



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



INTERIM REPORT 2010

* 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group's sales for the six months ended 30 June 2010 was approximately RMB598,841,000, representing an increase of 38.63% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the six months ended 30 June 2010 was approximately RMB192,050,000, representing an increase of 67.25% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated interim report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 (the "Period") and the comparative figures of the corresponding period of 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover	3	293,501	233,295	598,841	431,971
Cost of sales		<u>(139,800)</u>	<u>(125,007)</u>	<u>(283,841)</u>	<u>(237,594)</u>
Gross profit		153,701	108,288	315,000	194,377
Other revenue	3	2,108	394	3,212	943
Other income		3,490	754	4,197	1,780
Selling and distribution expenses		<u>(47,962)</u>	<u>(17,488)</u>	<u>(75,657)</u>	<u>(28,355)</u>
General and administrative expenses		<u>(11,968)</u>	<u>(9,344)</u>	<u>(21,788)</u>	<u>(16,220)</u>
Share of profit of an associate		304	261	588	547
Finance costs	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit before taxation	5	99,673	82,865	225,552	153,072
Taxation	6	<u>(14,886)</u>	<u>(20,762)</u>	<u>(33,732)</u>	<u>(38,242)</u>
Profit for the Period		84,787	62,103	191,820	114,830
Other comprehensive income for the Period, net of tax		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the Period		<u>84,787</u>	<u>62,103</u>	<u>191,820</u>	<u>114,830</u>

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Profit attributable to:					
Owners of the Company		84,995	62,103	192,050	114,830
Non-controlling interests		(208)	–	(230)	–
		<u>84,787</u>	<u>62,103</u>	<u>191,820</u>	<u>114,830</u>
Total comprehensive income attributable to:					
Owners of the Company		84,995	62,103	192,050	114,830
Non-controlling interests		(208)	–	(230)	–
		<u>84,787</u>	<u>62,103</u>	<u>191,820</u>	<u>114,830</u>
Earnings per share attributable to owners of the Company (RMB)					
– Basic and diluted	8	<u>13.94 cents</u>	10.19 cents	<u>31.50 cents</u>	18.84 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Non-current assets			
Interest in an associate		21,078	26,790
Available-for-sale investment		1,000	–
Purchased technical know-how	9	1,524	1,996
Prepayments to acquire technical know-how		7,893	7,520
Property, plant and equipment	10	263,951	260,221
Construction-in-progress		9,259	9,293
Prepaid lease payments	11	20,320	10,901
Deferred tax assets		2,186	2,103
Goodwill		165	165
		327,376	318,989
Current assets			
Inventories		231,276	246,604
Trade and bills receivables	12	118,404	66,188
Other receivables, deposits and prepayments		69,242	87,749
Pledged bank deposits		99,684	237,194
Cash and bank balances		462,472	263,749
		981,078	901,484
Current liabilities			
Trade and bills payables	13	182,902	328,995
Other payables and accruals		109,057	92,294
Deposits received		16,930	9,042
Dividend payable		19,166	7,314
Taxation payable		30,556	13,593
		358,611	451,238
Net current assets		622,467	450,246
Total assets less current liabilities		949,843	769,235
Non-current liability			
Deferred income		20,380	20,380
Net assets		929,463	748,855
Capital and reserves			
Share capital	14	60,960	60,960
Reserves		867,471	687,613
Equity attributable to owners of the Company		928,431	748,573
Non-controlling interests		1,032	282
		929,463	748,855

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
At 1 January 2010, audited	60,960	31,139	30,480	6,033	619,961	748,573	282	748,855
Total comprehensive income	-	-	-	-	192,050	192,050	(230)	191,820
Dividend declared	-	-	-	-	(12,192)	(12,192)	-	(12,192)
Non-controlling interests arising on further capital injection to a subsidiary	-	-	-	-	-	-	980	980
At 30 June 2010, unaudited	<u>60,960</u>	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>799,819</u>	<u>928,431</u>	<u>1,032</u>	<u>929,463</u>

