED TECHNICAL KNOW-HOW

RMB'000

Cost:

At 1 January 2006, audited	14,350
Additions	<u>950</u>

At 31 December 2006 and at 1 January 2007, audited	15,300
Additions	<u>75</u>

At 30 June 2007, unaudited	<u>15,375</u>
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Accumulated amortisation and impairment losses:

At 1 January 2006, audited	11,442
Charge for the year	<u>1,139</u>

At 31 December 2006 and at 1 January 2007, audited	12,581
Charge for the Period	<u>622</u>

At 30 June 2007, unaudited	<u>13,203</u>
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Net book value:

At 30 June 2007, unaudited	<u>2,172</u>
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At 31 December 2006, audited	<u>2,719</u>
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**10. PROPERTY, PLANT AND EQUIPMENT**

RMB'000

Cost:

At 1 January 2006, audited	81,686
Additions	8,700
Disposals	(807)
Transfer from construction in progress	<u>43,274</u>

At 31 December 2006 and 1 January 2007, audited	132,853
Additions	4,392
Disposals	<u>(376)</u>

At 30 June 2007, unaudited **136,869****Accumulated depreciation and impairment:**

At 1 January 2006, audited	14,661
Charge for the year	7,628
Written back on disposals	<u>(152)</u>

At 31 December 2006 and 1 January 2007, audited	22,137
Charge for the Period	4,511
Written back on disposals	<u>(245)</u>

At 30 June 2007, unaudited **26,403****Net book value:****At 30 June 2007, unaudited** **110,466**At 31 December 2006, audited **110,716**

Plant and machinery with net book value of approximately RMB31,360,000 (As at 31 December 2006: RMB32,898,000) were pledged as collateral to secure bank loans.



11. LAND USE RIGHTS

Land use rights represent 50-year land use rights in the PRC expiring from March 2052 to May 2055. This payment is recognised as an expense over the leasehold period.

	<i>RMB'000</i>
At 1 January 2006, audited	1,852
Amortisation of prepaid operating lease payments	<u>(40)</u>
At 31 December 2006 and at 1 January 2007, audited	1,812
Amortisation of prepaid operating lease payments	<u>(20)</u>
At 30 June 2007, unaudited	<u>1,792</u>

12. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2007 <i>RMB'000</i> (Unaudited)	At 31 December 2006 <i>RMB'000</i> (Audited)
1 to 90 days	39,461	31,709
91 to 180 days	8,200	5,451
181 to 365 days	3,931	1,103
Over 365 days	<u>757</u>	<u>1,584</u>
	52,349	39,847
Less: Provision for impairment of receivables	<u>(2,009)</u>	<u>(1,728)</u>
	<u>50,340</u>	<u>38,119</u>

Customers are generally granted with credit terms ranging from 30 to 180 days.

Trade and bills receivables as at 30 June 2007 are denominated in Renminbi.

The carrying amounts of trade and bill receivables approximate to their fair value.



13. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
1 to 90 days	28,649	31,438
91 to 180 days	3,066	6,582
181 to 365 days	3,499	1,003
Over 365 days	4,342	3,978
	<u>39,556</u>	<u>43,001</u>

Trade and bills payables as at 30 June 2007 are denominated in Renminbi.

The carrying amounts of trade and bills payables approximate to their fair value.

14. SHARE CAPITAL

	Number of shares '000	Nominal value		Total RMB'000
		Domestic shares RMB'000	H shares RMB'000	
At 31 December 2006, audited	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>
At 30 June 2007, unaudited	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>

15. BANKING FACILITIES

As at 30 June 2007, approximately RMB51,900,000 (as at 31 December 2006: RMB100,878,000) of the banking facilities were secured by:

- (i) pledge of the Company's property, plant and equipment with net book value of approximately RMB31,360,000 (as at 31 December 2006: RMB32,898,000); and
- (ii) pledge of bank deposits of RMB55,000 (as at 31 December 2006: RMB22,233,000).



16. COMMITMENTS

The Company had the following significant capital commitments:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	<u>4,580</u>	<u>4,580</u>

As at 30 June 2007, approximately RMB3,100,000 (as at 31 December 2006:RMB3,100,000) of the above commitments are related to acquisition of technical know-how from a shareholder and a company owned by a shareholder.

17. RELATED PARTY TRANSACTIONS

Key management compensation for the six months ended 30 June 2007 and 30 June 2006 was disclosed in Note 4.

