山東羅欣藥業股份有限公司

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

FIRST QUARTERLY REPORT 2012

* For identification purposes only

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This report, for which the directors (the "Directors") of Shandong Luoxin Pharmacy Stock Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group's sales for the three months ended 31 March 2012 was approximately RMB474,406,000, representing an increase of 21.63% when compared with that of the corresponding period last year.

- The Group's profit attributable to owners of the Company for the three months ended 31 March 2012 was approximately RMB129,894,000, representing an increase of 1.98% when compared with that of the corresponding period of last year.

- The Board does not recommend the payment of any dividend for the three months ended 31 March 2012.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2012 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2012 (the "Period") and the comparative figures of the corresponding period of 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2012

	Notes	Unaudited three months ended 31 March 2012 RMB'000	Unaudited three months ended 31 March 2011 RMB'000
Turnover	3	**474,406**	390,026
Cost of sales		**(174,540)**	(151,036)
Gross profit		**299,866**	238,990
Other revenue	3	**1,908**	1,021
Other income		**2,123**	2,751
Selling and distribution expenses		**(129,966)**	(81,011)
General and administrative expenses		**(20,348)**	(14,240)
Share of profit of an associate		**–**	2,836
Profit before taxation		**153,583**	150,347
Taxation	4	**(24,268)**	(22,776)
Profit for the Period		**129,315**	127,571
Other comprehensive income for the Period, net of tax		**–**	–
Total comprehensive income for the Period		**129,315**	127,571
Profit attributable to:			
Owners of the Company		**129,894**	127,374
Non-controlling interests		**(579)**	197
		129,315	127,571
Total comprehensive income attributable to:			
Owners of the Company		**129,894**	127,374
Non-controlling interests		**(579)**	197
		129,315	127,571
Earnings per share attributable to owners of the Company (RMB) – basic and diluted	6	**21.31 cents**	20.89 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2012

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company with a registered capital of Renminbi ("RMB") 46 million by way of promotion. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on GEM of the Stock Exchange since 9 December 2005.

The Company's registered office is located at Luoqi Road, High and New Technology Experimental Zone, Linyi City, Shandong Province, the PRC.

The principal activities of the Company are manufacturing and selling of pharmaceutical products. The principal activities of its subsidiary are wholesale and manufacture of biochemical products and Chinese medicine.

The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These consolidated financial statements were approved for issue by the Board on 8 May 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended 31 December 2011.

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

3. TURNOVER AND OTHER REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceutical products.

The Group currently operates in one business segment 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. Accordingly, the Group does not have separately reportable segments.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2012	2011
	RMB'000	RMB'000
Turnover		
Sales of manufactured pharmaceutical goods	**474,406**	390,026
Other revenue		
Interest income	**1,908**	1,021
Total revenue	**476,314**	391,047

4. TAXATION

	Unaudited three months ended 31 March	
	2012	2011
	RMB'000	RMB'000
PRC enterprise income tax	**24,268**	22,776

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

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

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2012 (2011: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2012 is based on the unaudited net profit of approximately RMB129,894,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the three months ended 31 March 2011 is based on the unaudited net profit of approximately RMB127,374,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2012 and 2011.

7. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012, audited	31,139	30,562	6,033	1,390,394	1,458,128	6,662	1,464,790
Profit attributable to owners of the Company	–	–	–	129,894	129,894	(579)	129,315
At 31 March 2012, unaudited	**31,139**	**30,562**	**6,033**	**1,520,288**	**1,588,022**	**6,083**	**1,594,105**
At 1 January 2011, audited	31,139	30,493	6,033	992,767	1,060,432	1,534	1,061,966
Profit attributable to owners of the Company	–	–	–	127,374	127,374	197	127,571
At 31 March 2011, unaudited	31,139	30,493	6,033	1,120,141	1,187,806	1,731	1,189,537

DIVIDENDS

On 13 March 2012, the Board recommended the payment of a final dividend of RMB0.20 per share in respect of the year ended 31 December 2011 to shareholders whose names appear in the register of members of the Company on 21 May 2012. This proposed final dividend is subject to the approval by the shareholders of the Company at the coming annual general meeting which will be held on 15 May 2012.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

With the in-depth medical reforms promoted by the government, the further standardization and input into the pharmaceutical industry, and the improvement of public health services in 2012, 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, accelerating urbanization, and the steadily growing global pharmaceutical market, the pharmaceutical industry in the PRC will continue to be promising in 2012.

