SHANDONG LUOXIN PHARMACY STOCK CO., LTD.*

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

(Stock Code: 8058)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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

* *For identification purposes only*

RESULTS HIGHLIGHT

- Turnover for the year ended 31 December 2010 amounted to approximately RMB1,342,254,000 (2009: RMB907,453,000), representing an increase of approximately 47.9% as compared with the year ended 31 December 2009.

- Profit attributable to shareholders for the year ended 31 December 2010 amounted to approximately RMB383,122,000 (2009: RMB268,550,000), representing an increase of approximately 42.7% as compared with the year ended 31 December 2009.

- The Directors recommended the payment of final dividend of RMB0.05 per share for the year ended 31 December 2010 (2009: RMB0.02 per share).

RESULTS

The Board of Directors (the "Board") is pleased to present the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 (the "year"), together with the comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	2010 RMB'000	2009 RMB'000
Turnover	5	**1,342,254**	907,453
Cost of sales		**(591,944)**	(479,736)
Gross profit		**750,310**	427,717
Other revenue	5	**7,705**	3,767
Other income	7	**3,303**	2,501
Selling and distribution expenses		**(218,663)**	(79,668)
General and administrative expenses		**(94,399)**	(42,874)
Share of profit of an associate		**2,672**	4,063
Finance costs	6	**(174)**	(240)
Profit before taxation	7	**450,754**	315,266
Taxation	8	**(67,360)**	(46,716)
Profit for the year		**383,394**	268,550
Other comprehensive income for the year, net of tax			
– Share of other comprehensive income of an associate		**1,889**	–
Total comprehensive income for the year		**385,283**	268,550
Profit for the year attributable to:			
– Owner of the Company		**383,122**	268,550
– Non-controlling interests		**272**	–
		383,394	268,550
Total comprehensive income attributable to:			
– Owner of the Company		**385,011**	268,550
– Non-controlling interests		**272**	–
		385,283	268,550
Earnings per share attributable to owners of the Company (RMB)			
– Basic and diluted	10	**0.629**	0.441

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Interest in an associate	11	**25,051**	26,790
Available-for-sale financial assets		**1,000**	–
Purchased technical know-how		**1,202**	1,996
Prepayment to acquire technical know-how		**7,520**	7,520
Property, plant and equipment		**268,270**	260,221
Construction-in-progress		**52,826**	9,293
Prepaid lease payments		**20,101**	10,901
Deferred tax assets		**3,512**	2,103
Goodwill		**165**	165
		379,647	318,989
Current assets			
Inventories		**215,389**	246,604
Trade and bills receivables	12	**222,922**	66,188
Other receivables, deposits and prepayments		**79,101**	87,749
Pledged bank deposits		**91,837**	237,194
Cash and bank balances		**582,010**	263,749
		1,191,259	901,484
Current liabilities			
Trade and bills payables	13	**184,348**	328,995
Other payables and accruals		**170,182**	92,294
Deposits received		**22,343**	9,042
Taxation payable		**41,970**	13,593
Dividend payable		**8,757**	7,314
		427,600	451,238
Net current assets		**763,659**	450,246
Total asset less current liabilities		**1,143,306**	769,235

	Notes	**2010**	2009
		RMB'000	*RMB'000*
Non-current liability			
Deferred income		**20,380**	20,380
Net assets		**1,122,926**	748,855
Capital and reserves			
Share capital		**60,960**	60,960
Other reserves		**67,665**	67,652
Retained earnings			
– Proposed final dividend		**30,480**	12,192
– Others		**962,287**	607,769
Equity attributable to owners of the Company		**1,121,392**	748,573
Non-controlling interests		**1,534**	282
Total equity		**1,122,926**	748,855

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	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	60,960	31,139	30,480	6,033	363,603	492,215	–	492,215
Total comprehensive income for the year	–	–	–	–	268,550	268,550	–	268,550
Dividend paid	–	–	–	–	(12,192)	(12,192)	–	(12,192)
Non-controlling interests arising on the acquisition of a subsidiary	–	–	–	–	–	–	282	282
At 31 December 2009 and 1 January 2010	60,960	31,139	30,480	6,033	619,961	748,573	282	748,855
Profit for the year	–	–	–	–	383,122	383,122	272	383,394
Other comprehensive income for the year	–	–	–	–	1,889	1,889	–	1,889
Total comprehensive income for the year	–	–	–	–	385,011	385,011	272	385,283
Addition to non-controlling interests due to additional capital injection to a subsidiary	–	–	–	–	–	–	980	980
Transfer from retained earnings to statutory surplus reserve fund	–	–	13	–	(13)	–	–	–
Dividend paid	–	–	–	–	(12,192)	(12,192)	–	(12,192)
At 31 December 2010	**60,960**	**31,139**	**30,493**	**6,033**	**992,767**	**1,121,392**	**1,534**	**1,122,926**
Representing:								
Proposed 2010 final dividends					**30,480**			
Others					**962,287**			
Retained earnings as at 31 December 2010					**992,767**			