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	Attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
At 1 January 2009, audited	60,960	31,139	30,480	6,033	363,603	492,215	-	492,215
Total comprehensive income	-	-	-	-	114,830	114,830	-	114,830
Dividend declared	-	-	-	-	(12,192)	(12,192)	-	(12,192)
At 30 June 2009, unaudited	<u>60,960</u>	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>466,241</u>	<u>594,853</u>	<u>-</u>	<u>594,853</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Unaudited six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net cash inflow from operating activities	83,723	159,283
Net cash outflow from investing activities	(22,510)	(2,836)
Net cash inflow/(outflow) from financing activities	137,510	(25,850)
Net increase in cash and cash equivalents	198,723	130,597
Cash and cash equivalents at the beginning of the Period, audited	263,749	130,618
Cash and cash equivalents at the end of the Period, unaudited	462,472	261,215
Analysis of the balances of cash and cash equivalents Cash and bank balances	462,472	261,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 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 consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These accounts have been approved for issue by the Board on 10 August 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated 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 consolidated financial statements for the year ended 31 December 2009.

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

3. TURNOVER AND OTHER REVENUE

The Group currently operates in one business segment in 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 reportable operating results report to the chief operating decision makers are the Group's assets and liabilities. Accordingly, the Group does not have separate reportable segment.

Turnover and other revenue recognised are as follows:

	Unaudited	
	Six months ended	
	30 June	
	2010	2009
	RMB'000	RMB'000
Turnover		
Sales of manufactured pharmaceutical products	598,841	431,971
Other revenue		
Interest income	<u>3,212</u>	<u>943</u>
Total revenue	<u>602,053</u>	<u>432,914</u>

4. FINANCE COSTS

	Unaudited	
	Six months ended	
	30 June	
	2010	2009
	RMB'000	RMB'000
Bank loans wholly repayable within five years	<u>—</u>	<u>—</u>

5. PROFIT FROM OPERATIONS

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Operating profit of the Group was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	585	568
Depreciation of property, plant and equipment	9,847	8,547
Loss/(gain) on disposal of property, plant and equipment	1	(537)
Amortisation of prepaid lease payments	158	137
Amortisation of purchased technical know-how (included in cost of sales)	472	378
Employees benefit expenses (excluding Directors' and supervisors' emoluments)	14,160	31,751
Research and development costs	6,656	2,708
Advertising costs	2,822	1,430
	<u> </u>	<u> </u>

6. TAXATION

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
PRC enterprise income tax	33,732	38,242
	<u> </u>	<u> </u>

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.

7. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (2009: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the unaudited net profit of approximately RMB192,050,000 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 six months ended 30 June 2009 is based on the unaudited net profit of approximately RMB114,830,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the six months ended 30 June 2009.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2010 and 2009.

9. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
Cost:	
At 1 January 2009, audited	17,300
Additions	<u>150</u>
At 31 December 2009 and 1 January 2010, audited	17,450
Additions	<u>-</u>
At 30 June 2010, unaudited	<u>17,450</u>
Accumulated amortisation and impairment:	
At 1 January 2009, audited	14,610
Charge for the year	<u>844</u>
At 31 December 2009 and 1 January 2010, audited	15,454
Charge for the Period	<u>472</u>
At 30 June 2010, unaudited	<u>15,926</u>
Net book value:	
At 30 June 2010, unaudited	<u>1,524</u>
At 31 December 2009, audited	<u>1,996</u>

10. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
Cost:	
At 1 January 2009, audited	293,885
Additions	13,018
Transfer from construction-in-progress	18,678
Acquisition through business combination	5
Disposals	<u>(7,935)</u>
At 31 December 2009 and 1 January 2010, audited	317,651
Additions	14,034
Disposals	<u>(783)</u>
At 30 June 2010, unaudited	<u>330,902</u>
Accumulated depreciation and impairment:	
At 1 January 2009, audited	42,987
Charge for the year	17,203
Written back on disposals	<u>(2,760)</u>
At 31 December 2009 and 1 January 2010, audited	57,430
Charge for the Period	9,847
Written back on disposals	<u>(326)</u>
At 30 June 2010, unaudited	<u>66,951</u>
Net book value:	
At 30 June 2010, unaudited	<u>263,951</u>
At 31 December 2009, audited	<u>260,221</u>

As at 30 June 2010, all buildings of the Group are located in the PRC.