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

Business Review

For the three months ended 31 March 2012, under the pressure brought by the policies of the full implementation of the tendering of essential drugs, the full enforcement of the new GMP, the drug price reduction, the restriction of the use of antibiotics to the market environment, the Group has been consistent in implementing the established development strategies and the targets of the Twelfth Five-Year Plan, supporting the balanced and healthy running of 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. Based on the current achievements, the Group will further strengthen its research and development capacities and expand its market network to enhance its brand awareness and the Group's competitiveness so as to build up a world-class pharmaceutical brand.

Research and Development

1. *Building a platform for technology research and development*

   Prior to the Period, 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, the Group was further 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 the "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站), which have built a stronger platform on talent introduction, research and development and technology improvement for the Group to further strengthen its research and development capacities and enhance its overall competitiveness.

2. *New products and patents*

During the Period, the Group was applying for 28 patents of invention in the PRC. As of 31 March 2012, the Group had 57 patents, of which 47 were national patents of invention.

Production and Management

1. The Group continued to implement effective strategies across seven integral parts of its operations, namely management, culture, corporate organization, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk resistance capacities and overall competencies. Since 2006, the Company has been awarded the "Top Ten Pharmaceutical Enterprises with Growth Potential" in China and has been one of the "Top 100 Pharmaceutical Companies in China". Since 2011, the Company has been named as one of the "Top 20 Most Competitive Listed Pharmaceutical Companies in China" by China Pharmaceutical Enterprise Management Association, as well as 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 growing overall strength of the Group.

2. Construction of production facilities

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

   (2) Pharmaceutical raw materials: Shandong Hengxin Pharmacy Co., Ltd. is speeding up the construction of its pharmaceutical raw materials project, the first phase of which is scheduled to be completed and commence operations 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 the competitiveness of its products. At present, the Group has built an extensive and seamless sales network throughout China under a well-established marketing management system, accelerated the development of the rural market, and built an OTC sales network.

Financial Review

For the three months ended 31 March 2012, the Group's unaudited turnover was approximately RMB474,406,000, representing an increase of approximately 21.63% from approximately RMB390,026,000 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 three months ended 31 March 2012, the unaudited cost of sales was approximately RMB174,540,000, representing an increase of 15.56% from approximately RMB151,036,000 for the corresponding period of last year.

For the three months ended 31 March 2012, the unaudited gross profit margin was 63.21%, representing an increase of 1.93% from 61.28% for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added values and upgrade of product portfolio.

For the three months ended 31 March 2012, the unaudited operating expenditure was approximately RMB150,314,000, representing an increase of 57.81% from approximately RMB95,251,000 for the corresponding period of last year. The increase of operating expenditure was due to the changes in sales mix which were associated with different cost patterns of sales and marketing expenses and the increase in research and development expenses for products which might be launched in the future.

For the three months ended 31 March 2012, the unaudited profit attributable to owners of the Company was approximately RMB129,894,000, representing an increase of 1.98% from approximately RMB127,374,000 for the corresponding period of last year. Weighted average earnings per share were RMB0.2131 for the three months ended 31 March 2012.

Liquidity and Financial Resources

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

As at 31 March 2012, the Group's cash and cash equivalents amounted to approximately RMB763,348,000 (as at 31 March 2011: RMB730,064,000). As at 31 March 2012, the Group did not have any borrowings (as at 31 March 2011: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2012, the Group had bank deposits of approximately RMB40,070,000 pledged as security for remittance under acceptance (as at 31 March 2011: bank deposits of approximately RMB82,826,000 were pledged as security for remittance under acceptance).

Major Acquisition and Disposal

For the three months ended 31 March 2012, the Group did not have any major acquisition or disposal.

