



# 山東羅欣藥業股份有限公司

## Shandong Luoxin Pharmacy Stock Co., Ltd.\*

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

Stock Code: 8058



## INTERIM REPORT 2008

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



## SUMMARY

- The Company's sales for the six months ended 30 June 2008 was RMB308,095,000, representing an increase of 36.3% 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 2008 was RMB85,582,000, representing an increase of 66.4% 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 2008.

## 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 report of the Company for the six months ended 30 June 2008 (the "Period") and the comparative figures of the corresponding period of 2007 as follows:

## INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	3	<b>164,062</b>	123,877	<b>308,095</b>	226,049
Cost of sales		<b>(83,092)</b>	(67,341)	<b>(158,269)</b>	(125,750)
Gross profit		<b>80,970</b>	56,536	<b>149,826</b>	100,299
Other revenue	3	<b>28</b>	900	<b>233</b>	2,032
Other income		<b>1,464</b>	1,369	<b>2,360</b>	2,569
Selling and distribution expenses		<b>(13,522)</b>	(6,419)	<b>(23,932)</b>	(12,941)
General and administration expenses		<b>(7,841)</b>	(6,805)	<b>(13,722)</b>	(11,984)
Profit from operations	4	<b>61,099</b>	45,581	<b>114,765</b>	79,975
Finance costs	5	<b>(517)</b>	(1,882)	<b>(650)</b>	(3,221)
Profit before taxation		<b>60,582</b>	43,699	<b>114,115</b>	76,754
Taxation	6	<b>(15,150)</b>	(14,421)	<b>(28,533)</b>	(25,329)
Profit for the Period attributable to equity holders of the Company		<b>45,432</b>	29,278	<b>85,582</b>	51,425
Dividends	7	<b>-</b>	-	<b>-</b>	-
Earnings per share attributable to equity holders of the Company (RMB)					
- Basic and Diluted	8	<b>7.46 cents</b>	4.80 cents	<b>14.04 cents</b>	8.44 cents



## BALANCE SHEET

As at 30 June 2008

	Notes	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
<b>Non-current assets</b>			
Purchased technical know-how	9	1,078	1,625
Prepayments to acquire technical know-how		11,170	11,370
Property, plant and equipment	10	221,815	113,182
Construction-in-progress	11	7,594	82,429
Land use rights	12	11,584	11,721
Deferred tax assets		2,685	2,685
		<u>255,926</u>	<u>223,012</u>
<b>Current assets</b>			
Inventories		166,496	69,106
Trade and bills receivables	13	71,675	53,899
Other receivables, deposits and prepayments		52,087	8,329
Cash and cash equivalents		55,744	116,223
		<u>346,002</u>	<u>247,557</u>
<b>Current liabilities</b>			
Trade and bills payables	14	57,996	32,175
Other payables and accruals		78,347	47,621
Deposits received		7,463	7,463
Taxation payable		13,100	11,178
Short-term bank loans		30,000	30,500
		<u>186,906</u>	<u>128,937</u>
<b>Net current assets</b>		<u>159,096</u>	<u>118,620</u>
<b>Total assets less current liabilities</b>		<u>415,022</u>	<u>341,632</u>
<b>Non-current liabilities</b>			
Deferred income		20,380	20,380
<b>Net assets</b>		<u>394,642</u>	<u>321,252</u>
<b>Capital and reserves</b>			
Share capital	15	60,960	60,960
Reserves		333,682	260,292
<b>Total equity</b>		<u>394,642</u>	<u>321,252</u>

## STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to shareholders of the Company					
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2008, audited	60,960	31,139	30,303	6,033	192,817	321,252
Profit attributable to equity holders of the Company	-	-	-	-	85,582	85,582
Dividend declared	-	-	-	-	(12,192)	(12,192)
At 30 June 2008, unaudited	<u>60,960</u>	<u>31,139</u>	<u>30,303</u>	<u>6,033</u>	<u>266,207</u>	<u>394,642</u>

