



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 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 six months ended 30 June 2009 was approximately RMB431,971,000, representing an increase of 40.2% 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 2009 was approximately RMB114,830,000, representing an increase of 34.2% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2009.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the six months ended 30 June 2009 (the "Period") and the comparative figures of the corresponding period of 2008 as follows:

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	3	233,295	164,062	431,971	308,095
Cost of sales		(125,007)	(83,092)	(237,594)	(158,269)
Gross profit		108,288	80,970	194,377	149,826
Other revenue	3	394	28	943	233
Other income		754	1,464	1,780	2,360
Selling and distribution expenses		(17,488)	(13,522)	(28,355)	(23,932)
General and administration expenses		(9,344)	(7,841)	(16,220)	(13,722)
Share of profit of associate		261	–	547	–
Finance costs	4	–	(517)	–	(650)
Profit from operations	5	82,865	60,582	153,072	114,115
Taxation	6	(20,762)	(15,150)	(38,242)	(28,533)

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Profit for the Period		62,103	45,432	114,830	85,582
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the Period		<u>62,103</u>	<u>45,432</u>	<u>114,830</u>	<u>85,582</u>
Dividends	7	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings per share attributable to equity holders of the Company (RMB) – Basic and diluted	8	<u>10.19 cents</u>	<u>7.46 cents</u>	<u>18.84 cents</u>	<u>14.04 cents</u>

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Non-current assets			
Interest in associate		23,274	22,727
Purchased technical know-how	9	2,312	2,690
Prepayments to acquire technical know-how		10,100	10,100
Property, plant and equipment	10	241,944	250,898
Construction in progress		3,779	–
Prepaid lease payments	11	11,038	11,175
Deferred tax assets		1,778	1,682
		<u>294,225</u>	<u>299,272</u>
Current assets			
Inventories		160,867	131,278
Trade and bills receivables	12	60,838	68,202
Other receivables, deposits and prepayments		38,463	37,512
Pledged bank deposits		37,395	14,840
Cash and bank balances		261,215	130,618
		<u>558,778</u>	<u>382,450</u>
Current liabilities			
Trade and bills payables	13	99,644	65,854
Other payables and accruals		96,703	87,648
Deposits received		8,672	8,194
Dividend payable		8,897	–
Taxation payable		23,854	7,431
		<u>237,770</u>	<u>169,127</u>

		Unaudited	Audited
		30 June	31 December
		2009	2008
	Notes	RMB'000	RMB'000
Net current assets		321,008	213,323
Total assets less current liabilities		615,233	512,595
Non-current liabilities			
Deferred income		<u>20,380</u>	<u>20,380</u>
Net assets		594,853	492,215
Capital and reserves			
Share capital	14	60,960	60,960
Reserves		<u>533,893</u>	<u>431,255</u>
Total equity		594,853	492,215

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	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 2009, audited	60,960	31,139	30,480	6,033	363,603	492,215
Total comprehensive income	-	-	-	-	114,830	114,830
Dividend declared	-	-	-	-	(12,192)	(12,192)
At 30 June 2009, unaudited	60,960	31,139	30,480	6,033	466,241	594,853

For the six months ended 30 June 2008

	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
Total comprehensive income	-	-	-	-	85,582	85,582
Dividend declared	-	-	-	-	(12,192)	(12,192)
At 30 June 2008, unaudited	60,960	31,139	30,303	6,033	266,207	394,642

CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Unaudited six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Net cash inflow/(outflow) from operating activities	159,283	(9,283)
Net cash outflow from investing activities	(2,836)	(38,504)
Net cash outflow from financing activities	<u>(25,850)</u>	<u>(12,692)</u>
Net increase/(decrease) in cash and cash equivalents	130,597	(60,479)
Cash and cash equivalents at beginning of Period, audited	<u>130,618</u>	<u>116,223</u>
Cash and cash equivalents at end of Period	<u>261,215</u>	<u>55,744</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>261,215</u>	<u>55,744</u>

NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2009

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 liabilities 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 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 accounts were approved for issue by the Board on 4 August 2009.