Significant Investment

For the three months ended 31 March 2012, the Group did not make any significant investment.

Contingent Liabilities

For the three months ended 31 March 2012, the Group did not have any substantial contingent liabilities.

Exchange Risk

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

Most of the Group's cash and cash equivalents and pledged deposits are denominated in RMB, while bank deposits are placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government.

Employees and Remuneration Policy

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Group and in raising its profitability. The Group determines its employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and fringe benefits are maintained at an appropriate level.

The Group has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

Prospects

Looking ahead, the pharmaceutical industry will become one of the priorities of the national policies and thus enjoy optimistic prospects. In the pharmaceutical industry, being one of the supported industries under the Twelfth Five-Year Plan, the PRC central government will allocate more resources to the pharmaceutical and medical equipment sectors, and a modern market system for the circulation of pharmaceutical products will be established during the Twelfth Five-Year Plan period 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 needs 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 present more room for the growth 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, low cost of production and differentiated competitive edge. Upon completion and commencement of production of its new plants of Yuxin and Hengxin, the Group will be able to increase its production capacity to satisfy the growing market demand for pharmaceutical products. The new plants will also help the introduction of new dosage forms and expand the scope of new drug development more effectively, thus facilitating the Group's comprehensive business growth. The Group will also accelerate the establishment of its sales team and proactively broaden its sales network so as to enhance the market share of products and continue to improve its core competencies.

Through the strategies stated above, the Group aims to make "Luoxin" a world-class brand in the pharmaceutical industry. With the rapid growth in production capacities and the launch of more high value-added products, the Group is confident in maintaining a steady growth in its business so as to bring satisfactory returns to its shareholders.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 8 May 2012.

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

As at 31 March 2012, the interests and short positions of each Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of domestic shares of the Company ("Domestic Shares"), as at 31 March 2012

Name of director	Capacity/Nature of Interest	Number of domestic shares	% of total issued domestic shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) *(Note 1)*	Interest of controlled corporation	250,639,949	56.32%	41.12%
Mr. Liu Zhenhai (劉振海)	Beneficial Owner	35,000,000	7.86%	5.74%

Note

1. These 250,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group Co., Ltd. ("Luoxin Pharmacy Group", previously known as Linyi Luoxin Pharmacy Company Limited). Liu Baoqi (劉保起) ("Mr. Liu") is interested in 51.72% of the registered share capital of Luoxin Pharmacy Group. Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 250,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 31 March 2012 was 250,639,949 (representing 56.32% of total issued Domestic Shares and 41.12% of Company's share capital). On 29 October 2007, Luoxin Pharmacy Group further acquired 8,639,949 shares, including 4,319,974.50 Domestic Shares from each of two promoters of the Company, i.e., Linyi City People's Hospital and Pinyi County People's Hospital. On 18 January 2010, Luoxin Pharmacy Group further acquired 12,000,000 Domestic Shares from Mr. Cao Chuan (曹傳) ("Mr. Cao"), who was holding 28,640,136 Domestic Shares before this share transfer. The rest of Mr. Cao's Domestic Shares were sold to another two independent third parties on the same date.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2012, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors of the Company.

Long position of Domestic Shares, as at 31 March 2012

Name	**Capacity/Nature of Interest**	**Number of domestic shares**	**% of total issued domestic shares**	**% of Company's Share Capital**
Luoxin Pharmacy Group	Beneficial Owner	250,639,949	56.32%	41.12%
Zuo Hongmei (左洪梅)	Family interest *(note 1)*	250,639,949	56.32%	41.12%
Cao Tingting (曹婷婷)	Family interest *(notes 2, 4)*	35,000,000	7.86%	5.74%
Liu Zhendong (劉振東)	Beneficial Owner *(note 4)*	35,000,000	7.86%	5.74%
Chen Weiwei (陳偉偉)	Family interest *(notes 3, 4)*	35,000,000	7.86%	5.74%

Notes:

1. These 250,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group is owned as to approximately 51.72% by Mr. Liu. As Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group, for the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 250,639,949 Domestic Shares held by Luoxin Pharmacy Group. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 250,639,949 Domestic Shares held by Mr. Liu.

