



山東羅欣藥業股份有限公司

Shandong Luoxin Pharmacy Stock Co.,Ltd.*

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

Stock Code: 8058



FIRST QUARTERLY REPORT 2010

* For identification purposes only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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 Group's sales for the three months ended 31 March 2010 was approximately RMB305,340,000, representing an increase of 53.69% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the three months ended 31 March 2010 was approximately RMB107,055,000, representing an increase of 103.04% 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 2010.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2010 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiary (the "Group") for the three months ended 31 March 2010 (the "Period") and the comparative figures of the corresponding period of 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2010

		Unaudited three months ended 31 March	
	Notes	2010 RMB'000	2009 RMB'000
Turnover	3	305,340	198,676
Cost of sales		(144,041)	(112,587)
Gross profit		161,299	86,089
Other revenue	3	1,104	549
Other income		707	1,026
Selling and distribution expenses		(27,695)	(10,867)
General and administrative expenses		(9,820)	(6,876)
Share of profit of an associate		284	286
Profit before taxation		125,879	70,207
Taxation	4	(18,846)	(17,480)
Profit for the Period		107,033	52,727
Other comprehensive income for the Period, net of tax		—	—
Total comprehensive income for the Period		107,033	52,727
Profit attributable to:			
Owners of the Company		107,055	52,727
Minority interests		(22)	—
		107,033	52,727
Total comprehensive income attributable to:			
Owners of the Company		107,055	52,727
Minority interests		(22)	—
		107,033	52,727
Earnings per share attributable to owners of the Company (RMB) – basic and diluted	6	17.56 cents	8.65 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2010

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 principal activities of its subsidiary are wholesale and manufacture of biochemical products and Chinese medicine.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These consolidated financial statements were approved for issue by the Board on 11 May 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim consolidated 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 Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended 31 December 2009.

The consolidated 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 Group are manufacturing and sales of pharmaceutical products.

The Group currently operates in one business segment, which is the manufacturing and sales of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The operating results reportable to the chief operating decision makers are the net profit of the Group and the assets and liabilities reportable to the chief operating decision makers are the Group's assets and liabilities. Accordingly, the Group does not have separately reportable segments.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2010 RMB'000	2009 RMB'000
Turnover		
Sales of manufactured pharmaceutical goods	305,340	198,676
Other revenue		
Interest income	1,104	549
Total revenue	306,444	199,225

4. TAXATION

	Unaudited three months ended 31 March	
	2010 RMB'000	2009 RMB'000
PRC enterprise income tax	18,846	17,480

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the Period.

The Group is subject to the PRC enterprise income tax at a rate of 15%.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2010 is based on the unaudited net profit of approximately RMB107,055,000 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 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 three months ended 31 March 2009.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2010 and 2009.

7. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010, audited	31,139	30,480	6,033	619,961	687,613	282	687,895
Profit attributable to owners of the Company	-	-	-	107,055	107,055	(22)	107,033
	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>727,016</u>	<u>794,668</u>	<u>260</u>	<u>794,928</u>
At 31 March 2010, unaudited							
At 1 January 2009, audited	31,139	30,480	6,033	363,603	431,255	-	431,255
Profit attributable to owners of the Company	-	-	-	52,727	52,727	-	52,727
	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,727</u>	<u>52,727</u>	<u>-</u>	<u>52,727</u>
At 31 March 2009, unaudited	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>416,330</u>	<u>483,982</u>	<u>-</u>	<u>483,982</u>

DIVIDENDS

On 23 March 2010, the Board recommended the payment of a final dividend of RMB0.02 per share in respect of the year ended 31 December 2009 to shareholders whose names appear in the register of members of the Company on 7 May 2010. This proposed final dividend is subject to the approval by the owners of the Company at the annual general meeting to be held on 8 June 2010.

The Board does not recommend the payment of any dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 31 March 2010, the Group remained dedicated to its existing development strategies, continued to strengthen its research and development as well as production and distribution capabilities and maintained a sound operating status. Accordingly, the profit attributable to the owners of the Company grew substantially from the corresponding period of last year, achieving strong growth momentum. These achievements were the result of the great 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 Group.

During the period under review, the Group continued to implement effective strategies on its seven major systems covering management, culture, business organization, capital operation, science and technology innovation, human resources and marketing, which effectively boosted the Group's development as well as further enhanced the risk resistance capacity and the overall strength of the Group. Approval has been obtained for the establishment of Shandong Lyophilized Powder Injection Pharmaceutical Engineering Technology Research Centre (山東省凍干粉針劑藥物工程技術研究中心) by the Group, laying a stronger research and development platform and further enhancing the Group's technological research and development capabilities.