NOTES

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 by way of promotion with a registered capital of Renminbi ("RMB") 46,000,000. 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 consolidated financial statements were approved for issue by the Board on 15 March 2011.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2010.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 28 (as revised in 2008)	Investments in Associates
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKFRS 5 (Amendments as part of Improvements to HKFRSs issued In 2008)	Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The impact of the application of the above new HKFRSs is discussed below.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of subsidiaries, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

HKAS 28 (as revised in 2008) Investments in Associates

The principle adopted under HKAS 27 (as revised in 2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

Except for those as disclosed above, the Directors anticipate that the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

The Group has not applied in advance the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 – Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values, as explained in the accounting policies in the annual report.

4. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance of different types of goods delivered.

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 net profit of the Group and the reportable assets and liabilities report to the chief operating decision makers are the Group's assets and liabilities.

Revenue from major products

The Group's revenue from its major product are as follows:

	2010	2009
	RMB'000	*RMB'000*
Pharmaceutical products	**1,342,254**	907,453

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB1,342,254,000 (2009: RMB907,453,000) are revenues of approximately RMB198,072,000 (2009: RMB119,688,000) which arose from sales to the Group's largest customer.

Geographical information

The Group only operates in the PRC. The Group's revenue for each of the years ended 31 December 2010 and 2009 is derived from external customers located in the PRC. The non-current assets of the Group are all located in the PRC in each of the years ended 31 December 2010 and 2009.

5. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised are as follows:

	2010	2009
	RMB'000	*RMB'000*
Turnover		
Sales of manufactured pharmaceutical products	**1,342,254**	907,453
Other revenue		
Interest income on bank deposits	**6,036**	2,191
Sundry income	**1,669**	1,576
	7,705	3,767

6. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Bills payables wholly repayable within six months	**174**	240

7. PROFIT FROM OPERATIONS

	2010	2009
	RMB'000	*RMB'000*
Operating profit of the Group was determined after charging/(crediting) the followings:		
Raw materials and consumables used	**521,089**	476,278
Changes in inventories of finished goods and work-in-progress	**8,357**	(50,270)
Depreciation of property, plant and equipment	**19,822**	17,203
Amortisation of prepaid lease payments	**378**	274
Amortisation of purchased technical know-how (included in cost of sales)	**794**	844
Write-down of obsolete inventories	**2,867**	1,377
Impairment loss recognised in respect of prepayments to acquire technical know-how	**–**	2,430
Impairment loss recognised in respect of trade receivables	**5,080**	1,861
Impairment loss recognised in respect of other receivables	**111**	541
Employee benefit expenses (excluding Directors' and supervisors' remuneration)	**97,412**	85,301
Research and development costs	**51,689**	14,902
Advertising costs	**14,315**	2,678
Auditors' remuneration	**480**	480
and after crediting:		
Other income		
Penalty income	**1,496**	973
Reversal of obsolete inventories written-down	**393**	878
Reversal of impairment loss recognised in respect of trade receivables	**768**	266
Reversal of impairment loss recognised in respect of other receivables	**347**	217
Gain on disposal of property, plant and equipment	**299**	167
	3,303	2,501

8. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Group did not carry on any business in Hong Kong during the year (2009: Nil).

(ii) As described in the paragraph below, the Group is subject to the PRC enterprise income tax at a rate of 15% (2009: 15%).

On 12 November 2009, the Company received confirmation from the Recognition Authority that the Company has been recognised as the High and New Technology Enterprise on 12 June 2009. Pursuant to the new Enterprise Income Tax Law, the enterprise income tax applicable to the High and New Technology Enterprise is reduced to be levied at 15%. The Company has since been enjoying the tax concession rate of 15% for three years effective from 1 January 2009.

(iii) The PRC value-added tax

The Group is subject to the PRC value-added tax ("VAT") at 17% (2009: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(iv) The amount of taxation charged to the consolidated statement of comprehensive income represents:

	2010	2009
	RMB'000	*RMB'000*
Current taxation – Enterprise income tax	**68,769**	47,137
Deferred taxation	**(1,409)**	(421)
	67,360	46,716

9. DIVIDENDS

A dividend in respect of 2010 of RMB0.05 per share, amounting to a total dividend of RMB30,480,000 (2009: RMB12,192,000) is to be proposed at the annual general meeting of the Company on 1 June 2011. These consolidated financial statements do not reflect this dividend payable.