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 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 for 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.

Revenues recognised are as follows:

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Turnover		
Sales of manufactured goods	431,971	308,095
Other revenue		
Interest income	943	233
Total revenue	<u>432,914</u>	<u>308,328</u>

4. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Bank loans wholly repayable within five years	<u>-</u>	<u>650</u>

5. PROFIT FROM OPERATIONS

Unaudited
Six months ended 30 June

	2009	2008
	RMB'000	RMB'000
Operating profit of the Company was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	568	737
Depreciation	8,547	5,569
(Gain)/loss on disposal of property, plant and equipment	(537)	863
Amortisation of prepaid lease payments	137	137
Amortisation of purchased technical know-how (included in cost of sales)	378	547
Employee benefit expense (excluding Directors' and supervisors' remuneration)	31,751	21,594
Research and development costs	2,708	2,168
Advertising costs	1,430	1,786
	1,430	1,786

6. TAXATION

Unaudited
Six months ended 30 June

	2009	2008
	RMB'000	RMB'000
PRC enterprise income tax	38,242	28,533

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 any dividend for the Period (2008: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the unaudited net profit of approximately RMB114,830,000 and the weighted average number of 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the unaudited net profit of approximately RMB85,582,000 and the weighted average number of 609,600,000 ordinary shares in issue during the said period.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the periods ended 30 June 2009 and 2008.

9. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
Cost:	
At 1 January 2008, audited	15,300
Additions	<u>2,000</u>
At 31 December 2008, and at 1 January 2009, audited	<u>17,300</u>
Additions	<u>—</u>
At 30 June 2009, unaudited	<u>17,300</u>
Accumulated amortisation and impairment:	
At 1 January 2008, audited	13,675
Charge for the year	<u>935</u>
At 31 December 2008 and at 1 January 2009, audited	14,610
Charge for the Period	<u>378</u>
At 30 June 2009, unaudited	<u>14,988</u>
Net book value:	
At 30 June 2009, unaudited	<u>2,312</u>
At 31 December 2008, audited	<u>2,690</u>

10. PROPERTY, PLANT AND EQUIPMENT

RMB'000

Cost:

At 1 January 2008, audited	144,330
Additions	10,953
Disposals	(3,393)
Transfer from construction-in-progress	141,995
	<u>299,885</u>

At 31 December 2008 and at 1 January 2009, audited	293,885
Additions	2,682
Disposals	(4,223)
	<u>292,344</u>

At 30 June 2009, unaudited

292,344

Accumulated depreciation and impairment:

At 1 January 2008, audited	31,148
Charge for the year	13,030
Written back on disposals	(1,191)
	<u>42,987</u>

At 31 December 2008 and at 1 January 2009, audited	42,987
Charge for the Period	8,547
Written back on disposals	(1,134)
	<u>50,400</u>

At 30 June 2009, unaudited

50,400

Net book value:

At 30 June 2009, unaudited **241,944**

At 31 December 2008, audited 250,898

None of plant and machinery (as at 31 December 2008: Nil) is pledged as collateral to secure bank loans.

As at 30 June 2009, all buildings of the Company are located in the PRC.

Depreciation expense of approximately RMB6,326,000 (as at 31 December 2008: RMB10,079,000) have been expensed in cost of sales and approximately RMB2,221,000 (as at 31 December 2008: RMB2,951,000) have been included in administrative expenses for the Period.

11. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 50-year land use rights in the PRC expiring from November 2050 to May 2053. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2008, audited	11,721
Amortisation of prepaid lease payments	<u>(273)</u>
At 31 December 2008 and at 1 January 2009, audited	11,448
Amortisation of prepaid lease payments	<u>(137)</u>
At 30 June 2009, unaudited	<u>11,311</u>

Analysed for reporting purposes as:

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Current assets (included in other receivables, deposits and prepayments)	273	273
Non-current assets	<u>11,038</u>	<u>11,175</u>
	<u>11,311</u>	<u>11,448</u>

12. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
1 to 90 days	51,369	33,925
91 to 180 days	5,379	24,271
181 to 365 days	4,090	10,006
Over 365 days	1,909	1,084
	<hr/>	<hr/>
	62,747	69,286
Less: Provision of impairment loss recognised in respect of trade receivables	(1,909)	(1,084)
	<hr/>	<hr/>
	60,838	68,202
	<hr/>	<hr/>

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

Trade and bills receivables as at 30 June 2009 are denominated in RMB.

13. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
1 to 90 days	78,802	22,160
91 to 180 days	13,494	31,662
181 to 365 days	5,109	7,469
Over 365 days	2,239	4,563
	<hr/>	<hr/>
	99,644	65,854
	<hr/>	<hr/>

Trade and bills payables as at 30 June 2009 are denominated in RMB.

14. SHARE CAPITAL

	Number of shares '000	Nominal value		Total RMB'000
		Domestic shares RMB'000	H shares RMB'000	
At 31 December 2008, audited (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960
At 30 June 2009, unaudited (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960

15. BANKING FACILITIES

As at 30 June 2009, the Company had aggregate banking facilities of approximately RMB37,395,000 (as at 31 December 2008: RMB14,840,000) which were fully utilised as at 30 June 2009.

As at 30 June 2009, approximately RMB37,395,000 (as at 31 December 2008: RMB14,840,000) of the banking facilities were secured by pledged bank deposits of approximately RMB37,395,000 (as at 31 December 2008: 14,840,000).

16. COMMITMENTS

As at 30 June 2009, the Company had the following significant capital commitments:

	At 30 June 2009 (Unaudited)	At 31 December 2008 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	3,900	3,900
– Purchase of prepaid lease payment	3,300	3,300
– Property, plant and equipment	9,554	–

17. RELATED PARTY TRANSACTIONS

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

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of finished goods to Linyi Luoxin Pharmacy Company Limited ("Linyi Luoxin")	56,304	15,454
Sales of finished goods to Linyi City People's Hospital ("Linyi People Hospital")	10,552	4,919
Sales of finished goods to Pingyi County People's Hospital ("Pingyi People Hospital")	98	1,302
	<hr/>	<hr/>

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.
- (iii) Pingyi People Hospital is a former shareholder and promoter of the Company.

18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 4 August 2009.

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 any dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2009, the Company remained dedicated to its existing development strategies, continued to strengthen research and development as well as production and distribution capabilities and maintained a sound operating status. Accordingly, the profit attributable to the shareholders of the Company grew substantially from the corresponding period of last year, achieving strong growth momentum. These achievements were the result of the tremendous support and assistance from all shareholders, customers, suppliers and business partners and the public, as well as the concerted and unremitting efforts of the management team and employees of the Company.

During the period under review, the Company continued to implement effective strategies for its seven major systems covering management, culture, business organization, capital operation, science and technology innovation, human resources and marketing, which effectively boosted the Company's development as well as further enhanced the risk resistance capacity and the overall strength of the Company.

With its strong capital strength, the Company has been rated among the "Top Ten Pharmaceutical Enterprises with Growth Potential" in China and the "Top 100 Pharmaceutical Companies in China" consecutively since 2006, and selected by Forbes for two consecutive years on the "List of Small- and Medium-sized Enterprises in China with Most Potentials" (「中國最具潛力中小企業榜」). Its ranking jumped by 144 places to the 34th place in 2009. In April 2009, "Luoxin" trademark, after being identified as a "Well-known Trademark in Shandong Province", was recognized by the Trademark Office of the State Administration for Industry and Commerce as a "Famous Trademark in the PRC", suggesting that the products of the Company are widely acknowledged by the market, and that our brand is recognized by the general public. This is the result of our long-term efforts dedicated to building up our brand, and the demonstration of a growth in our overall corporate strength. By capitalizing on the opportunity arising from this award, we will continue to execute our trademark strategy, upgrade our brand and improve our competitiveness to build the Company into a truly global pharmaceutical-brand enterprise.

