



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



THIRD QUARTERLY REPORT 2008



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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



SUMMARY

- The Company's sales for the nine months ended 30 September 2008 was RMB480,155,000, representing an increase of 36.93% when compared with that of the corresponding period of last year.
- The Company's profit attributable to shareholders for the nine months ended 30 September 2008 was RMB138,141,000, representing an increase of 62.93% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2008.



THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2008 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed results of the Company for the three months and nine months ended 30 September 2008 (the "Period") and the comparative figures of the corresponding period of 2007 as follows:

INCOME STATEMENT

For the nine months ended 30 September 2008

	Notes	Unaudited		Unaudited	
		Three months ended 30 September 2008	2007	Nine months ended 30 September 2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	172,060	124,606	480,155	350,655
Cost of sales		(84,504)	(61,873)	(242,773)	(187,623)
Gross profit		87,556	62,733	237,382	163,032
Other revenue	3	272	2,623	505	4,655
Other income		471	474	2,831	3,043
Selling and distribution expenses		(12,490)	(10,330)	(36,422)	(23,271)
General and administrative expenses		(5,369)	(5,620)	(19,091)	(17,604)
Profit from operations		70,440	49,880	185,205	129,855
Finance costs	4	(360)	(89)	(1,010)	(3,310)
Profit before taxation		70,080	49,791	184,195	126,545
Taxation	5	(17,521)	(16,431)	(46,054)	(41,760)
Profit for the period attributable to equity holders of the Company		52,559	33,360	138,141	84,785
Dividends	6	-	-	-	-
Earnings per share attributable to equity holders of the Company (RMB)					
- basic and diluted	7	8.62 cents	5.47 cents	22.66 cents	13.91 cents



NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 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 by way of promotion with a registered capital of RMB46 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 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 RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board on 28 October 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed third quarterly 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 (the "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 2007.

The financial statements have been prepared under historical cost basis except certain financial assets and financial liabilities, which were 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 were related to manufacturing and selling of pharmaceutical products, and all assets and customers were located in the PRC.

Revenues recognised are as follows:

	Unaudited Three months ended 30 September 2008		Unaudited Nine months ended 30 September 2008	
	RMB'000	2007 RMB'000	RMB'000	2007 RMB'000
Turnover				
Sales of manufactured goods	172,060	124,606	480,155	350,655
Other revenue				
Interest income on bank deposits	272	2,623	505	4,655
Total revenue	<u>172,332</u>	<u>127,229</u>	<u>480,660</u>	<u>355,310</u>

4. FINANCE COSTS

	Unaudited Three months ended 30 September 2008		Unaudited Nine months ended 30 September 2008	
	RMB'000	2007 RMB'000	RMB'000	2007 RMB'000
Bank loans wholly repayable within five years	360	89	1,010	3,310

5. TAXATION

	Unaudited Three months ended 30 September 2008		Unaudited Nine months ended 30 September 2008	
	RMB'000	2007 RMB'000	RMB'000	2007 RMB'000
PRC income tax	17,521	16,431	46,054	41,760

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 income tax at a rate of 25%.



6. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2008 (2007: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2008 is based on the unaudited net profit of approximately RMB138,141,000 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 nine months ended 30 September 2007 is based on the unaudited net profit of approximately RMB84,785,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the corresponding period in 2007.

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

8. SHAREHOLDERS' FUND

	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	31,139	18,109	6,033	95,260	150,541
Profit attributable to equity holders of the Company	–	–	–	84,785	84,785
Dividend paid	–	–	–	(12,192)	(12,192)
	<u>31,139</u>	<u>18,109</u>	<u>6,033</u>	<u>167,853</u>	<u>223,134</u>
At 30 September 2007, unaudited					
At 1 January 2008, audited	31,139	30,303	6,033	192,817	260,292
Profit attributable to equity holders of the Company	–	–	–	138,141	138,141
Dividend paid	–	–	–	(12,192)	(12,192)
	<u>31,139</u>	<u>30,303</u>	<u>6,033</u>	<u>318,766</u>	<u>386,241</u>
At 30 September 2008, unaudited					



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 appeared on 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 any dividend for the nine months ended 30 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 30 September 2008, the profits attributable to the shareholders of the Company recorded a tremendous increase over the corresponding period of last year. The Company achieved good results by adhering to its strategy of sustainable development and therefore attained distinguished advancement and progress in various aspects. The outstanding achievements of Luoxin are attributable to the great support and assistance from all shareholders, customers, suppliers and business partners and the public, as well as the concerted effort and commitment of its management and employees.

The Company's policy focuses on pursuing technological innovation, enhancing the quality of its products, accelerating the establishment of the sales network, increasing the market share of its products, expanding the sales team and improving its overall quality and technique, boosting production capacity to alleviate the problem of short supply, raising the competitiveness of its products, recruiting more high-caliber staff, building up brand names and accelerating the improvement on seven aspects namely management, culture, corporate organization, capital operation, technological innovation, human resources and marketing. All of the above factors have effectively promoted the Company's development and have further enhanced its capability of risk resistant and its overall capacity. Upon the completion of the third phase capacity expansion project, the market share of the Company's products would gradually increase; and the Company would then be able to benefit from economies of scale.

The Company has been accredited as "Top Ten Pharmaceutical Enterprises with Growth Potential" for two consecutive years since 2006, and was among the "Top 100 Enterprises in Pharmaceutical Industry in China". The technology centre of the Company was also certified as a "Technology Centre of Provincial Level Enterprise in Shandong Province" in September 2008. All these achievements demonstrate that the Company, with a growing reputation in the pharmaceutical industry in China, enhanced capability in technological innovation and improved overall capacity, is gradually establishing its status as a renowned corporation.