2. These 35,000,000 Domestic Shares are registered in the name of Liu Zhenhai (劉振海) ("Mr. ZH Liu"). For the purpose of the SFO, Cao Tingting (曹婷婷), as the wife of Mr. ZH Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZH Liu.

3. These 35,000,000 Domestic Shares are registered in the name of Liu Zhendong (劉振東) ("Mr. ZD Liu"). For the purpose of the SFO, Chen Weiwei (陳偉偉), as the wife of Mr. ZD Liu, is taken to be interested in the entire 35,000,000 Domestic Shares held by Mr. ZD Liu.

4. Each of Cao Tingting, Mr. ZD Liu, Chen Weiwei, are not considered to be a substantial shareholder for the purpose of the GEM Listing Rules as each of them is interested in less than 10% of the total registered share capital of the Company.

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established on 20 November 2005 and its current members during the Period include:

Mr. Foo Tin Chung, Victor (傅天忠) *(Chairman)*

Mr. Fu Hongzheng (付宏征)

Ms. Li Hongjian (李宏建)

The Company has established the Audit Committee with written terms of reference in compliance with paragraph C3 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The duties of the Audit Committee are to review and supervise the financial reporting process and the Company's internal control policies and procedures. The appointments of the Audit Committee members are based on their broad experience of medicinal field and professional knowledge of financial reporting and management.

The Audit Committee meets regularly to review the financial reporting matters and internal control policies and procedures issues; and see how the Company can comply with these requirements. The Audit Committee also acts as the communication bridge between the Board and the auditors in relation to the planning and scope of audit work. The unaudited results of the Company for the Period have been reviewed by the Audit Committee.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the Directors, the Directors have complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the Period.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the Code for the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 11.04 of the GEM Listing Rules:–

Luoxin Pharmacy Group

Luoxin Pharmacy Group is the controlling shareholder of the Company which holds 41.12% of the Company's issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmacy Group and a controlling shareholder holding 51.72% of the registered capital of Luoxin Pharmacy Group.

Before a non-competition undertaking in favour of the Company was signed by Luoxin Pharmacy Group on 7 November 2002, Luoxin Pharmacy Group was engaged in the sales of chemical medicines, Chinese medicines, medical equipment and health and beauty products. Since the execution of the non-competition undertaking, Luoxin Pharmacy Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmacy Group signed a supplementary non-competition undertaking whereby it will carry out its sales activities in Linyi City only and confirmed that its customers are small and medium-sized medical institutions, i.e. hospitals below county-level. The Company received from Luoxin Pharmacy Group an annual confirmation in respect of the compliance of these undertakings.

Linyi Municipal Pharmacy Group Company ("Linyi Municipal Pharmacy")

Linyi Municipal Pharmacy is a State-owned enterprise established in the PRC, holding approximately 1.42% of the registered share capital of the Company. Linyi Municipal Pharmacy is principally engaged in the sales of Chinese and chemical medicines, medical equipment and health products in Linyi City and nearby districts. To the best knowledge of the Directors, Linyi Municipal Pharmacy does not and will not engage in the development and manufacturing of medicine products and it has no research and development and production capabilities for medicine manufacturing in the PRC.

Linyi Municipal Pharmacy serves as a regional distributor in Linyi City and nearby districts, and procures medicine products from other suppliers in the PRC. The Directors advised that some medicinal products sold by Linyi Municipal Pharmacy which have the same or similar curative effects as those of the Group may be in competition with the products of the Group.

Save as disclosed above, none of the Directors, the substantial shareholders of the Company or their respective associate (as defined in the GEM Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

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

PRC, 8 May 2012

As at the date of this report, the Board comprises 10 Directors, of which Mr. Liu Baoqi (劉保起), Mr. Liu Zhenhai (劉振海), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生) and Mr. Chen Yu (陳雨) are executive Directors, Mr. Yin Chuangui (尹傳貴) and Mr. Liu Yuxin (劉玉欣) are non-executive Directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征) and Ms. Li Hongjian (李宏建) are independent non-executive Directors.

* *For identification purpose only*