Financial Review

For the six months ended 30 June 2009, the Company's unaudited turnover was approximately RMB431,971,000, representing an increase of approximately 40.20% from approximately RMB308,095,000 for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added values, upgrade of product mix and acceleration of the development of a sales network to increase the market share of its products, which boosted an increase in turnover.

For the six months ended 30 June 2009, the unaudited cost of sales was approximately RMB237,594,000 representing an increase of 50.12% from approximately RMB158,269,000 for the corresponding period of last year. The increase in the cost of sales was in line with the increase in turnover.

For the six months ended 30 June 2009, the unaudited gross profit margin was approximately 45.00%, representing a slight fall of approximately 3.63% from approximately 48.63% for the corresponding period of last year.

For the six months ended 30 June 2009, the unaudited operating expenditure was approximately RMB44,575,000 representing an increase of 18.38% from approximately RMB37,654,000 for the corresponding period of last year.

For the six months ended 30 June 2009, the unaudited profit attributable to the shareholders was approximately RMB114,830,000, representing an increase of 34.18% from approximately RMB85,582,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.10 for the quarter ended 30 June 2009.

Liquidity and Financial Resources

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

As at 30 June 2009, the Company's cash and cash equivalents amounted to approximately RMB298,610,000 (as at 30 June 2008: RMB55,744,000). As at 30 June 2009, the Company did not have any loan (as at 30 June 2008: RMB30,000,000).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2009, the Company's pledged bank deposits amounting to RMB37,395,000 were pledged by the Company for a bank acceptance (as at 30 June 2008: Company's plant and machinery amounting to RMB16,539,000 in value were pledged to secure the banking facilities of the Company).

Major Acquisition and Disposal

As at 30 June 2009, the Company did not have any major acquisition or disposal.

Significant Investment

As at 30 June 2009, the Company did not have any significant investment.

Contingent Liabilities

As at 30 June 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 RMB.

Most of 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 remittance from the PRC is subject to the restrictions on exchange control imposed by the PRC government.

Employees and Remuneration Policy

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 calculates employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and fringe benefits are maintained at an appropriate level.

The Company has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

Prospects

With the growing emphasis China has placed on the development of the pharmaceutical industry and the healthcare protection benefits for its citizens, coupled with the approval by the State Council in April 2009 of "The Opinion Relating to the Intensification of the Medical and Public Health Systems Reform" (《關於深化醫療衛生體制改革的意見》) and "The Latest Implementation Emphasis Scheme for the Pharmaceutical and Public Health Systems Reform (2009-2011)" (《醫藥衛生體制改革近期重點實施方案(2009-2011)》), governments at all levels in the PRC are expected to commit RMB850 billion in the next three years in order to accelerate and promote the establishment of a primary healthcare protection scheme. This is anticipated to bring more business opportunities to the pharmaceutical industry. The management of the Company is therefore confident in the prospects of the pharmaceutical industry.

Looking into the future, with the commitment to the strategic guiding theory of “developing industry through science and technology, and working as a cohesive force”, the Company will fully capitalize on the opportunities arising from the consolidation of the pharmaceutical industry by continuing to focus on product research and development and enhancing the capability of its research and development team, and by accelerating the build-up of a sales team to establish a more extensive sales network for increasing the market share of its products. In addition, the Company also aims at reducing production costs and expanding the scale of production and sales rapidly, so as to build up its strength in terms of scale, low cost and differential competition. Following the launch of products with higher added values, the management of the Company is confident that it is able to maintain a steady business growth and generate satisfactory returns for its shareholders.

After the proposal on the transfer of the listing of the Company to the Main Board was duly passed at the extraordinary general meeting and at respective meetings of difference classes of shareholders convened on 24 October 2008, the Directors believe that the transfer will further enhance the corporate image and the liquidity and recognition in the trading of the Company’s shares, and will even facilitate the future growth and business development of the Company in the long run.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 4 August 2009.

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

As at 30 June 2009, the interests and short positions of each Director and supervisor 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 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. 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 30 June 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 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 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 30 June 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 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.

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 of conduct in relation to securities dealings by Directors for the Period.

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 Period.

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 the 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. 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, 4 August 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.

* *For identification purposes only*