For the six months ended 30 June 2007

	Attributable to shareholders of the Company					
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007, audited	60,960	31,139	18,109	6,033	95,260	211,501
Profit attributable to equity holders of the Company	-	-	-	-	51,425	51,425
Dividend declared	-	-	-	-	(12,192)	(12,192)
At 30 June 2007, unaudited	<u>60,960</u>	<u>31,139</u>	<u>18,109</u>	<u>6,033</u>	<u>134,493</u>	<u>250,734</u>



## CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net cash (outflow)/inflow from operating activities	<b>(9,283)</b>	48,271
Net cash outflow from investing activities	<b>(38,504)</b>	(12,231)
Net cash outflow from financing activities	<u><b>(12,692)</b></u>	<u>(4,622)</u>
Net (decrease)/increase in cash and cash equivalents	<b>(60,479)</b>	31,418
Cash and cash equivalents at beginning of the Period, audited	<u><b>116,223</b></u>	<u>117,391</u>
Cash and cash equivalents at end of the Period	<u><b>55,744</b></u>	<u>148,809</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><b>55,744</b></u>	<u>148,809</u>



## NOTES TO FINANCIAL STATEMENTS

*For the six months ended 30 June 2008*

### 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 Renminbi ("RMB") 46 million. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited 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 RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These accounts have been approved for issue by the Board on 5 August 2008.

### 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 2007.

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.

Turnover and other revenue recognised are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Turnover</b>		
Sales of manufactured goods	<u>308,095</u>	<u>226,049</u>
<b>Other revenue</b>		
Interest income on bank deposits	233	549
Sales of raw materials	<u>-</u>	<u>1,483</u>
	<u>233</u>	<u>2,032</u>
	<u><b>308,328</b></u>	<u><b>228,081</b></u>

### 4. PROFIT FROM OPERATIONS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Operating profit of the Company was determined after charging the following:		
Directors' and supervisors' emoluments	737	401
Depreciation	5,569	4,511
Loss on disposal of property, plant and equipment	863	131
Amortisation of prepaid lease payment	137	20
Amortisation of purchased technical know-how (included in cost of sales)	547	622
Impairment loss recognised in respect of trade receivables	-	281
Employee benefit expense	21,594	13,829
Research and development costs	2,168	1,054
Advertising costs	<u>1,786</u>	<u>2,490</u>

## 5. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Bank loans wholly repayable within five years	<b>650</b>	3,221

## 6. TAXATION

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
PRC income tax	<b>28,533</b>	25,329

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.

## 7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the unaudited net profit of approximately RMB85,582,000 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 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.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the period ended 30 June 2008 and 2007.



## 9. PURCHASED TECHNICAL KNOW-HOW

RMB'000

### Cost:

At 1 January 2007, at 31 December 2007 and at 1 January 2008, audited 15,300

**At 30 June 2008, unaudited** **15,300**

### Accumulated amortisation and impairment:

At 1 January 2007, audited 12,581  
Charge for the year 1,094

At 31 December 2007 and at 1 January 2008, audited 13,675  
Charge for the Period 547

**At 30 June 2008, unaudited** **14,222**

### Net book value:

**At 30 June 2008, unaudited** **1,078**

At 31 December 2007, audited 1,625



## 10. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
<b>Cost:</b>	
At 1 January 2007, audited	132,853
Additions	11,986
Disposals	<u>(509)</u>
At 31 December 2007 and at 1 January 2008, audited	144,330
Additions	16,567
Transfer from construction-in-progress (Note 11)	99,757
Disposals	<u>(3,399)</u>
<b>At 30 June 2008, unaudited</b>	<b><u>257,255</u></b>
<b>Accumulated depreciation and impairment:</b>	
At 1 January 2007, audited	22,137
Charge for the year	9,360
Written back on disposals	<u>(349)</u>
At 31 December 2007 and at 1 January 2008, audited	31,148
Charge for the Period	5,569
Written back on disposals	<u>(1,277)</u>
<b>At 30 June 2008, unaudited</b>	<b><u>35,440</u></b>
<b>Net book value:</b>	
<b>At 30 June 2008, unaudited</b>	<b><u>221,815</u></b>
At 31 December 2007, audited	<u>113,182</u>

Plant and machinery with net book value of approximately RMB16,539,000 (as at 31 December 2007: RMB18,098,000) were pledged as collateral to secure bank loans.

