

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 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 nine months ended 30 September 2011 was RMB1,170,883,000, representing an increase of 29.84% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the nine months ended 30 September 2011 was RMB327,432,000, representing an increase of 17.97% 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 2011.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011 (UNAUDITED)

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2011 (the “Period”) and the comparative figures of the corresponding period of 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2011

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Turnover, net	3	390,111	302,938	1,170,883	901,779
Cost of sales		(146,023)	(136,011)	(452,987)	(419,852)
Gross profit		244,088	166,927	717,896	481,927
Other revenue	3	1,605	1,613	4,466	4,825
Other income		3,745	(1,645)	8,124	2,552
Selling and distribution expenses		(119,090)	(48,512)	(306,075)	(124,169)
General and administrative expenses		(19,208)	(17,068)	(46,825)	(38,856)
Share of profit of associate		2,227	122	7,492	710

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Profit before taxation		113,367	101,437	385,078	326,989
Taxation	4	(16,738)	(15,736)	(57,503)	(49,468)
Profit for the Period		96,629	85,701	327,575	277,521
Other comprehensive income for the Period, net of tax		—	—	—	—
Total comprehensive income for the Period		96,629	85,701	327,575	277,521
Profit attributable to:					
Owners of the Company		96,553	85,513	327,432	277,563
Non-controlling interests		76	188	143	(42)
		96,629	85,701	327,575	277,521
Total comprehensive income attributable to:					
Owners of the Company		96,553	85,513	327,432	277,563
Non-controlling interests		76	188	143	(42)
		96,629	85,701	327,575	277,521
Earnings per share attributable to Owners of the Company (RMB) – Basic and diluted	6	15.84 cents	14.02 cents	53.71 cents	45.53 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2011

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 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 selling of pharmaceutical products.

The unaudited condensed consolidated third quarterly financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These unaudited condensed consolidated third quarterly financial statements have been approved for issue by the Board on 1 November 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated 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 Group's audited consolidated financial statements for the year ended 31 December 2010.

The unaudited condensed consolidated third quarterly 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 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 Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Turnover, net				
Sales of manufactured pharmaceutical products	390,111	302,938	1,170,883	901,779
Other revenue				
Interest income	1,605	1,613	4,466	4,825
Total revenue	391,716	304,551	1,175,349	906,604

4. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
PRC enterprise income tax	16,738	15,736	57,503	49,468

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 any dividend for the nine months ended 30 September 2011 (2010: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2011 is based on the unaudited net profit of approximately RMB327,432,000 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 2010 is based on the unaudited net profit of approximately RMB227,563,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the aforesaid 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 2011 and 2010.

7. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	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
Total comprehensive income	-	-	-	277,563	277,563	(42)	277,521
Dividend paid	-	-	-	(12,192)	(12,192)	-	(12,192)
At 30 September 2010, unaudited	<u>31,139</u>	<u>30,480</u>	<u>6,033</u>	<u>885,332</u>	<u>952,984</u>	<u>240</u>	<u>953,224</u>
At 1 January 2011, audited	31,139	30,493	6,033	992,767	1,060,432	1,534	1,061,966
Total comprehensive income	-	-	-	327,432	327,432	143	327,575
Dividend paid	-	-	-	(30,480)	(30,480)	-	(30,480)
At 30 September 2011, unaudited	<u>31,139</u>	<u>30,493</u>	<u>6,033</u>	<u>1,289,719</u>	<u>1,357,384</u>	<u>1,677</u>	<u>1,359,061</u>

DIVIDENDS

On 15 March 2011, the Board recommended the payment of a final dividend of RMB0.05 per share in respect of the year ended 31 December 2010 to shareholders whose names appear in the register of members of the Company on 2 May 2011. This proposed final dividend was approved by the shareholders of the Company at the annual general meeting which was held on 1 June 2011.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

