



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 2011

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

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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.

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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 the 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 2011 amounted to approximately RMB1,626,848,000 (2010: RMB1,342,254,000), representing an increase of approximately 21.20% as compared with the year ended 31 December 2010.
- Profit attributable to shareholders for the year ended 31 December 2011 amounted to approximately RMB426,556,000 (2010: RMB383,122,000), representing an increase of approximately 11.34% as compared with the year ended 31 December 2010.
- The Directors recommended the payment of final dividend of RMB0.2 per share for the year ended 31 December 2011 (2010: RMB0.05 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 2011 (the “year”), together with the comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Turnover	5	1,626,848	1,342,254
Cost of sales		<u>(624,217)</u>	<u>(591,944)</u>
Gross profit		1,002,631	750,310
Other revenue	5	9,023	7,705
Other income	7	15,614	3,303
Selling and distribution expenses		(403,313)	(218,663)
General and administrative expenses		(127,621)	(94,399)
Share of profit of an associate		5,873	2,672
Finance costs	6	<u>(168)</u>	<u>(174)</u>
Profit before taxation	7	502,039	450,754
Taxation	8	<u>(75,355)</u>	<u>(67,360)</u>
Profit for the year		426,684	383,394
Other comprehensive income for the year, net of tax			
– Share of other comprehensive income of an associate		<u>1,620</u>	<u>1,889</u>
Total comprehensive income for the year		<u>428,304</u>	<u>385,283</u>
Profit for the year attributable to:			
– Owners of the Company		426,556	383,122
– Non-controlling interests		<u>128</u>	<u>272</u>
		<u>426,684</u>	<u>383,394</u>
Total comprehensive income attributable to:			
– Owners of the Company		428,176	385,011
– Non-controlling interests		<u>128</u>	<u>272</u>
		<u>428,304</u>	<u>385,283</u>
Earnings per share attributable to owners of the Company (RMB)	10		
– Basic and diluted		<u>0.700</u>	<u>0.629</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Notes</i>	2011 RMB'000	2010 <i>RMB'000</i>
Non-current assets			
Interest in an associate	<i>11</i>	–	25,051
Available-for-sale financial assets		1,000	1,000
Purchased technical know-how		677	1,202
Prepayments to acquire technical know-how		11,947	7,520
Property, plant and equipment		271,207	268,270
Construction-in-progress		116,414	52,826
Prepaid lease payments		19,687	20,101
Deferred tax assets		2,680	3,512
Goodwill		165	165
		<u>423,777</u>	<u>379,647</u>
Current assets			
Inventories		148,762	215,389
Trade and bills receivables	<i>12</i>	232,813	222,922
Other receivables, deposits and prepayments		104,573	79,101
Financial assets at fair value through profit and loss		100,000	–
Pledged bank deposits		34,481	91,837
Cash and bank balances		892,877	582,010
		<u>1,513,506</u>	<u>1,191,259</u>
Current liabilities			
Trade and bills payables	<i>13</i>	142,828	184,348
Other payables and accruals		171,209	170,182
Deposits received		26,787	22,343
Taxation payable		50,329	41,970
Dividend payable		–	8,757
		<u>391,153</u>	<u>427,600</u>
Net current assets		<u>1,122,353</u>	<u>763,659</u>
Total assets less current liabilities		<u>1,546,130</u>	<u>1,143,306</u>
Non-current liability			
Deferred income		<u>20,380</u>	<u>20,380</u>
Net assets		<u>1,525,750</u>	<u>1,122,926</u>

	<i>Notes</i>	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital		60,960	60,960
Other reserves		67,734	67,665
Retained earnings			
– Proposed final dividend		121,920	30,480
– Others		1,268,474	962,287
		<u>1,519,088</u>	<u>1,121,392</u>
Equity attributable to owners of the Company		1,519,088	1,121,392
Non-controlling interests		6,662	1,534
		<u>1,525,750</u>	<u>1,122,926</u>
Total equity		<u>1,525,750</u>	<u>1,122,926</u>