Leveraging on its strength, the Group has been awarded the "Top Ten Pharmaceutical Enterprises with Growth Potential" in China and has been one of the "Top 100 Pharmaceutical Companies in China" consecutively since 2006. 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」), the first list published by Forbes in 2010, the Group was selected for three consecutive years and our ranking jumped to the 29th place this year. The Group was awarded "Honorable Enterprise" in the Pharmaceutical Industry of Shandong Province at the 60th anniversary of the foundation of the People's Republic of China and "Advanced Private Enterprise"

by Shandong Pharmaceutical Profession Association and Shandong Province People's Government respectively, demonstrating a growth in our overall corporate strength. By capitalizing on our award-winning success, we will focus on product research and development, as well as market network expansion to further reinforce brand recognition and competitiveness with an aim to build the Group into a globally outstanding pharmaceutical brand.

Financial Review

For the three months ended 31 March 2010, the Group's unaudited turnover was approximately RMB305,340,000, representing an increase of approximately 53.69% from approximately RMB198,676,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added values, upgrade of product portfolio and acceleration of the development of sales network to increase the market share of its products, which boosted an increase in turnover.

For the three months ended 31 March 2010, the unaudited cost of sales was approximately RMB144,041,000, representing an increase of 27.94% from approximately RMB112,587,000 for the corresponding period of last year.

For the three months ended 31 March 2010, the unaudited gross profit margin was 52.83%, representing an increase of 9.5% from 43.33% for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added values and upgrade of product portfolio.

For the three months ended 31 March 2010, the unaudited operating expenditure was approximately RMB37,515,000, representing an increase of 111.44% from approximately RMB17,743,000 for the corresponding period of last year.

For the three months ended 31 March 2010, the unaudited profit attributable to the owners was approximately RMB107,055,000, representing an increase of 103.04% from approximately RMB52,727,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.18 for the three months ended 31 March 2010.

Liquidity and Financial Resources

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

As at 31 March 2010, the Group's cash and cash equivalents amounted to approximately RMB551,922,000 (as at 31 March 2009: RMB240,418,000). As at 31 March 2010, the Group did not have any borrowings (as at 31 March 2009: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2010, the Group's bank deposits amounting to RMB257,489,000 were pledged as security for remittance under acceptance (as at 31 March 2009: nil).

Major Acquisition and Disposal

For the three months ended 31 March 2010, the Group did not have any major acquisition or disposal.

Significant Investment

For the three months ended 31 March 2010, the Group did not make any significant investment.

Contingent Liabilities

For the three months ended 31 March 2010, the Group did not have any substantial contingent liabilities.

Exchange Risk

The Group operates and conducts business in the PRC, and all the Group's transactions, assets and liabilities are denominated in RMB.

Most of the Group'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 foreign 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 Group and in raising its profitability. The Group determines its 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 Group 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 Concerning Further Reform on Medical and Sanitary Systems” (《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 Sanitary 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 Group is therefore confident in the prospects of the pharmaceutical industry.

Looking ahead, with the commitment to the strategic guiding theory of becoming a “Technology-driven enterprise with determination and efforts”, the Group 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 sales team to establish a more extensive sales network for increasing the market share of its products. In addition, the Group also aims at reducing production costs and accelerating the expansion of production and sales, 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 Group is confident that the Group is able to maintain a steady business growth and generate satisfactory returns for its shareholders.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 11 May 2010.

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

As at 31 March 2010, 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 31 March 2010

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	250,639,949	56.32%	41.12%
Mr. Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

Note 1: These 250,639,949 domestic shares of the Company ("Domestic Shares") are registered in the name of Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group", previously known as 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 Luoxin Pharmacy Group. Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 250,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 31 March 2010 was 250,639,949 (representing 56.32% of total issued Domestic Shares and 41.12% of Company's share capital). On 29 October 2007, Luoxin Pharmacy Group 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 and Pinyi County People's Hospital. On 18 January 2010, Luoxin Pharmacy Group further acquired 12,000,000 Domestic Shares from Mr. Cao Chuan (曹傳) ("Mr. Cao"), who was holding 28,640,136 Domestic Shares before this share transfer. The rest of Mr. Cao's Domestic Shares were sold to another two independent thirty parties on the same date.

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 2010, 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 2010

Name	Capacity/Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's share capital
Luoxin Pharmacy Group	Beneficial Owner	250,639,949	56.32%	41.12%
Zuo Hongmei (左洪梅)	Family interest (note 1)	250,639,949	56.32%	41.12%
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 250,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group 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 Luoxin Pharmacy Group, for the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 250,639,949 Domestic Shares held by Luoxin Pharmacy Group. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 250,639,949 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:–

Luoxin Pharmacy Group Co. Ltd.

Luoxin Pharmacy Group Co. Ltd (“Luoxin Pharmacy Group”, previously known as Linyi Luoxin) is the controlling shareholder of the Company which holds 41.12% of the Company’s issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmacy Group and a controlling shareholder holding 51.72% of the registered capital of Luoxin Pharmacy Group.

Before a non-competition undertaking in favour of the Company was signed by Luoxin Pharmacy Group 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, Luoxin Pharmacy Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmacy Group 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 Luoxin Pharmacy Group 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 2010

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 nonexecutive 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.