	2010	2009
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.05 (2009: RMB0.02) per ordinary share	**30,480**	12,192

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
	RMB'000	*RMB'000*
Profit attributable to owners of the Company *(RMB'000)*	**383,122**	268,550
Weighted average number of ordinary shares in issue *('000)*	**609,600**	609,600
Basic and diluted earnings per share *(RMB)*	**0.629**	0.441

11. INTEREST IN AN ASSOCIATE

	2010	2009
	RMB'000	*RMB'000*
Cost of investment in an associate, unlisted in PRC	**19,620**	19,620
Share of post-acquisition profits and other comprehensive income, net of dividend received	**5,431**	7,170
	25,051	26,790

As at 31 December 2010 and 2009, the Group had interest in the following associate:

Name of the entity	Form of business structure	Place of incorporation and principal operation	Proportion of registered capital held by the Group	Promotion of voting power held	Principal activities
Qilu Medical Investment Management Limited	Incorporated	PRC	20%	20%	Management and consultation of medical related business

Note:

The amount includes (i) the accumulated share of profit and other comprehensive income of associate of approximately RMB9,019,000 (2009: RMB4,458,000) for the year ended 31 December 2010; and (ii) excess of the share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment in associate of approximately RMB2,712,000; and (iii) net of accumulated dividends received of RMB6,300,000 (2009: Nil). The Company received dividend of RMB6,300,000 from the associate during the year ended 31 December 2010. The Group has reassessed the fair value of the associate's identifiable net assets and considered the values of net assets are measured reliably.

12. TRADE AND BILLS RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**207,530**	50,235
Bills receivables	**22,591**	18,632
	230,121	68,867
Less: Provision for impairment loss recognised in respect of trade receivables	**(7,199)**	(2,679)
	222,922	66,188

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

	2010	2009
	RMB'000	*RMB'000*
1 to 90 days	**189,120**	32,343
91 to 180 days	**32,032**	28,359
181 to 365 days	**1,770**	5,486
	222,922	66,188

Customers are generally granted with credit term of 180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2010 are denominated in RMB.

As at 31 December 2010, amount of approximately RMB67,924,000, RMB13,608,000 and RMB35,660,000 is receivable from a shareholder, a promoter and two fellow subsidiaries of a shareholder respectively. The amounts due are unsecured, interest-free and receivable within 180 days.

As at 31 December 2009, amount of approximately RMB6,977,000 and RMB673,000 is receivable from a shareholder and a related company respectively. The amounts due are unsecured, interest-free and receivable within 180 days.

13. TRADE AND BILLS PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**97,511**	92,013
Bills payables	**86,837**	236,982
	184,348	328,995

The following is an analysis of trade and bills payables by age based on the invoice date:

	2010	2009
	RMB'000	*RMB'000*
1 to 90 days	**74,311**	69,664
91 to 180 days	**92,742**	243,286
181 to 365 days	**2,332**	8,624
Over 365 days	**14,963**	7,421
	184,348	328,995

Trade and bills payables as at 31 December 2010 and 2009 are denominated in RMB.

The average credit period on trade and bills payables is 90 days. Bills payables are all due to mature within 180 days. The Group financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14. COMMITMENTS

The Group had the following significant capital commitments:

	2010	2009
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Purchase of technical know-how	**3,130**	3,130
– Purchase of property, plant and equipment	**50,905**	10,019

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Global economy was gradually recovering during 2010. As to the PRC, it is facing the critical moment for a steady recovery after the international financial crisis. With the medical reform introduced proactively by the government, there will be further efforts in standardization. Medical expenses will also increase accordingly. Together with the trend of aging population, the development of the pharmaceutical industry in the PRC will continue to be promising.

As a leading modern pharmaceutical enterprise in the PRC, the Company has always insisted on the strategic core competencies of consolidating its capabilities in production, research and development and distribution. Best endeavours were used in the provision of reliable and high value added pharmaceutical products. In 2010, the Company fully leveraged on the opportunities arising from the expansion in the market and invested additional resources in enhancing production capabilities and technologies. Demand from market was fulfilled whilst the research and development in new products were accelerated. At the same time, the Company has been keen on tapping into a broader market in order to increase its market share. This in turn will allow satisfactory growth in both turnover and earnings, building a solid foundation for its sustainable development in future.