With the government's proactive introduction of medical reforms, the further standardization and input into the pharmaceutical industry, and the improvement of public health services in 2011, the financial input into the medical and health areas has gradually increased. Together with the expansion of medical insurance coverage, the strengthening of rural health services, the enhancement of new rural cooperative medical services and the trends of aging population, the acceleration in urbanization, and the steady growth of the global pharmaceutical market, the development of pharmaceutical industry in the PRC will continue to be promising in 2011.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always insisted on the strategic core competencies in science and technology innovation, enhancement on its research, development and distribution, and consolidation of production. Best endeavours were used to provide reliable, high-technology and high value-added pharmaceutical products. During the Period under review, the Group fully leveraged on the opportunities arising from the expansion in the market and fulfilled market demand by investing additional resources in enhancing its production capabilities, technologies and in the research and development of new products. At the same time, the Group has been keen on tapping into a broader market in order to increase its market share so as to boost its growth in both turnover and earnings to build a solid foundation for the sustainable development of the Group in the future.

Business Review

For the nine months ended 30 September 2011, the Group has been consistent in implementing the development strategies as formulated earlier and the targets of the Twelfth Five-Year Plan. A sound operation has thus been sustained in the first year of the Twelfth Five-Year Plan. As a result, the profit attributable to shareholders of the Group recorded remarkable growth compared to that of the same period last year, achieving strong momentum driving the growth of the Group. The outstanding results were attributable to the support and cooperation of all shareholders, customers, suppliers, business partners and the public, as well as the concerted and unremitting efforts of the management and staff of the Group. In view of the current achievements, the Group will further strengthen its research and development capacities and expand its market network to further enhance its brand recognition and the Group's competitiveness so as to build up a world-class pharmaceutical brand.

Research and Development

1. Building a platform for technology research and development

Prior to the Period under review, the Group has been recognised 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) and "Key High-Tech Enterprise under the State Torch Program" (國家火炬計劃重點高新技術企業). The Group has also been permitted to establish the "Post-Doctoral Research Workshop" (博士後科研工作站). On such basis, during the Period under review, the Group was permitted to establish the "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory", the "Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory" and the position of "Taishan Scholar - Pharmaceutical expert consultant", which introduced talents and built a stronger platform of research and development and technology improvement for the Group, which will further strengthen the research and development capacities of the Group and enhance its overall competitiveness.

2. New products and patents

During the Period under review, the Group received 22 patents of invention in the PRC. It is now applying for 14 patents of invention in the PRC. Five new drugs were approved for production and registration. As of 30 September 2011, the Group had 55 patents, of which 45 were national patents.

Production and Management

1. The Group continued to implement effective strategies on seven integral parts of its operation, namely management, culture, corporate organization, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk resistance capacities and overall competencies. Since 2006, the Company 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”. Since last year, the Company was named one of the “Top Twenty Most Competitive Listed Pharmaceutical Companies in China” by China Pharmaceutical Enterprise Management Association. During the Period under review, the Group was awarded the “Champion of the 2011 Best Industrial Enterprise in Pharmaceutical Research, Development and Production Line in China” (2011年中國醫藥研發產品線最佳工業企業第一名) and “2011 Pharmaceutical Enterprise with Most Investment Value in China” (2011年中國醫藥工業最具投資價值企業). These recognitions demonstrated the growth in the overall corporate strength of the Group.
2. *Construction of production facilities*
 - (1) Pharmaceutical preparations: the construction of infusion workshop and ancillary facilities of Shandong Yuxin Pharmacy Co., Ltd. has completed, and is expected to generate revenue next year.
 - (2) Pharmaceutical raw materials: the progress of the construction of pharmaceutical raw materials project of Shandong Hengxin Pharmacy Co., Ltd. is accelerated. The first phase of the project is scheduled to be completed and ready for operation at the end of the year.

Sales and Marketing

The Group continued to integrate sales resources and build up an outstanding sales team to increase the market share and competitiveness of its products. At present, the Group has built an extensive and seamless sales network throughout China and has established a sound marketing management system, which created sales channels for business solicitation, sale of hospital terminal products, OTC products, logistics distribution, sale of third terminal products and pharmaceutical raw materials.

Financial Review

For the nine months ended 30 September 2011, the Group's unaudited turnover was approximately RMB1,170,883,000, representing an increase of approximately 29.84% from approximately RMB901,779,000 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 nine months ended 30 September 2011, the unaudited cost of sales was approximately RMB452,987,000, representing an increase of 7.89% from approximately RMB419,852,000 for the corresponding period of last year.