As at 30 June 2008, all buildings of the Company are located in the PRC.

Depreciation expense of RMB3,600,000 (as at 31 December 2007: RMB6,933,000) have been expensed in cost of sales and RMB1,969,000 (as at 31 December 2007: RMB2,427,000) have been included in administrative expenses for the Period.



## 11. CONSTRUCTION-IN-PROGRESS

	RMB'000
At 1 January 2007, audited	—
Additions	<u>82,429</u>
At 31 December 2007 and at 1 January 2008, audited	82,429
Additions	24,922
Transfer to property, plant and equipment	<u>(99,757)</u>
<b>At 30 June 2008, unaudited</b>	<b><u>7,594</u></b>

Analysis of construction-in-progress:

	<b>At 30 June 2008 RMB'000 (Unaudited)</b>	At 31 December 2007 RMB'000 (Audited)
Construction cost of buildings	<b>550</b>	54,737
Cost of plant and machinery	<u><b>7,044</b></u>	<u>27,692</u>
	<u><b>7,594</b></u>	<u>82,429</u>

## 12. LAND USE RIGHTS

Land use rights represent 50-year land use rights in the PRC expiring from November 2050 to May 2055. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2007, audited	1,812
Additions	10,027
Amortisation of prepaid operating lease payments	<u>(118)</u>
At 31 December 2007 and at 1 January 2008, audited	11,721
Amortisation of prepaid operating lease payments	<u>(137)</u>
<b>At 30 June 2008, unaudited</b>	<b><u>11,584</u></b>

### 13. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	<b>At 30 June 2008 RMB'000 (Unaudited)</b>	At 31 December 2007 RMB'000 (Audited)
1 to 90 days	45,688	38,443
91 to 180 days	6,932	11,761
181 to 365 days	18,306	3,695
Over 365 days	<u>1,334</u>	<u>784</u>
	<b>72,260</b>	<b>54,683</b>
Less: Impairment loss on trade receivables	<u>(585)</u>	<u>(784)</u>
	<b><u>71,675</u></b>	<b><u>53,899</u></b>

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

Trade and bills receivables as at 30 June 2008 are denominated in RMB.

### 14. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	<b>At 30 June 2008 RMB'000 (Unaudited)</b>	At 31 December 2007 RMB'000 (Audited)
1 to 90 days	49,792	25,082
91 to 180 days	1,724	3,295
181 to 365 days	1,933	884
Over 365 days	<u>4,547</u>	<u>2,914</u>
	<b>57,996</b>	<b>32,175</b>

Trade and bills payables as at 30 June 2008 are denominated in RMB.



## 15. SHARE CAPITAL

	Number of shares '000	Nominal value		Total RMB'000
		Domestic shares RMB'000	H shares RMB'000	
Registered, issued and fully paid:				
At 31 December 2007, audited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>
<b>At 30 June 2008, unaudited</b> (nominal value of RMB0.10 each)	<b><u>609,600</u></b>	<b><u>44,504</u></b>	<b><u>16,456</u></b>	<b><u>60,960</u></b>

## 16. BANKING FACILITIES

As at 30 June 2008, the Company had aggregate banking facilities of RMB30,000,000 (as at 31 December 2007: RMB30,500,000) which were fully utilised as at 30 June 2008.

As at 30 June 2008, approximately RMB30,000,000 (as at 31 December 2007: RMB30,500,000) of the banking facilities were secured by:

- (i) pledge of the Company's plant and machinery with net book value of approximately RMB16,539,000 (as at 31 December 2007: RMB18,098,000).

