



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



FIRST QUARTERLY REPORT 2009

* For identification purposes only

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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 three months ended 31 March 2009 was approximately RMB198,676,000, representing an increase of 39.2% when compared with that of the corresponding period of last year.
- The Company's profit attributable to shareholders for the three months ended 31 March 2009 was approximately RMB52,727,000, representing an increase of 31.3% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2009.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2009 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the three months ended 31 March 2009 (the "Period") and the comparative figures of the corresponding period of 2008 as follows:

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2009

	Notes	Unaudited three months ended 31 March	
		2009 RMB'000	2008 RMB'000
Turnover	3	198,676	142,730
Cost of sales		<u>(112,587)</u>	<u>(75,177)</u>
Gross profit		86,089	67,553
Other revenue	3	549	1,508
Other income		1,026	896
Selling and distribution expenses		(10,867)	(10,410)
General and administrative expenses		(6,876)	(5,881)
Share of profit of associate		286	–
Finance costs	4	<u>–</u>	<u>(133)</u>
Profit before taxation		70,207	53,533
Taxation	5	<u>(17,480)</u>	<u>(13,383)</u>
Profits for the Period		52,727	40,150
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive income for the Period		<u>52,727</u>	<u>40,150</u>
Dividends	6	<u>–</u>	<u>–</u>
Earnings per share (RMB)			
– basic and diluted	7	<u>8.65 cents</u>	<u>6.59 cents</u>

NOTES TO FINANCIAL STATEMENTS

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 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 sales 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 were approved for issue by the Board on 11 May 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with 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 2008.

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

3. TURNOVER AND OTHER REVENUE

The principal activities of the Company are manufacturing and sales 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 sales of pharmaceutical products, and all assets and customers are located in the PRC.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2009	2008
	RMB'000	RMB'000
Turnover		
Sales of manufactured goods	198,676	142,730
Other revenue		
Interest income	549	1,508
Total revenue	199,225	144,238

4. FINANCE COSTS

	Unaudited three months ended 31 March	
	2009	2008
	RMB'000	RMB'000
Bank loans wholly repayable within five years	—	133

5. TAXATION

	Unaudited three months ended 31 March	
	2009	2008
	RMB'000	RMB'000
PRC enterprise income tax	17,480	13,383

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 25%.

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2009 is based on the unaudited net profit of approximately RMB52,727,000 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 three months ended 31 March 2008 is based on the unaudited net profit of approximately RMB40,150,000, 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 three months ended 31 March 2009 and 2008.

8. SHAREHOLDERS' FUND

	Share premium <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009, audited	31,139	30,480	6,033	363,603	431,255
Profit attributable to equity holders of the Company	—	—	—	52,727	52,727
At 31 March 2009, unaudited	31,139	30,480	6,033	416,330	483,982
At 1 January 2008, audited	31,139	30,303	6,033	192,817	260,292
Profit attributable to equity holders of the Company	—	—	—	40,150	40,150
At 31 March 2008, unaudited	31,139	30,303	6,033	232,967	300,442

DIVIDENDS

On 5 March 2009, the Board recommended the payment of a final dividend of RMB0.02 per share in respect of the year ended 31 December 2008 to shareholders whose names appear in the register of members of the Company on 28 March 2009. This proposed final dividend was approved by the shareholders of the Company at the annual general meeting held on 28 April 2009.

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 31 March 2009, the profits attributable to the shareholders of the Company recorded a tremendous increase over the corresponding period of last year, and the Company achieved strong growth momentum. The increase was mainly due to the Company's insistence on its strategies of strengthening the production and distribution capabilities, enabling the Company to maintain a good operational environment. 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 sustained and concerted effort of the management and employees of the Company.

Since the Company's third phase of production capacity expansion project has commenced operation last year, the production capacity for aseptic bulk medicine and bulk medicine for system-specific medicines has increased to 300 tonnes and 200 tonnes respectively. The Company benefits from the increase in production capacity which brings about a reduction in the production cost.

During the period under review, the Company continued to implement effective strategies on its seven major systems including management, culture, corporate organization, scientific innovation, human resources, marketing and capital operation, which effectively boosted the Company's development as well as further enhanced the ability to resist risks and the overall strength of the Company.

Through leveraging on its strength, the Company has been awarded the "Top Ten Pharmaceutical Enterprises with Growth Potential", and has been one of the "Top 100 Pharmaceutical Companies in China" consecutively since 2006. At the same time, it was the second consecutive year in which the Company was listed as one of the "Small and Medium Enterprises in China with Most Potentials" by Forbes, with the ranking significantly jumped by 144 places to number 34 in 2009.

Financial Review

For the three months ended 31 March 2009, the Company's unaudited turnover was approximately RMB198,676,000, representing an increase of approximately 39.20% when compared with approximately RMB142,730,000 for the corresponding period of last year. The increase in turnover was attributable to the Company's effort in introducing high added value products, consolidating product portfolio, speeding up the development of sales network so as to increase the market share of its products.