Apart from those disclosed under Note 16, the Company had no material transactions with related parties during the Period.

18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 26 July 2007.



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 the shareholders whose names appear in the register of members of the Company on 22 May 2007. This proposed final dividend was approved by the shareholders of the Company at the annual general meeting held on 22 May 2007.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 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 carried on 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.

Our Group focuses on technology innovation, raising the quality of our products, accelerating the pace of establishing sales network, increasing our product's market share, expanding the sales team and raising the overall quality and technique, increasing production capacity to alleviate the problem of supply shortfall, raising the competitive edge of our Company's products, establishing brand names and accelerating the improvement on seven aspects including management, culture, corporate organization, capital operation, scientific innovation, human resources and marketing, etc., which have effectively boosted our Company's development. The brand name of "Luoxin" has been recognized as a famous brand in Shandong province. In the "Power Ranking Medicine Enterprises in China 2006", the Company was awarded the honourable 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 six months ended 30 June 2007, the Company's unaudited turnover was approximately RMB226,049,000, representing an increase of approximately 53.71% when compared with approximately RMB147,058,000 for the corresponding period of last year.



For the six months ended 30 June 2007, the unaudited cost of sales was approximately RMB125,750,000, representing an increase of 47.51% when compared with approximately RMB85,246,000 for the corresponding period of last year.

For the six months ended 30 June 2007, the unaudited gross profit margin was 44.37%, representing an increase of 2.34% when compared with 42.03% for the corresponding period of last year.

For the six months ended 30 June 2007, the unaudited operating expenditure, including selling and distribution expenses and general and administrative expenses, was approximately RMB24,925,000, representing an increase of 12.02% when compared with approximately RMB22,250,000 for the corresponding period of last year. This represents an usual growth in operating expenditure driven by the turnover growth of the Company.

For the six months ended 30 June 2007, the unaudited profits attributable to the shareholders was approximately RMB51,425,000, representing an increase of 98.82% when compared with approximately RMB25,865,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.0844 (2006: RMB0.0424).

Liquidity and Financial Resources

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

As at 30 June 2007, the Company's cash and cash equivalents amounted to approximately RMB148,809,000 (as at 30 June 2006: RMB168,811,000). As at 30 June 2007, its short term loan amounted to approximately RMB51,900,000 (as at 30 June 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 30 June 2007 was 12.39% (as at 30 June 2006: 27.11%), was calculated by dividing the amount of bank borrowings as at 30 June 2007 by total assets as at 30 June 2007 and then multiplied by 100%.

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2007, the Company's property, plant and equipment of approximately RMB31,360,000 and bank deposits of approximately RMB55,000 were pledged to secure the banking facilities of the Company.

Major Acquisition and Disposal

For the six months ended 30 June 2007, the Company did not make any major acquisition or disposal.

Significant Investments

For the six months ended 30 June 2007, the Company did not have any significant investment.

Contingent Liabilities

As at 30 June 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 in 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 Directors believe that the pharmaceutical industry will grow even faster in 2007 as a result of the expanding population, growth of elderly population, accelerating pace in urbanization and industrial modernization and the influence of globalized disease in the PRC. The Company holds on to its value of "rewarding the shareholders, benefiting the staff, repaying the society and strengthening the enterprise", and will also grab new opportunities, accelerate the pace of development, and to improve the quality of its products, enhancing its brand name and lowering the production cost. The Company will rapidly expand its sales scale, so to enjoy from economic of scale and make more technology innovation.

The Directors believe that, through the implementation of these measures and grasping new opportunities, the Company will achieve better and faster growth, and thereby enhancing the results significantly. Under the upward trend of the pharmaceutical industry, the Company is equipped with the prerequisites necessary for rapid and sustainable development, which in turn bring us substantial profits and returns.



COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

Set out below is a summary of comparison between objectives and actual business progress:

Business objectives as stated in the Prospectus for the Period.