Financial Review

For the nine months ended 30 September 2008, the Company's unaudited turnover increased from approximately RMB350,655,000 for the corresponding period of last year to approximately RMB480,155,000, representing an increase of approximately 36.93%.

For the nine months ended 30 September 2008, the unaudited cost of sales of the Company increased from approximately RMB187,623,000 for the corresponding period of last year to approximately RMB242,773,000, representing an increase of approximately 29.39%.

For the nine months ended 30 September 2008, the unaudited gross profit margin of the Company increased from 46.49% for the corresponding period of last year to approximately 49.44%, representing an increase of approximately 2.95%.

For the nine months ended 30 September 2008, the unaudited operating expenditure of the Company increased from approximately RMB40,875,000 for the corresponding period of last year to approximately RMB55,513,000, representing an increase of approximately 35.81%.

For the nine months ended 30 September 2008, the unaudited profit attributable to the shareholders of the Company increased from approximately RMB84,785,000 for the corresponding period of last year to approximately RMB138,141,000, representing an increase of approximately 62.93%. Weighted average earnings per share amounted to RMB0.227.

Liquidity and Financial Resources

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

As at 30 September 2008, the Company's cash and cash equivalents amounted to approximately RMB31,364,000 (as at 30 September 2007: RMB133,269,000). As at 30 September 2008, the Company did not have any loan (as at 30 September 2007: RMB51,900,000).

Pledged bank deposits/cash and cash equivalents

As at 30 September 2008, bank deposits in an amount of RMB14,840,000 were pledged as deposits for bankers' acceptance. As at 30 September 2007, the Company's property, plant and equipment of RMB31,360,000 and bank deposits of RMB55,200 were pledged respectively to secure the banking facilities of the Company.

Major Acquisition and Disposals

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



Significant Investments

During the nine months ended 30 September 2008, the Company paid RMB19,620,000 in advance on 8 May 2008 to acquire 20% equity interests in Qilu Medical Investment Management Limited (equivalent to RMB18,000,000 of its registered capital) at a premium ratio of 1.09:1. Such investment was approved by a resolution of shareholders of the Company in the first extraordinary general meeting of the Company held on 17 July 2008.

Contingent Liabilities

As at 30 September 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 market rate, 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 sustainable development and adhere to its strategic 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 exclusive 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 edges in low cost and differentiation, the Company will have the dynamics to secure its sustainable development and be protected against adversity.



The Directors believe that the pharmaceutical industry will grow even faster in 2008 as a result of the expanding population, the increase of aging population, accelerating pace in urbanization and industrial modernization and the influence of globalized disease in the PRC. Particularly when the State is speeding up its pace in medical system reform, actively introducing new cooperative medical initiatives and sparing no effort in improving people's living standard, all will effectively boost medical treatment and pharmaceutical spending. Such huge market potential will enable well-established enterprises to enter into a new phase of rapid development. The Company will also take advantage of such opportunities to attain its goal of rapid, sustainable and healthy development. The Ministry of Health has laid down the "2020 Healthy China" (健康中國二零二零年) plan, which is divided into three stages. In the first stage, the PRC should establish a systematic sanitary service system covering urban and rural areas by 2010. 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, with the aim of coping with the standard of those medium level developed countries. If the three-stage plan is materialised, the PRC's pharmaceutical consumption will surge and facilitate the rapid development of pharmaceutical enterprises with great potential in a regulated manner. This represents a great opportunity to the Company. The Company uphold its values of "rewarding the shareholders, benefiting the staff, repaying society and strengthening the enterprise", and will also capture new opportunities, accelerate the pace of development, improve the quality of its products, enhance its brand name, continuously reduce production costs and expand its scale of production and sale, so as to benefit from the competitive advantages derived from economies of scale, lower production cost and product differentiation.

The Directors believe that, through the implementation of these measures and the capturing of new opportunities, the Company will achieve better and faster growth in its course of development, and thus enhance its results to a significant extent. Given the sustainable growth in the pharmaceutical industry, the Company is well equipped for a rapid and sustainable development in order to bring substantial profits and returns to the shareholders.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 28 October 2008.



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

As at 30 September 2008, 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 September 2008

Name of director	Capacity/ Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
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 Pharmacy Company Limited ("Linyi Luoxin"). Liu Baoqi (劉保起) ("Mr. Liu") 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, Mr. Liu 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 September 2007 was 230,000,000 (representing 51.68% of the total issued Domestic Shares and 37.73% of the 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 City People's Hospital ("Linyi People Hospital") and Pinyi County People's Hospital ("Pinyi People Hospital").



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

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 30 September 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 September 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:

- These 238,639,949 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 238,639,949 Domestic Shares held by Linyi Luoxin. Zuo Hongmei (左洪梅), as wife of Mr. Liu, is taken to be interested in the entire 238,639,949 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 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 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 and Chen Weiwei, is not considered to be a substantial shareholder 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 September 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 September 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 September 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 were based on their broad experience of 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 is satisfied that the Company has complied with the Code for the nine-month period ended 30 September 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:—

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 the 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 such as hospitals below county-level. The Company had received from Linyi Luoxin an annual confirmation in respect of the compliance of these undertakings.



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 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 having the 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, 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 expired 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, 28 October 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*