For the three months ended 31 March 2009, the unaudited cost of sales was approximately RMB112,587,000, representing an increase of 49.76% when compared with approximately RMB75,177,000 for the corresponding period of last year. The increase in the cost of sales was in line with the growth in turnover.

For the three months ended 31 March 2009, the unaudited gross profit margin was 43.33%, representing a slight decrease of approximately 4 percentage points when compared with 47.33% for the corresponding period of last year.

For the three months ended 31 March 2009, the unaudited operating expenditure was approximately RMB17,743,000, representing an increase of 8.91% when compared with approximately RMB16,291,000 for the corresponding period of last year.

For the three months ended 31 March 2009, the unaudited profit attributable to shareholders was approximately RMB52,727,000, representing an increase of 31.33% when compared with approximately RMB40,150,000 for the corresponding period of last year. Weighted average earnings per share for the quarter ended 31 March 2009 was RMB0.086.

Liquidity and Financial Resources

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

As at 31 March 2009, the Company's cash and cash equivalents amounted to approximately RMB240,418,000 (as at 31 March 2008: RMB133,277,000). As at 31 March 2009, the Company did not have any borrowings (as at 31 March 2008: RMB30,000,000).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2009, the Company did not have any pledge (as at 31 March 2008: RMB17,211,000).

Major Acquisition and Disposal

During the three months ended 31 March 2009, the Company did not have any major acquisition or disposal.

Major Investment

During the three months ended 31 March 2009, the Company did not have any major investment.

Contingent Liabilities

As at 31 March 2009, 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.

Almost 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 remittance from the PRC is subject to the restrictions on foreign 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

With the increasing emphasis placed by the State on the development of pharmaceutical industry and the medical protection benefits of its people, and the approval by the State Council in April 2009 for The Opinion Concerning Further Reform on Medical and Sanitary Systems and The Implementation Scheme for the Recent Priorities of Reform on Medical and Sanitary Systems (2009-2011), different levels of government in the PRC are expected to allocate a total of RMB850 billion in the coming three years to accelerate and promote the establishment of a fundamental medical protection system. It is anticipated that this will bring more business opportunities to the pharmaceutical industry. Therefore, the management of the Company is optimistic towards the prospects in the development of the pharmaceutical industry.

Looking ahead, the Company will adequately capitalize on the opportunities arising from the consolidation of the pharmaceutical industry through adhering to its strategic guiding principle of becoming a "Technology-driven enterprise with determination and efforts". The Company will continue to focus on products research and development and enhance the capability of its research and development teams. The building of sales team will speed up, so as to establish a broader sales network for enhancing the market share of its products. In addition, the Company will also devote to the reduction of production cost and the acceleration of the expansion in the scale of production and sales, so as to create competitive advantages from economies of scale, low cost and differentiation. With the launch of more high-value added products, the management of the Company is confident that the growth of its businesses will remain steady and will bring satisfactory return to its shareholders.

As the proposal for transferring the listing of the Company to the Main Board was already duly passed at the extraordinary general meeting and respective class meetings convened on 24 October 2008, the Directors believe that the transfer of the listing to the Main Board will further enhance the corporate image and the liquidity and recognition in the trading of the Company's shares. This is definitely beneficial to the future growth and business development of the Company in the long term.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 11 May 2009.

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

As at 31 March 2009, the interests and short positions of each Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of domestic shares of the Company, as at 31 March 2009

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. 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. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 31 March 2009 was 238,639,949 (representing 53.62% of total issued Domestic Shares and 39.15% 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 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

The register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2009, 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 31 March 2009

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 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 the wife of Mr. Liu, is taken to be interested in the entire 238,639,949 Domestic Shares held by Mr. Liu.
2. These 35,000,000 Domestic Shares are registered in the name of Liu Zhenhai (劉振海) ("Mr. ZH Liu"). For the purpose of the SFO, Cao Tingting (曹婷婷), as the wife of Mr. ZH Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZH Liu.
3. These 35,000,000 Domestic Shares are registered in the name of Liu Zhendong (劉振東) ("Mr. ZD Liu"). For the purpose of the SFO, Chen Weiwei (陳偉偉), as the wife of Mr. ZD Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZD Liu.
4. Each of Cao Tingting, Mr. ZD Liu, Chen Weiwei, are 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.

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 31 March 2009 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 on 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 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.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the Code for the three-month period ended 31 March 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed, purchased or sold any of its listed securities during the Period.

COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 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. The chairman of the Company Mr. Liu 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 a 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 hospitals below county-level. The Company 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 sales 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 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 medicine products sold by Linyi Municipal Pharmacy which have 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.

By the order of the Board

Shandong Luoxin Pharmacy Stock Co., Ltd.*

Liu Baoqi

Chairman

PRC, 11 May 2009

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), Mr. Han Fengsheng (韓風生) and Mr. Chen Yu (陳雨) are executive directors, 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.

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