Business Review

For the year ended 31 December 2010, the Group has been consistent in implementing the development strategies as formulated earlier, and continued to enhance its capabilities in research and development, production and distribution. A sound condition in operation has thus been sustained. Hence, the profit attributable to the shareholders of the Group recorded remarkable growth compared to the same period of the last year. There had been strong momentum driving the growth in 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.

During the period under review, the Group continued to implement effective strategies on the seven integral parts of its operation, namely management, culture, business organisation, capital operation, science and technology innovation, and human resources and marketing. This had effectively contributed to the development of the Group and further enhanced its risk mitigating capabilities and overall competencies. Upon the review by the Ministry of Human Resources and Social Security and National Post-Doctor Regulatory Commission, the Company was approved to establish the Post-Doctoral Research Workshop (博士後科研工作站) of the State, which will incubate, attract and deploy high level professionals and experts for the Company. This will enhance our capabilities in research and development, providing broader room for the creation of an innovative mechanism. The workshop will be significant to the Company in terms of building a platform for academic exchange with high schools, as well as motivating and enhancing the overall qualities in human resources. Upon the review by the Ministry of Science and Technology, the Company was among the first batch to be recognised as a "Key High-Tech Enterprise" under the State Torch Program (國家火炬計劃重點高新技術企業)

since the implementation of the new Measures for the Administration of the Recognition of High-Tech Enterprises. The Technology Centre of the Company obtained the approval for the establishment of the 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). The Company was recognised by the Department of Science and Technology at Shandong Province as an "Industrial Model Enterprise in the National Integrated Pentform for New Pharmaceutical Research, Development and Technology (Shandong)" (國家綜合性新製研發技術大平台(山東)產業化示範企業) and the "Star Enterprise of Shandong" (中國專利山東明星企業) for patents registered in the PRC. These recognitions laid a solid foundation for the Group to develop and build a stronger platform for research and development, which will enhance the competence of the Group in research and development of technologies to a greater extent.

Leveraging on its strength, 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" 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 selected for the third consecutive year and our ranking jumped to the 29th place this year. The Company was selected by the Shandong Pharmaceutical Profession Association as an "Honourable Enterprise" in the Pharmaceutical Industry of Shandong Province at the both anniversary of the foundation of the PRC, and awarded various honorary titles such as an "Advanced Private Enterprise" by the Shandong Provincial People's Government. These recognitions demonstrated the growth in our overall corporate strength.

In addition, "Jin Xin – Ambroxol Hydrochloride for Injection", a product of the Company, was included in the National Key Sci-Tech Special Project "Technological Transformation of Major Drug Categories" (藥物大品種技術改造) under the 2011 Twelfth Five-Year Plan of "Key New Drug Creation and Manufacturing" (重大新藥創製). The National patent of the Company's invention of "Cefepime Hydrochloride Powder for Injection and its preparation method" was awarded First Class Award in the 11th Presentation of Patents in the Shandong Province. The Company ranked first in the "Linyi Mayor's Quality Award" in 2010. Li Minghua, the general manager of the Company, was awarded the "2010 Top Science and Technology Award of Linyi City".

During the period, the Group received 3 patents of invention in the PRC. It is now applying for 25 patents of invention in the PRC. 17 new drugs were approved to produce and register. By capitalizing on the successes already achieved, the Company will further strengthen its research and development and expand its market network to further enhance our brand recognition and competitiveness so as to build up a world-class pharmaceutical brand.

Financial Review

For the year ended 31 December 2010, the Group's audited turnover was approximately RMB1,342,254,000, representing an increase of approximately 47.91% from approximately RMB907,453,000 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 year ended 31 December 2010, the audited cost of sales was approximately RMB591,944,000, representing an increase of 23.39% from approximately RMB479,736,000 for the corresponding period of last year.

For the year ended 31 December 2010, the audited gross profit margin was 55.90%, representing an increase of 8.77% from 47.13% 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 year ended 31 December 2010, the audited operating expenditure was approximately RMB313,062,000, representing an increase of 155.47% from approximately RMB122,542,000 for the corresponding period of last year. The increase of operating expenditure was due to an increase in selling and distribution expenses , which were related to new products launched during the year with different marketing practices.

For the year ended 31 December 2010, the audited profit attributable to the shareholders was approximately RMB383,122,000, representing an increase of 42.66% from approximately RMB268,550,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.63 for the year ended 31 December 2010. The increase of profit attributable to shareholders was due to enhanced sales and products mix incurred during the year.