## 17. COMMITMENTS

As at 30 June 2008, the Company had the following significant capital commitments:

	<b>At 30 June 2008 RMB'000 (Unaudited)</b>	At 31 December 2007 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	4,500	4,800
– Property, plant and machinery	<u>8,565</u>	<u>28,426</u>



## 18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim financial statements, the Company had the following material transactions with related parties during the Period:

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Sales of finished goods to Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin")	15,454	—
Sales of finished goods to Linyi City People's Hospital ("Linyi People Hospital")	4,919	—
Sales of finished goods to Pingyi County People's Hospital ("Pingyi People Hospital")	<u>1,302</u>	<u>—</u>

Notes:

- (i) Linyi Luoxin is the shareholder and promoter of the Company. Mr. Liu Baoqi is the Director of both Linyi Luoxin and the Company.
- (ii) Linyi People Hospital is a former shareholder and promoter of the Company. Mr. Yin Chuangui, a non-executive Director of the Company, is also the Director of Linyi People Hospital during the period ended 30 June 2008.
- (iii) Pingyi People Hospital is a former shareholder and promoter of the Company.

## 19. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 5 August 2008.





## INTERIM DIVIDENDS

On 4 March 2008, the Board recommended the payment of a final dividend of RMB0.02 per share in respect of the year ended 31 December 2007 to shareholders whose names appear in the register of members of the Company on 15 May 2008. This proposed final dividend was approved by the shareholders of the Company at the annual general meeting held on 16 May 2008.

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2008, the profits attributable to the shareholders of the Company recorded a tremendous increase over the corresponding period of last year, and achieved good results. The Company persisted in 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 shareholders, customers, suppliers and business partners and the public, as well as the sustainable concerted effort of the management and employees.

The Company focuses on several areas of implementation, including persistence in technology innovation, enhancing the quality of its products, accelerating the pace of establishing sales network, increasing market share of its products, expanding and enhancing the overall quality and technique of its sales team, increasing production capacity to alleviate the problem of its products being in short supply, raising the competitive edge of the Company's products, speed up the building of a high-caliber personnel team, establishing brand names and accelerating the improvement on seven aspects including management, culture, corporate organization, capital operation, scientific and technological innovation, human resources and marketing, etc., which have effectively boosted the Company's development and have further enhanced the ability to mitigate risks and its overall strength. Upon the full completion of the third phase capacity expansion project, the market share of the Company's products would gradually increase; the Company is entering into a phase of achieving economies of scale.

The Company has been recognized as the "Top Ten Pharmaceutical Enterprises with Growth Potential" for two consecutive years since 2006, and elected as one of the Top 100 Enterprises in Pharmaceutical Industry in China. All these achievements demonstrate that the Company, with a growing reputation within the pharmaceutical industry in China and improved overall strength, is gradually evolving into a renowned top-brand corporation.

## Financial Review

For the six months ended 30 June 2008, the Company's unaudited turnover was approximately RMB308,095,000, representing an increase of approximately 36.30% when compared with approximately RMB226,049,000 for the corresponding period of last year.

For the six months ended 30 June 2008, the unaudited cost of sales of the Company was approximately RMB158,269,000 representing an increase of approximately 25.86% when compared with approximately RMB125,750,000 for the corresponding period of last year.

For the six months ended 30 June 2008, the unaudited gross profit margin of the Company was approximately 48.63%, representing an increase of approximately 4.26% when compared with approximately 44.37% for the corresponding period of last year.

For the six months ended 30 June 2008, the unaudited operating expenditure of the Company was approximately RMB37,654,000 representing an increase of approximately 51.07% when compared with approximately RMB24,925,000 for the corresponding period of last year.

For the six months ended 30 June 2008, the unaudited profit attributable to the shareholders of the Company was approximately RMB85,582,000, representing an increase of approximately 66.42% when compared with approximately RMB51,425,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.140.

## Liquidity and Financial Resources

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

As at 30 June 2008, the Company's cash and cash equivalents amounted to approximately RMB55,744,000 (as at 30 June 2007: RMB148,809,000). As at 30 June 2008, the Company's short term loan amounted to RMB30,000,000 (as at 30 June 2007: RMB51,900,000). The Company's bank borrowings were mainly secured by certain plant and machinery of the Company.

The Company's gearing ratio as at 30 June 2008 was 4.98% (as at 30 June 2007: 12.39%), which was calculated by dividing the amount of bank borrowings as at 30 June 2008 by total assets as at 30 June 2008 and then multiplied by 100%.

## Banking Facilities

As at 30 June 2008, the Company's plant and machinery of RMB16,539,000 were pledged to secure the banking facilities of the Company.