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 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, net of tax:								
Share of other comprehensive income of an associate	-	-	-	-	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 and 1 January 2011	60,960	31,139	30,493	6,033	992,767	1,121,392	1,534	1,122,926
Profit for the year	-	-	-	-	426,556	426,556	128	426,684
Other comprehensive income for the year, net of tax:								
Share of other comprehensive income of an associate	-	-	-	-	1,620	1,620	-	1,620
Total comprehensive income for the year	-	-	-	-	428,176	428,176	128	428,304
Addition to non-controlling interests due to capital injection to a newly incorporated subsidiary	-	-	-	-	-	-	5,000	5,000
Transfer from retained earnings to statutory surplus reserve fund	-	-	69	-	(69)	-	-	-
Dividend paid	-	-	-	-	(30,480)	(30,480)	-	(30,480)
At 31 December 2011	60,960	31,139	30,562	6,033	1,390,394	1,519,088	6,662	1,525,750
Representing:								
Proposed 2011 final dividends					121,920			
Others					1,268,474			
Retained earnings as at 31 December 2011					1,390,394			

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 selling of pharmaceutical products. The principal activities of the subsidiaries are described in the annual report.

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 13 March 2012.

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

In the current year, the Group has adopted 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 2011.

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (As revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010

The principal effects of adopting these new HKFRSs are as follows:

HKAS 24 (As revised in 2009) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard.

Improvements to HKFRSs issued in 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

- (a) HKFRS 1 (Amendment) addresses the presentation and disclosure requirements for an entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of the revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 (Amendment) clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

The amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (c) HKFRS 7 (Amendment) is intended to simplify the disclosures by reducing the volume of disclosures on collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- (d) HKAS 1 (Amendment) clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- (e) HKAS 27 (Amendment) clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.
- (f) HKAS 34 (Amendment) requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

Except for those 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 the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets ¹
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ⁴
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Amendments)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (As revised in 2011)	Employee Benefits ⁴
HKAS 27 (As revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures ⁴
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities ⁵
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ⁴

¹ effective for annual periods beginning on or after 1 July 2011

² effective for annual periods beginning on or after 1 January 2012

³ effective for annual periods beginning on or after 1 July 2012

⁴ effective for annual periods beginning on or after 1 January 2013

⁵ effective for annual periods beginning on or after 1 January 2014

⁶ effective for annual periods beginning on or after 1 January 2015

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.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of 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 addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to financial liabilities, the significant change relates to the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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 the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. Regarding the Group's financial assets, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 10 *Consolidated Financial Statements* replaces the part of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

HKFRS 11 replaces HKAS 31 *Interests In Joint Ventures* and HK (SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: joint controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint venturers under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and applied to those entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that HKFRS 13 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 affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: Items that will not be reclassified subsequently to profit or loss; and Items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning or after 1 July 2012.

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specially, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The Directors anticipate that the application of the amendments to HKAS 12 in future reporting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sales. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

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 resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group currently operates in one business segment in the manufacturing and selling of pharmaceutical products in the PRC. A single management team reports to the chief operating decision maker who comprehensively manages the entire business. The reportable operating results report to the chief operating decision maker are the net profit of the Group and the reportable assets and liabilities report to the chief operating decision maker is the Group's assets and liabilities.

Revenue from major products

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Pharmaceutical products	<u>1,626,848</u>	<u>1,342,254</u>

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB1,626,848,000 (2010: RMB1,342,254,000) are revenues of approximately RMB344,252,000 (2010: RMB198,073,000) 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 year ended 31 December 2011 and 2010 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 year ended 31 December 2011 and 2010.

5. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised are as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Turnover		
Sales of manufactured pharmaceutical products	<u>1,626,848</u>	<u>1,342,254</u>
Other revenue		
Interest income on bill receivables	855	–
Interest income on bank deposits	6,287	6,036
Sundry income	<u>1,881</u>	<u>1,669</u>
	<u>9,023</u>	<u>7,705</u>
Total revenue	<u><u>1,635,871</u></u>	<u><u>1,349,959</u></u>

6. FINANCE COSTS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Bills payables wholly repayable within six months	<u><u>168</u></u>	<u><u>174</u></u>

7. PROFIT FROM OPERATIONS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Operating profit of the Group was determined after charging/(crediting) the following:		
Raw materials and consumables used	526,651	521,089
Changes in inventories of finished goods and work-in-progress	12,441	8,357
Depreciation of property, plant and equipment	22,265	19,822
Amortisation of prepaid lease payments	413	378
Amortisation of purchased technical know-how (included in cost of sales)	525	794
Write-down of obsolete inventories	4,104	2,867
Impairment loss recognised in respect of trade receivables	829	5,288
Impairment loss recognised in respect of other receivables	361	111
Employees benefit expenses (excluding Directors' and supervisors' remuneration)	156,452	97,412
Loss on disposal of property, plant and equipment	11	–
Research and development costs	81,927	51,689
Advertising costs	5,072	14,315
Auditors' remuneration	<u>600</u>	<u>480</u>
and after crediting:		
Other income		
Waive of trade payables	1,115	–
Government subsidies	4,871	–
Penalty income	1,013	1,496
Reversal of obsolete inventories written-down	3,664	393
Reversal of impairment loss recognised in respect of trade receivables	4,301	768
Reversal of impairment loss recognised in respect of other receivables	650	347
Gain on disposal of property, plant and equipment	<u>–</u>	<u>299</u>
	<u>15,614</u>	<u>3,303</u>

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 (2010: Nil).
- (ii) As described in the paragraph below, the Group is subject to PRC enterprise income tax at a rate of 15% (2010: 15%).

On 12 November 2009, the Company received confirmation from the Recognition Authority that the Company has been recognised as a High and New Technology Enterprise on 12 June 2009. Pursuant to the new Enterprise Income Tax Law, enterprise income tax applicable to a High and New Technology Enterprise is reduced to 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 PRC value-added tax (“VAT”) at 17% (2010: 17%) of the 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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Current taxation – Enterprise income tax	74,523	68,769
Deferred taxation	<u>832</u>	<u>(1,409)</u>
	<u><u>75,355</u></u>	<u><u>67,360</u></u>

9. DIVIDENDS

A dividend in respect of 2011 of RMB0.2 per share (2010: RMB0.05 per share), amounting to a total dividend of RMB121,920,000 (2010: RMB30,480,000) is to be proposed at the annual general meeting of the Company to be held on 15 May 2012. These consolidated financial statements do not reflect this dividend payable.

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Proposed final dividend of RMB0.2 (2010: RMB0.05) per ordinary share	<u><u>121,920</u></u>	<u><u>30,480</u></u>

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.

	2011	2010
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>426,556</u>	<u>383,122</u>
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>609,600</u>	<u>609,600</u>
Basic and diluted earnings per share (<i>RMB</i>)	<u>0.700</u>	<u>0.629</u>

11. INTEREST IN AN ASSOCIATE

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cost of investment in an associate, unlisted in the PRC	–	19,620
Share of post-acquisition profits and other comprehensive income, net of dividends received (<i>Note</i>)	<u>–</u>	<u>5,431</u>
	<u>–</u>	<u>25,051</u>

During the year ended 31 December 2011, the Company disposed of its interest in an associate, Qilu Medical Investment Management Limited, to an independent third party at a consideration of RMB27,144,000, which is same as the Company's share of net assets of the associate before disposal. Therefore, there was no gain or loss arising from the disposal.