Liquidity and Financial Resources

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

As at 31 December 2010, the Group's cash and cash equivalents amounted to approximately RMB673,847,000 (as at 31 December 2009: RMB500,943,000). As at 31 December 2010, the Company did not have any borrowings (as at 31 December 2009: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 December 2010, the Group's bank deposits amounting to approximately RMB91,837,000 were pledged as security for remittance under acceptance (as at 31 December 2009: bank deposits amounting to approximately RMB237,194,000 were pledged as security for remittance under acceptance).

Major Acquisition and Disposal

For the year ended 31 December 2010, the Group did not have any major acquisition or disposal.

Significant Investment

For the year ended 31 December 2010, the Group did not make any significant investment.

Contingent Liabilities

As at 31 December 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 Company has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

Prospects

Looking ahead, since the development of the pharmaceutical industry is one of the focuses of the State's policies in future, the prospect of the pharmaceutical industry is still optimistic. The pharmaceutical industry has already been included as one of the industries that will be supported by the policies 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. A modern and liquid market system for pharmaceutical products will be established during the term of the Twelfth Five-Year Plan so as to enhance the concentration of the industry.

In addition, the Guiding Opinions on Speeding up the Restructuring of the Pharmaceutical Industry (the "Opinions") was jointly published by the Ministry of Information Industry, the Ministry of Health and the State Administration of Food and Drug in November 2010. The aims of the Opinions were 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. This will give more room for competitive enterprises to develop.

In future, the Company 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 pharmaceutical industry, the Company will continue to expand its investment in research and development and enhance the standards in research and development as well as technologies. This will allow the Company to invent and develop more products of higher technology, better quality and higher added value. The Company also aims at cost reduction and expansion of production scale so as to achieve economies of scale, lower cost of production and diversified competition. As the Company has begun the construction of new plants for Yuxin and Hengxin, production capabilities will be increased to satisfy the growing demand for pharmaceutical products in the market. We can also increase the categories of pharmaceutical products, and expand its scope in research and development on new drugs more effectively. This will facilitate a more comprehensive development in business. The Company will also proactively establish a broader sales network so as to enhance the market share of its products. The core competencies in the Company will thus be improved in an ongoing manner.

With the implementation of the strategies above, it is anticipated by the Company that "Luoxin" will be transformed into a brand representing world-class pharmaceutical enterprise. With the rapid growth in production capabilities and the launch of more high value added products, the Company is confident to maintain a steady growth in its business so as to bring satisfactory return to our shareholders.

AUDIT COMMITTEE

The Company has established an audit committee (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 in the medicinal field and professional knowledge in 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 audited results of the Group for the year have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Board considers that good corporate governance of the Company is the key to safeguarding the interests of the shareholders and enhancing the performance of the Company. The Board is committed to maintain and ensure high standard of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

During the year, the Company has complied with all the code provisions of the Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities nor purchased or sold any of the Company's listed securities during the year.

CLOSURE OF REGISTER OF MEMBERS

The registers of members of the Company will be closed from 2 May 2011 to 1 June 2011 (both days inclusive). All properly completed H Shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 -16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 29 April 2011, for registration.

WITHHOLDING OF CORPORATE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS IN RESPECT OF THE PROPOSED 2010 FINAL DIVIDEND

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders whose names appear on the H Share register of members on 2 May 2011. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and the Company will distribute the final dividend to such non-individual shareholders after withholding a 10% corporate income tax. The 10% corporate income tax will not be withheld from the final dividend payable to any natural person shareholders whose names appear on the H Share register of members of the Company on 2 May 2011. Any natural person investor whose H Shares are registered under the name of any such non-individual shareholders and who does not wish any corporate income tax be withheld by the Company may consider transferring the legal title of the relevant H Shares into his or her name and duly lodge all transfer documents together with the relevant H Share certificates with the Company's H Share registrar for registration. In order to determine the list of holders of H Shares who are entitled to receive the final dividend, the H Share register of members of the Company will be closed from 2 May 2011 to 1 June 2011, both days inclusive, during which period no transfer of the Company's H Shares will be effected. In order for holders of H Shares to be qualified for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712 -1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 29 April 2011, for registration.

The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate corporate income tax and the final dividend will only be payable to the shareholders whose names appear on the Company's H Share register of members on 2 May 2011. The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination, of the status of the shareholders or any disputes over the mechanism of withholding.

By order of the Board
Shandong Luoxin Pharmacy Stock Co., Ltd.*
Liu Baoqi
Chairman

PRC, 15 March 2011

As at the date of this announcement, 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.

This announcement will appear and remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at: http://shandongluoxin.quamir.com/