For the nine months ended 30 September 2011, the unaudited gross profit margin was 61.31%, representing an increase of 7.87% from 53.44% 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 nine months ended 30 September 2011, the unaudited operating expenditure was approximately RMB352,900,000, representing an increase of 116.47% from approximately RMB163,025,000 for the corresponding period of last year. The increase of operating expenditure was due to the changes in sales mix which were associated with different cost pattern of sales and marketing expenses and the increase in research and development expenses for products which might be launched in the future.

For the nine months ended 30 September 2011, the unaudited profit attributable to owners of the Company was approximately RMB327,432,000, representing an increase of 17.97% from approximately RMB277,563,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.54 for the nine months ended 30 September 2011.

Liquidity and Financial Resources

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

As at 30 September 2011, the Group's cash and cash equivalents amounted to approximately RMB780,862,000 (as at 30 September 2010: RMB567,570,000). As at 30 September 2011, the Group did not have any borrowings (as at 30 September 2010: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2011, the Group did not have any bank deposits pledged as security for remittance under acceptance (as at 30 September 2010: bank deposits of approximately RMB28,800,000 were pledged as security for remittance under acceptance).

Major Acquisition and Disposal

For the nine months ended 30 September 2011, the Group did not have any major acquisition or disposal.

Significant Investment

For the nine months ended 30 September 2011, the Group did not make any significant investment.

Contingent Liabilities

For the nine months ended 30 September 2011, 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

Looking ahead, as the development of the pharmaceutical industry will be one of the focuses of the State's policies, the prospects of the pharmaceutical industry is optimistic. The pharmaceutical industry has already been included as one of the supported industries in the Twelfth Five-Year Plan published by the PRC central government. It is expected that the central government will allocate more resources to the pharmaceutical and medical equipment industries, and that a modern market system for the circulation of pharmaceutical products will be established during the Twelfth Five-Year Plan so as to enhance the concentration of the industry. The Group is confident in maintaining its sustainable and healthy development.

In addition, the "Guiding Opinions on Speeding up of the Restructuring of the Pharmaceutical Industry" (the "Opinions") jointly published by the Ministry of Industry and Information Technology, the Ministry of Health and the State Food and Drug Administration in November 2010 suggested the need to speed up the restructuring of the pharmaceutical industry; to cultivate independent innovation capacity and to enhance the concentration in production. The Opinions are beneficial to the development of innovative enterprises as a whole, and will give more room for the development of competitive enterprises.

In the future, the Group will continue to pursue the strategic directions of "Technology-driven enterprise with determination and efforts" under the favourable operating environment. By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investment in research and development to enhance the standards in research and development as well as technologies, and to strengthen the capabilities of the internal research and development team. This will enable the Group to invent and develop more products of higher technology, better quality and higher added value. The Group also aims at reducing the production cost and expanding the production scale so as to achieve economies of scale, a low cost of production and differentiation of competitive edge. As the Group's new plants for Yuxin and Hengxin, which are under construction, commence production, production capabilities will be increased to satisfy the growing demand for pharmaceutical products in the market. The construction of new plants will also assist the development of new categories of pharmaceutical products and expand the Group's scope in research and development on new drugs more effectively. This will facilitate a more comprehensive development in the Group's business. The Group will also accelerate the establishment of the sales team and proactively establish a broader sales network so as to enhance the market share of its products and continue to improve its core competencies.

With the implementation of the strategies stated above, the Group anticipated that "Luoxin" will be transformed into a brand representing a world-class pharmaceutical enterprise. With the rapid growth in production capacities and the launch of more high value-added products, the Group is confident in maintaining a steady growth in its business so as to bring satisfactory returns to its shareholders.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 1 November 2011.

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

As at 30 September 2011, 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 2011

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 September 2011 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 September 2011, 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 2011

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 (notes 2, 4)	35,000,000	7.86%	5.74%
Liu Zhendong (劉振東)	Beneficial Owner (note 4)	35,000,000	7.86%	5.74%
Chen Weiwei (陳偉偉)	Family interest (notes 3, 4)	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 Group 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, Luoxin Pharmacy Group 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 medicinal 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, 1 November 2011

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 purpose only