As at 31 December 2010, 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	Proportion of voting power held	Principal activities
Qilu Medical Investment Management Limited	Incorporated	PRC	20%	20%	Management and consultation of medical related business

The summarised financial information in respect of the associate is set out below:

	2011 RMB'000	2010 <i>RMB'000</i>
Total assets	–	187,647
Total liabilities	<u>–</u>	<u>(62,390)</u>
Net assets	<u>–</u>	<u>125,257</u>
Share of net assets of associate	<u><u>–</u></u>	<u><u>25,051</u></u>
	2011 RMB'000	2010 <i>RMB'000</i>
Revenue	<u>29,027</u>	<u>21,156</u>
Profit for the period/year	<u>29,372</u>	<u>13,360</u>
Share of profit of associate for the period/year	<u><u>5,873</u></u>	<u><u>2,672</u></u>
Share of other comprehensive income for the period/year	<u><u>1,620</u></u>	<u><u>1,889</u></u>

Note:

During the year ended 31 December 2011, the share of profit and other comprehensive income of the associate before disposal was approximately RMB7,493,000. The Company received dividend of RMB5,400,000 from the associate during the year.

As at 31 December 2010, the amount includes (i) the accumulated share of profit and other comprehensive income of the associate of approximately RMB9,019,000 for the year ended 31 December 2010; (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 the associate of approximately RMB2,712,000; and (iii) net accumulated dividends received of RMB6,300,000. 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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade receivables	147,950	207,530
Bills receivables	<u>88,590</u>	<u>22,591</u>
	236,540	230,121
Less: Provision for impairment loss recognised in respect of trade receivables	<u>(3,727)</u>	<u>(7,199)</u>
	<u>232,813</u>	<u>222,922</u>

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
1 to 90 days	136,180	189,120
91 to 180 days	94,386	32,032
181 to 365 days	<u>2,247</u>	<u>1,770</u>
	<u>232,813</u>	<u>222,922</u>

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 2011 and 2010 were denominated in RMB.

As at 31 December 2011, various amounts of approximately RMB47,074,000 and RMB13,214,000 were receivable from a shareholder and two fellow subsidiaries of a shareholder respectively. The amounts due are unsecured, interest-free and receivable within 180 days.

As at 31 December 2010, various amounts of approximately RMB67,924,000, RMB13,608,000 and RMB35,660,000 were 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.

13. TRADE AND BILLS PAYABLES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade payables	108,347	97,511
Bills payables	<u>34,481</u>	<u>86,837</u>
	<u>142,828</u>	<u>184,348</u>

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
1 to 90 days	79,624	74,311
91 to 180 days	36,615	92,742
181 to 365 days	5,546	2,332
Over 365 days	<u>21,043</u>	<u>14,963</u>
	<u>142,828</u>	<u>184,348</u>

Trade and bills payables as at 31 December 2011 and 2010 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 has 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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Contracted but not provided for:		
– Purchase of technical know-how	4,376	3,130
– Purchase of property, plant and equipment	<u>103,759</u>	<u>50,905</u>

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 2012.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always insisted on 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 year 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 a sustainable development of the Group in the future.

Business Review

For the year ended 31 December 2011, the Group has been consistent in implementing 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, supporting a balanced, healthy development in research and development, management, production, human resources, and market network. 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 year 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 "National Post-Doctoral Research Workshop" (國家博士後

科研工作站). On such basis, during the year 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”, the position of “Taishan Scholar – Pharmaceutical expert consultant” and “Enterprise Academician Workstation of Shandong Province” (山東省企業院士工作站), 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 year under review, the Group received 24 patents of invention in the PRC. It is now applying for 17 patents of invention in the PRC. Eleven new drugs were approved for production and registration. As of 31 December 2011, the Group had 57 patents, of which 47 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”. In 2011, the Company was named as 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) by the Ministry of Industry and Information Technology of the PRC. These recognitions demonstrated the growth in the overall corporate strength of the Group.

2. *Construction of production facilities*

(1) Pharmaceutical preparations: Shandong Yuxin Pharmacy Co., Ltd. was granted the Drug Manufacturing Certificate (藥品生產許可證) and the construction of its infusion workshop and ancillary facilities was completed, and is expected to generate revenue in 2012.

(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 in 2012.

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, logistics distribution, sale of third terminal products and pharmaceutical raw materials.

Financial Review

For the year ended 31 December 2011, the Group's audited turnover was approximately RMB1,626,848,000, representing an increase of approximately 21.20% from approximately RMB1,342,254,000 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 year ended 31 December 2011, the audited cost of sales was approximately RMB624,217,000, representing an increase of approximately 5.45% from approximately RMB591,944,000 for the corresponding period of last year.