Depreciation expense of RMB6,590,000 (six months ended 30 June 2009: RMB6,326,000) have been expensed in cost of sales and RMB3,257,000 (six months ended 30 June 2009: RMB2,221,000) have been included in administrative expenses for the Period.

11. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 50 to 70 years land use rights in the PRC expiring from November 2050 to September 2079. These payments are recognised as expenses over the leasehold period.

	RMB'000
At 1 January 2009, audited	11,448
Amortisation of prepaid lease payments	<u>(274)</u>
At 31 December 2009 and 1 January 2010, audited	11,174
Additions	9,716
Amortisation of prepaid lease payments	<u>(158)</u>
At 30 June 2010, unaudited	<u>20,732</u>

Analysed for reporting purposes as:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Current assets (included in other receivables, deposits and prepayments)	412	273
Non-current assets	<u>20,320</u>	<u>10,901</u>
	<u>20,732</u>	<u>11,174</u>

The Group's prepaid lease payments comprise:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Land in PRC		
Long lease	9,695	–
Medium term lease	<u>11,037</u>	<u>11,174</u>
	<u>20,732</u>	<u>11,174</u>

12. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
1 to 90 days	82,874	32,343
91 to 180 days	25,437	28,359
181 to 365 days	10,093	5,486
Over 365 days	<u>3,939</u>	<u>2,679</u>
	122,343	68,867
Less: Provision of impairment loss recognised in respect of trade receivables	<u>(3,939)</u>	<u>(2,679)</u>
	<u>118,404</u>	<u>66,188</u>

Customers are generally granted with credit term of 30 to 180 days.

Trade and bills receivables as at 30 June 2010 are denominated in RMB.

13. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
1 to 90 days	158,313	69,664
91 to 180 days	6,315	243,286
181 to 365 days	3,377	8,624
Over 365 days	<u>14,897</u>	<u>7,421</u>
	182,902	328,995

Trade and bills payables as at 30 June 2010 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 2009, audited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>
At 30 June 2010, unaudited (nominal value of RMB0.10 each)	<u>609,600</u>	<u>44,504</u>	<u>16,456</u>	<u>60,960</u>

15. BANKING FACILITIES

As at 30 June 2010, the Company had aggregate banking facilities of RMB99,684,000 (as at 31 December 2009: RMB236,982,000) which were fully utilised as at 30 June 2010.

As at 30 June 2010, approximately RMB99,684,000 (as at 31 December 2009: RMB236,982,000) of the banking facilities were secured by pledged bank deposits of RMB99,684,000 (as at 31 December 2009: RMB237,194,000).

16. COMMITMENTS

As at 30 June 2010, the Group had the following significant capital commitments:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	–	3,130
– Purchase of property, plant and machinery	<u>3,080</u>	<u>10,019</u>

17. RELATED PARTY TRANSACTIONS

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

	Unaudited	
	Six months ended	
	30 June	
	2010	2009
	RMB'000	RMB'000
Sales of finished goods to Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group") (note (i))	91,769	56,304
Sales of finished goods to Shandong Luosheng Pharmacy Company Limited ("Shandong Luosheng") (note (ii))	23,581	–
Sales of finished goods to Shandong Mingxin Pharmacy Company Limited ("Shandong Mingxin") (note (iii))	16,832	–
Sales of finished goods to The Linyi City People's Hospital ("Linyi People Hospital") (note (iv))	–	10,552
Sales of finished goods to The Pingyi County People's Hospital ("Pingyi People Hospital") (note (v))	–	98
	_____	_____

Notes:

- (i) Luoxin Pharmacy Group is the shareholder and promoter of the Company. Mr. Liu Baoqi is the Director for both Luoxin Pharmacy Group and the Company.
- (ii) Shandong Luosheng is the fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Luosheng.
- (iii) Shandong Mingxin is the fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Mingxin.
- (iv) Linyi People Hospital is the ex-shareholder and promoter of the Company. Mr. Yin Chuangui, a non-executive Director of the Company, is also the Director of Linyi People Hospital during the Period.
- (v) Pingyi People Hospital is the ex-shareholder and promoter of the Company. Mr. Liu Yuxin, a non-executive Director of the Company, is also the Director of Pingyi People Hospital during the Period.

18. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated interim financial statements were approved by the Board on 10 August 2010.

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 was approved by the owners of the Company at the annual general meeting held on 8 June 2010.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2010, the Group continued to implement its existing development strategies and strengthen its 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 Group 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, 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 for 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. The approval of the establishment of Shandong Lyophilized Powder Injection Pharmaceutical Engineering Technology Research Centre (山東省凍乾粉針劑藥物工程技術研究中心) and the recognition of the Company by the Provincial Science and Technology Office as an "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)" (國家綜合性新藥研發技術大平台(山東)產業化示範企業) helped build a stronger platform for the Group's research and development and further enhanced the Group's technological research and development capabilities.

Leveraging on its strength, the Group has been rated as one of the “Top Ten Pharmaceutical Enterprises with Growth Potential” in China, and 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 Company was once again selected for the third consecutive year and the ranking jumped to the 29th place this year. The Company was rated by the Shandong Pharmaceutical Profession Association as an “Honourable Enterprise” in the Pharmaceutical Industry of Shandong Province at the 60th anniversary of the foundation of the People’s Republic of China, and awarded various honorary titles such as an “Advanced Private Enterprise” by the Shandong Provincial People’s Government, demonstrating a growth in our overall corporate strength. By capitalizing on our award-winning success, we will strengthen our product research and development as well as market network expansion to further enhance our brand recognition and competitiveness with an aim of building up “Luoxin” to a globally outstanding pharmaceutical brand.

Financial Review

For the six months ended 30 June 2010, the Group’s unaudited turnover was approximately RMB598,841,000, representing an increase of approximately 38.63% from approximately RMB431,971,000 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 a sales network to increase the market share of its products, which boosted an increase in turnover.

For the six months ended 30 June 2010, the unaudited cost of sales was approximately RMB283,841,000, representing an increase of 19.46% from approximately RMB237,594,000 for the corresponding period of last year.

For the six months ended 30 June 2010, the unaudited gross profit margin was 52.60%, representing an increase of 7.60% from 45% for the corresponding period of last year. The increase was attributable to the Company’s launch of products with high added values and upgrade of product portfolio.

For the six months ended 30 June 2010, the unaudited operating expenditure was approximately RMB97,445,000, representing an increase of 118.61% from approximately RMB44,575,000 for the corresponding period of last year.

For the six months ended 30 June 2010, the unaudited profit attributable to the shareholders was approximately RMB192,050,000, representing an increase of 67.25% from approximately RMB114,830,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.32 for the six months ended 30 June 2010.

Liquidity and Financial Resources

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

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2010, the Group's cash and cash equivalents amounted to approximately RMB562,156,000 (as at 30 June 2009: RMB298,610,000). As at 30 June 2010, the Group did not have any borrowings (as at 30 June 2009: the Group did not have any borrowings).

As at 30 June 2010, the Group's bank deposits amounting to RMB99,684,000 were pledged as security for bank acceptance (as at 30 June 2009: the Group's bank deposits amounting to RMB37,395,000 were pledged as security for bank acceptance).

Major Acquisition and Disposal

For the six months ended 30 June 2010, the Group did not have any major acquisition or disposal.

Significant Investment

For the six months ended 30 June 2010, the Group did not make any significant investment.

Contingent Liabilities

For the six months ended 30 June 2010, the Group 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 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 a sustained development and growth of the Company and in raising profitability. The Company 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 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 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 three years commencing from 2009 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 ahead, with the commitment to the strategic guiding theory of becoming a “Technology-driven enterprise with determination and efforts”, 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 sales teams 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 expansion of production and sales, so as to achieve economies of scale, cost reduction and differential competition. Following the launch of products with higher added values, the management of the Company is confident that the Company 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 10 August 2010.

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

As at 30 June 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 30 June 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). 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 30 June 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 third 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 30 June 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 30 June 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:

- 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 (傅天忠) (*Chairman*)

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

Luoxin Pharmacy Group 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 Pharmacy Company Limited 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 Group may be in competition with the products of the Group.

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 August 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 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