## Major Acquisition and Disposals

For the six months ended 30 June 2008, the Company did not make any major acquisition or disposal.

## Significant Investments

For the six months ended 30 June 2008, the Company agreed to pay RMB19,620,000 on 8 May 2008 to acquire 20% equity interests in Qilu Medical Investment Management Limited or RMB18,000,000 of its registered capital in the proportion of 1.09:1 at a premium. Such investment was approved by resolutions of shareholders of the Company in the extraordinary general meeting of the Company held on 17 July 2008.

## Contingent Liabilities

As at 30 June 2008, 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 RMB. All the Company's cash and cash equivalents and pledged deposits are denominated in RMB, 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 strengthening the co-operations with its research and development partners, enhancing the capability of its research and development teams, constantly developing high-tech, high quality and high-value added new patented products for the market, 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. Further, through the one-stop vertical production from bulk pharmaceutical to dose products, together with the enhancement of the competitive edge in cost control and differentiation, the Company will have the power and promise to continue its development.

The Directors believe that the pharmaceutical industry will grow even faster in 2008 as a result of the expanding population, aging population, accelerating pace in urbanization and industrial modernization and the influence of globalized disease in the PRC. Particularly with the PRC speeding up its pace in medical system reform, actively introducing new cooperative medical initiatives and sparing no effort in raising people’s living standard will all effectively boost medical treatment and pharmaceutical spending. Such huge market potential will enable well-established enterprises to enter into a new period of rapid development. The Company will also take advantage of such opportunities to implement rapid, sustainable and healthy development. The Ministry of Health has laid down the “2020 Healthy China” (健康中國2020年) plan, which is divided into three stages: in the first stage in 2010, the PRC should establish a systematic sanitary service system covering urban and rural areas; in the second stage, the PRC should have good ranking amongst developing countries in terms of sanitary services by 2015; in the third stage, the PRC’s sanitary service should maintain a high standard among developing countries by 2020, and it is hoped that she can match the standard of those medium level developed countries. If the three-stage plan is materialised, the PRC’s pharmaceutical consumption will move into a surging period, which will enable the regulated and rapid development of those pharmaceutical enterprises which have potential, and in turn represents a valuable opportunity to the Company. The Company uphold its value of “rewarding the shareholders, benefiting the staff, repaying society and strengthening the enterprise”, and will also grab new opportunities, accelerate the pace of development, improve the quality of its products, enhance its brand name, lower production costs and expand its scale of production and sale, so as to enjoy benefit from economies of scale, lower production cost and differentiation.

The Directors believe that, through the implementation of these measures and grasping new opportunities, the Company will achieve better and faster growth, and thereby enhance the results significantly. Given the upward trend of the pharmaceutical industry, coupled with the prerequisites necessary for rapid and sustainable development the Company possesses, this will bring substantial profits and returns to the Company.



## COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The business objectives stated in the prospectus that are still outstanding and not yet fulfilled are the commencement of promotional activities for and production of Rhodiola for Injection.

The promotional activities for Rhodiola for Injection, including press release and other target customer oriented promotional activities, are not yet officially launched 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.

The production of Rhodiola for Injection is not yet commenced either and the Company is in the process of obtaining the production approval from the PRC Government.

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

As at 30 June 2008, 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 30 June 2008

<b>Name of director</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of domestic shares</b>	<b>% of total issued domestic shares</b>	<b>% of Company's Share Capital</b>
Mr. Liu Baoqi (劉保起) (Note 1)	Interest of controlled corporation	238,639,949	53.62%	39.15%
Mr. Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

*Note 1:* These 238,639,949 domestic shares of the Company ("Domestic Shares") are registered in the name of Linyi Luoxin. Liu Baoqi (劉保起) is interested in 51.72% of the registered share capital of Linyi Luoxin. 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 238,639,949 Domestic Shares held by Linyi Luoxin. The total number of Domestic Shares deemed to be interested by Liu Baoqi (劉保起) as at 30 June 2007 was 230,000,000 (representing 51.68% of total issued Domestic Shares and 37.73% of Company's Share Capital). On 29 October 2007, Linyi Luoxin further acquired 8,639,949 shares, including 4,319,974.50 Domestic Shares from each of two promoters of the Company, i.e., Linyi People Hospital and Pinyi People Hospital.