For the year ended 31 December 2011, the audited gross profit margin was 61.63%, representing an increase of approximately 5.73% from 55.90% 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, and improvement of production craft as a result of continuous investment on production facilities.

For the year ended 31 December 2011, the audited operating expenditure was approximately RMB530,934,000, representing an increase of approximately 69.59% from approximately RMB313,062,000 for the corresponding period of last year. The increase of operating expenditure was due to an increase in selling and distribution expenses in relation to new products launched during the year with different marketing strategies.

For the year ended 31 December 2011, the audited profit attributable to the shareholders was approximately RMB426,556,000, representing an increase of approximately 11.34% from approximately RMB383,122,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.700 for the year ended 31 December 2011. The increase in the profit attributable to the shareholders was due to enhanced sales and products mix 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 2011, the Group's cash and cash equivalents amounted to approximately RMB927,358,000 (as at 31 December 2010: RMB673,847,000). As at 31 December 2011, the Group did not have any borrowings (as at 31 December 2010: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 December 2011, the Group's bank deposits of approximately RMB34,481,000 were pledged as security for remittance under acceptance (as at 31 December 2010: bank deposits of approximately RMB91,837,000 were pledged as security for remittance under acceptance).

Major Acquisition and Disposal

For the year ended 31 December 2011, the Group did not have any major acquisition or disposal.

Significant Investment

For the year ended 31 December 2011, the Group did not make any significant investment.

Contingent Liabilities

As at 31 December 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 Company 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 policies, the prospects of the pharmaceutical industry is optimistic. The pharmaceutical industry is one of the supported industries in the Twelfth Five-Year Plan of the PRC central government. 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 commence production, production capabilities will be increased to satisfy the growing market demand for pharmaceutical products. 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.

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 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 Group has not redeemed, purchased or sold any of its listed securities during the year.

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

The registers of members of the Company to attend the annual general meeting (the “AGM”) will be closed from 14 April 2012 to 15 May 2012 (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 p.m. on 13 April 2012, for registration.

Entitlement to Final Dividend

The Board has recommended the payment of a final dividend of RMB0.2 per share in respect of the year ended 31 December 2011. Subject to the approval of shareholders at the forthcoming AGM, the dividend cum-date and ex-date will be 17 May 2012 and 18 May 2012 respectively. The registers of members of the Company for entitlement of dividend will be closed from 22 May 2012 to 26 May 2012 (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 p.m. on 21 May 2012, for registration.

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

Non-resident Corporate Shareholders

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 corporate shareholders whose names appear on the H Share register of members on 26 May 2012. The Company will distribute the final dividend to such non-resident corporate shareholders after withholding a 10% income tax. 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 22 May 2012 to 26 May 2012, 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 21 May 2012, for registration.

Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No.348), the Company is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between the mainland China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of 10%. For non-resident individual H shareholders who are residents of those

countries having agreements with China for personal income tax rates in respect of dividend of lower than 10%, the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)). For non-resident individual H shareholders who are residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of higher than 10% but lower than 20%, the Company would withhold the individual income tax at the agreed-upon effective tax rate. For non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividend of 20% and other situations, the Company would withhold the individual income tax at a tax rate of 20%.

In order to determine the list of holders of H shares of the Company who are entitled to receive the final dividend, the H share register of members of the Company will be closed from 22 May 2012 to 26 May 2012, both days inclusive, during which period no transfer of the Company's H Shares will be effected.

The Company will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Company (the "Registered Address") on 26 May, 2012 and will withhold and pay the individual income tax based on the register of members of the Company as at 26 May 2012. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Company's H share registrar and provide relevant supporting documents 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 21 May 2012, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Company's H shares within the time period stated above, the Company will determine the country of domicile of the individual H shareholders based on the recorded Registered Address on 26 May 2012.

The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate 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 26 May 2012.

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, 13 March 2012

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 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.

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>