Actual business progress as at 30 June 2007

Increase the coverage of its marketing and sales network and its customer base in the PRC

- | | |
|---|--|
| 1. Participate in National Pharmacy Exchange Fairs (國家藥品交流會) in the first quarter of 2007. | Participated in National Pharmacy Exchange Fairs (國家藥品交流會) in Dalian, PRC. |
| 2. Provide training seminars to sales and marketing staff to enhance their knowledge on the Company's new medical products and latest market information. | Provided training seminars to sales and marketing staff to enhance their knowledge on the Company's new medical products and latest market information. |
| 3. Finalise the new marketing strategies to increase the Company's marketing share. | New marketing strategies have been finalised to cover the all sizes and 4 channels of market, which are the hospitals, distributors, raw materials and OTC. |
| 4. Commence the promotional activities for Rhodiola for Injection, including press release and other target customer oriented promotional activities. | Not yet officially commenced as the production approval has not been obtained. But the patent in respect of Rhodiola for Injection has been obtained by the Company on 10 May 2006 of which was widely reported. |

Broaden its product range

- | | |
|---|--|
| 1. Commence production of Rhodiola for Injection. | Not yet commenced, but the patent in respect of Rhodiola for injection has been obtained by the Company on 10 May 2006. The Company is in the process of obtaining the production approval for Rhodiola for Injection. |
|---|--|

USE OF PROCEEDS

The net proceeds raised from the placing of the company's H Shares on GEM on 9 December 2005 were approximately HK\$31.5 million. The planned usage of proceeds stated in prospectus dated 29 November 2005 ("Prospectus") was based on the placing price of HK\$0.35 and 164,560,000 H shares issued of which 14,960,000 H shares were converted from domestic shares of the Company. The final placing price of the H Shares was determined at HK\$0.26. Therefore, the proceeds from the placing were reduced.

The revised total cost of implementation of business plan was RMB32.76 million (or HK\$31.5 million at exchange rate of 1.04 with RMB), of which RMB25.42 million will be spent on the enhancement and upgrading of production facilities; RMB4.59 million will be spent on increasing the coverage of its marketing and sales network and its customer base in the PRC; and RMB2.75 million will be spent on the broadening its product range. Insufficient funds will be supported by the Company's internal resources. The Directors are of the view that the current retained earnings level and support from the banks will provide sufficient resources to pay the said deficient funds.

According to the Prospectus, the Company's business plan during the period ended 30 June 2007 would be financed by the Company's internal resources. However, due to various reasons, mainly the stricter steps and longer time required to obtain production permits from relevant authorities for the new extraction workshop for herbal medicines, the implementation plan was delayed and some proceeds were spent in other areas in the Period.

	Costs for the implementation of business plan as at 30 June 2007 as set out in the prospectus HK\$' million/ RMB million	Amount of net proceeds to be used as at 30 June 2007 as revised RMB million	Actual amount of net proceeds spent as at 30 June 2007 RMB million	Company's contribution on the implementation of business plan RMB million
1. Enhance and upgrade production facilities	26.80/ 27.87	25.42	8.94	10.38
2. Increase the coverage of its marketing and sales network and its customer base in the PRC	4.6/ 4.78	4.59	4.59	0.26
3. Broaden its product range	2.8/ 0.29	2.75	0.47	0.29



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

As at 30 June 2007, the interests and short positions of each of the 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 30 June 2007

Name of Director	Capacity/ Nature of interest	Number of domestic shares	% of Total domestic shares	% of Company's issued share capital
Mr. Liu Baoqi (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"). 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 (劉振海) 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 June 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 supervisors.

Long position of domestic shares of the Company as at 30 June 2007

Name	Capacity/ Nature of interest	Number of domestic shares	% of Total domestic shares	% of 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 (Note 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 (Note 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 Mr. Liu Baoqi (劉保起) ("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.
- 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.
- 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.



- 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 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 procedure 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 interim condensed results of the Company for the Period have been reviewed by the Audit Committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and it has satisfied that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules for the six-months period ended 30 June 2007.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the Directors, the Directors have complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the Period.

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 of 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

Mr. 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 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. It is principally engaged in the sales of Chinese medicines, medical medicines, bio-chemical medicines, medical equipment and healthy products. To the best knowledge of the Directors, Qingdao Guofeng Jiaozhou has not engaged 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.

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 medical products sold by Qingdao Guofeng Jiaozhou having the same or similar curative effects with those of the Company may be in competition with the Company's products.

Qingdao Guofeng Jiaozhou was a shareholder of the Company holding 3.28% of the registered share capital of the Company, however, these domestic shares held by Qingdao Guofeng Jiaozhou were sold to an independent third party not in competition with the business of the Company in April 2007.

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 medical products sold by Lijun Group having the 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 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 medical products from other suppliers in the PRC. The Directors advised that some of the medical products sold by Linyi Municipal Pharmacy having the 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 June 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 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, 26 July 2007