



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 2009

* For identification purposes only

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

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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 nine months ended 30 September 2009 was approximately RMB654,013,000, representing an increase of 36.21% 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 2009 was approximately RMB178,280,000, representing an increase of 29.06% 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 2009.

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2009 (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 2009 (the "Period") and the comparative figures of the corresponding period of 2008 as follows:

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	3	222,042	172,060	654,013	480,155
Cost of sales		<u>(108,169)</u>	<u>(84,504)</u>	<u>(345,763)</u>	<u>(242,773)</u>
Gross profit		113,873	87,556	308,250	237,382
Other revenue	3	293	272	1,236	505
Other income		732	471	2,512	2,831
Selling and distribution expenses		<u>(21,327)</u>	<u>(12,490)</u>	<u>(49,682)</u>	<u>(36,422)</u>
General and administrative expenses		<u>(9,344)</u>	<u>(5,369)</u>	<u>(25,564)</u>	<u>(19,091)</u>
Share of profit of associate		279	–	826	–
Finance costs	4	<u>–</u>	<u>(360)</u>	<u>–</u>	<u>(1,010)</u>
Profit before taxation		84,506	70,080	237,578	184,195
Taxation	5	<u>(21,056)</u>	<u>(17,521)</u>	<u>(59,298)</u>	<u>(46,054)</u>

	Notes	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Profit for the Period		63,450	52,559	178,280	138,141
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the Period		<u>63,450</u>	<u>52,559</u>	<u>178,280</u>	<u>138,141</u>
Dividends	6	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share to attributable equity holders of the Company (RMB)					
– Basic and diluted	7	<u>10.41 cents</u>	<u>8.62 cents</u>	<u>29.25 cents</u>	<u>22.66 cents</u>

NOTESTO CONDENSED STATEMENT OF COMPREHENSIVE INCOME

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 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 have been approved for issue by the Board on 10 November 2009.

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 2008.

The financial statements have been prepared under historical cost basis except 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 sales of pharmaceutical products. No operating 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 For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover				
Sales of manufactured goods	222,042	172,060	654,013	480,155
Other revenue				
Interest income	293	272	1,236	505
Total revenue	<u>222,335</u>	<u>172,332</u>	<u>655,249</u>	<u>480,660</u>

4. FINANCE COSTS

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Bank loans wholly repayable within five years	<u>—</u>	<u>360</u>	<u>—</u>	<u>1,010</u>

5. TAXATION

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
PRC enterprise income tax	<u>21,056</u>	<u>17,521</u>	<u>59,298</u>	<u>46,054</u>

No provision for Hong Kong profits tax has been made as the Company did not carry out any business in Hong Kong during the Period (2008: Nil).

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 any interim dividend for the nine months ended 30 September 2009 (2008: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2009 is based on the unaudited net profit of approximately RMB178,280,000 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 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 said period.

Diluted earnings per share have been presented even though there were no dilutive potential ordinary shares outstanding during the nine months ended 30 September 2009 and 2008.

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
As 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>
As at 30 September 2008, unaudited	31,139	30,303	6,033	318,766	386,241
As at 1 January 2009, audited	31,139	30,480	6,033	363,603	431,255
Profit attributable to equity holders of the Company	-	-	-	178,280	178,280
Dividend paid	-	-	-	(12,192)	(12,192)
	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>529,691</u>	<u>597,343</u>
As at 30 September 2009, unaudited	31,139	30,480	6,033	529,691	597,343

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 nine months ended 30 September 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 amongst 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 to the 34th in 2009. In April 2009, the "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 its brand is recognized by the

general public. This is the result of its long-term efforts dedicated to building up its brand, and the demonstration of a growth in its overall corporate strength. By capitalizing on the opportunities arising from this award, the Company will continue to execute its trademark strategy, upgrade its brand and improve its competitiveness to build itself into a truly global pharmaceutical enterprise.

Financial Review

For the nine months ended 30 September 2009, the Company's unaudited turnover was approximately RMB654,013,000, representing an increase of approximately 36.21% from approximately RMB480,155,000 for the corresponding period of last year. The increase was mainly 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 nine months ended 30 September 2009, the unaudited cost of sales was approximately RMB345,763,000 representing an increase of 42.42% from approximately RMB242,773,000 for the corresponding period of last year. The increase in the cost of sales was in line with the increase in turnover.

For the nine months ended 30 September 2009, the unaudited gross profit margin was 47.13%, representing a slight fall of approximately 2.31% from approximately 49.44% for the corresponding period of last year.

For the nine months ended 30 September 2009, the unaudited operating expenditure was approximately RMB75,246,000 representing an increase of 35.55% from approximately RMB55,513,000 for the corresponding period of last year.

For the nine months ended 30 September 2009, the unaudited profit attributable to the shareholders was approximately RMB178,280,000, representing an increase of 29.06% from approximately RMB138,141,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.29 for the nine months ended 30 September 2009.

Liquidity and Financial Resources

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

As at 30 September 2009, the Company's cash and cash equivalents amounted to approximately RMB409,094,000 (as at 30 September 2008: RMB31,364,000). As at 30 September 2009, the Company did not have any loan (as at 30 September 2008: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2009, the Company's pledged bank deposits amounting to approximately RMB108,185,000 were pledged by the Company for a bank acceptance (as at 30 September 2008: bank deposits amounting to approximately RMB14,840,000 were pledged to secure the bank acceptance of the Company).

Major Acquisition and Disposal

For the nine months ended 30 September 2009, the Company did not make any major acquisition or disposal.

Significant Investment

For the nine months ended 30 September 2009, the Company did not make any significant investment.

Contingent Liabilities

For the nine months ended 30 September 2009, the Company did not incur 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 policies.

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 H shares of Company to the Main Board was duly passed at the extraordinary general meeting and at respective meetings of different classes of shareholders convened on 23 October 2008, the Directors believe that the completion of the transfer (subject to certain conditions to be fulfilled) 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 10 November 2009.

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

As at 30 September 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 September 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 Zhenha (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 30 September 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 30 September 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 September 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:

- 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 and 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, i.e., 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, 10 November 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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