## 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 2008, 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 of the Company.

### Long position of domestic shares of the Company, as at 30 June 2008

Name	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Linyi Luoxin	Beneficial Owner	238,639,949	53.62%	39.15%
Zuo Hongmei (左洪梅)	Family interest (note 1)	238,639,949	53.62%	39.15%
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%



Notes:

1. These 238,639,949 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 238,639,949 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 238,639,949 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, Liu Zhendong and Chen Weiwei is not considered to be a substantial shareholder of the Company for the purpose of the GEM Listing Rules as each of them is interested in less than 10% of the total registered share capital of the Company.
5. Linyi People Hospital was a substantial shareholder of the Company as at 30 June 2007. On 29 October 2007, it transferred 4,319,974.50 Domestic Shares to Linyi Luoxin and 30,239,821.50 Domestic Shares to another independent investor.
6. Pinyi People Hospital was a significant shareholder of the Company as at 30 June 2007. On 29 October 2007, it transferred 4,319,974.50 Domestic Shares to Linyi Luoxin and 30,239,821.50 Domestic Shares to another independent investor.



## AUDIT COMMITTEE

An audit committee of the Company (the “Audit Committee”) was established on 20 November 2005 and its current members during the period ended 30 June 2008 include:

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

Mr. Fu Hongzheng (付宏征)

Ms. Li Hongjian (李宏建)

The Company has established the Audit Committee with written terms of reference in compliance with paragraph C3 of the Code of Corporate Governance Practices (the “Code”) 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 medicinal field and professional knowledge of 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.

## DIRECTOR’S 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 conduct in relation to securities dealings by Directors for the Period.

## 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 for the six-month period ended 30 June 2008.

## 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

Linyi Luoxin is the controlling shareholder of the Company which holds 39.15% of the Company's issued share capital. And the chairman of the Company Mr. Liu Baoqi is also an executive director and chairman of Linyi Luoxin and a controlling shareholder holding 51.72% 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 medium-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 established in the PRC with limited liability and held 3.28% of the issued share capital of the Company. It is principally engaged in the sales of Chinese medicines, chemical medicines, bio-chemical medicines, medical equipment and health products. To the best knowledge of the Directors, Qingdao Guofeng Jiaozhou is not engaged in development and manufacturing of medicine products and it has no research, 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 medicine products sold by Qingdao Guofeng Jiaozhou which have same or similar curative effects as those of the Company may be in competition with the Company's products.

The Domestic Shares held by Qingdao Guofeng Jiaozhou were sold in April 2007 to an independent third party whose business does not compete with that of the Company.



### Lijun Group Limited Liability Company (“Lijun Group”)

Lijun Group is a company with limited liability in the PRC and held 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 medicine products sold by Lijun Group which have same or similar curative effects as those of the Company may be in competition with the Company's products.

The Domestic Shares held by Lijun Group were sold in June 2007 to an independent third party whose business does not compete with that of the Company.

### 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 is not engaged and will not engage in the development and manufacturing of medicine products and it has no research, 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 medicine products sold by Linyi Municipal Pharmacy which have same or similar curative effects as those of the Company may be in competition with the products of the Company.

Save as disclosed above, none of the Directors and the substantial shareholders of the Company or their respective associate (as defined in the GEM listing Rules) had any interests 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 2008, 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.

The compliance adviser agreement was finished on 31 March 2008 and the Company had not renewed the said agreement or appointed another compliance adviser.

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

Hong Kong, 5 August 2008

*As at the date of this report, the Board comprises 10 directors, of which Mr. Liu Baoqi (劉保起), Mr. Liu Zhenhai (劉振海), Ms. Li Minghua (李明華) and Mr. Han Fengsheng (韓風生) are executive directors, Mr. Zhou Wuxian (周武先), Mr. Yin Chuangui (尹傳貴) and Mr. Liu Yuxin (劉玉欣) are non-executive directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征) and Ms. Li Hongjian (李宏建) are independent non-executive directors.*

\* For identification purposes only