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

INTERIM 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 six months ended 30 June 2012 was approximately RMB1,004,977,000, representing an increase of 28.72% when compared with that of the corresponding period last year.

- The Group's profit attributable to owners of the Company for the six months ended 30 June 2012 was approximately RMB243,290,000, representing an increase of 5.38% when compared with that of the corresponding period last year.

- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 (the "Period") and the comparative figures of the corresponding period of 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	Notes	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Turnover	3	**530,571**	390,746	**1,004,977**	780,772
Cost of sales		**(179,192)**	(155,928)	**(353,732)**	(306,964)
Gross profit		**351,379**	234,818	**651,245**	473,808
Other revenue	3	**1,424**	1,840	**3,332**	2,861
Other income		**1,788**	1,628	**3,911**	4,379
Selling and distribution expenses		**(186,625)**	(105,974)	**(316,591)**	(186,985)
General and administrative expenses		**(34,310)**	(13,377)	**(54,658)**	(27,617)
Share of profit of an associate		**–**	2,429	**–**	5,265
Finance costs		**–**	–	**–**	–
Profit before taxation	4	**133,656**	121,364	**287,239**	271,711
Taxation	5	**(19,924)**	(17,989)	**(44,192)**	(40,765)
Profit for the Period		**113,732**	103,375	**243,047**	230,946
Other comprehensive income for the Period, net of tax		**–**	–	**–**	–
Total comprehensive income for the Period		**113,732**	103,375	**243,047**	230,946
Profit attributable to:					
Owners of the Company		**113,396**	103,245	**243,290**	230,879
Non-controlling interests		**336**	130	**(243)**	67
		113,732	103,375	**243,047**	230,946
Total comprehensive income attributable to:					
Owners of the Company		**113,396**	103,245	**243,290**	230,879
Non-controlling interests		**336**	130	**(243)**	67
		113,732	130,375	**243,047**	230,946
Earnings per share attributable to owners of the Company (RMB) – Basic and diluted	7	**18.60 cents**	16.94 cents	**39.91 cent**	37.87 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Non-current assets			
Available-for-sale financial assets		**1,000**	1,000
Purchased technical know-how	8	**627**	677
Prepayments to acquire technical know-how		**16,643**	11,947
Property, plant and equipment	9	**273,137**	271,207
Construction-in-progress		**179,655**	116,414
Prepaid lease payments	10	**19,315**	19,687
Deferred tax assets		**2,680**	2,680
Goodwill		**165**	165
		493,222	423,777
Current assets			
Inventories		**197,202**	148,762
Trade and bills receivables	11	**273,781**	232,813
Other receivables, deposits and prepayments		**161,367**	104,573
Financial assets at fair value through profit and loss		**450,000**	100,000
Pledged bank deposits		**85,381**	34,481
Cash and bank balances		**592,009**	892,877
		1,759,740	1,513,506
Current liabilities			
Trade and bills payables	12	**233,584**	142,828
Other payables and accruals		**245,859**	171,209
Deposits received		**29,428**	26,787
Dividend payable		**24,880**	–
Taxation payable		**51,954**	50,329
		585,705	391,153
Net current assets		**1,174,035**	1,122,353
Total assets less current liabilities		**1,667,257**	1,546,130

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Non-current liability			
Deferred income		**20,380**	20,380
Net assets		**1,646,877**	1,525,750
Capital and reserves			
Share capital	13	**60,960**	60,960
Reserves		**1,579,498**	1,458,128
Equity attributable to owners of the Company		**1,640,458**	1,519,088
Non-controlling interests		**6,419**	6,662
Total equity		**1,646,877**	1,525,750

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	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 2012, audited	60,960	31,139	30,562	6,033	1,390,394	1,519,088	6,662	1,525,750
Total comprehensive income	–	–	–	–	243,290	243,290	(243)	243,047
Dividend declared	–	–	–	–	(121,920)	(121,920)	–	(121,920)
At 30 June 2012, unaudited	60,960	31,139	30,562	6,033	1,511,764	1,640,458	6,419	1,646,877

For the six months ended 30 June 2011

	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 2011 audited	60,960	31,139	30,493	6,033	992,767	1,121,392	1,534	1,122,926
Total comprehensive income	–	–	–	–	230,879	230,879	67	230,946
Dividend declared	–	–	–	–	(30,480)	(30,480)	–	(30,480)
At 30 June 2011, unaudited	60,960	31,139	30,493	6,033	1,193,166	1,321,791	1,601	1,323,392

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Unaudited six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net cash inflow from operating activities	**279,017**	183,677
Net cash outflow from investing activities	**(431,945)**	(33,459)
Net cash (outflow)/inflow from financing activities	**(147,940)**	51,130
Net (decrease)/increase in cash and cash equivalents	**(300,868)**	201,348
Cash and cash equivalents at beginning of Period, audited	**892,877**	582,010
Cash and cash equivalents at end of Period, unaudited	**592,009**	783,358
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**592,009**	783,358

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 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. 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 Group are manufacturing and sale of pharmaceutical products.

The unaudited condensed consolidated interim financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated. These accounts have been approved for issue by the Board on 7 August 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3. TURNOVER AND OTHER REVENUE

The Group currently operates in one business segment in the manufacturing and sale of pharmaceutical products in the PRC. A single management team reported to the chief operating decision maker who comprehensively manages the entire business. The reportable operating results report to the chief operating decision maker are 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.

Turnover and other revenue recognised are as follows:

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Turnover		
Sales of manufactured pharmaceutical products	**1,004,977**	780,772
Other revenue		
Interest income	**3,332**	2,861
Total revenue	**1,008,309**	783,633

4. PROFIT FROM OPERATIONS

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Operating profit of the Group was determined after charging/(crediting) the following:		
Directors' and supervisors' emoluments	**570**	769
Depreciation of property, plant and equipment	**12,078**	10,747
Loss on disposal of property, plant and equipment	**11**	–
Amortisation of prepaid lease payments	**373**	248
Amortisation of purchased technical know-how (included in cost of sales)	**50**	10
Employees benefit expenses (excluding Directors' and supervisors' emoluments)	**115,695**	77,006
Research and development costs	**22,981**	7,900
Advertising costs	**17,005**	3,724

5. TAXATION

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
PRC enterprise income tax	**44,192**	40,765

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.

6. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (2011: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the unaudited net profit of approximately RMB243,290,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the unaudited net profit of approximately RMB230,879,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share is the same as the basic earnings per share since there were no dilutive events existed during the period ended 30 June 2012 and 2011.

8. PURCHASED TECHNICAL KNOW-HOW

	RMB'000
Cost:	
At 1 January 2011, audited	17,450
Additions	–
At 31 December 2011 and 1 January 2012, audited	17,450
Additions	–
At 30 June 2012, unaudited	17,450
Accumulated amortisation and impairment:	
At 1 January 2011, audited	16,248
Charge for the year	525
At 31 December 2011 and 1 January 2012, audited	16,773
Charge for the Period	50
At 30 June 2012, unaudited	16,823
Net book value:	
At 30 June 2012, unaudited	**627**
At 31 December 2011, audited	677

9. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
Cost:	
At 1 January 2011, audited	345,044
Additions	14,966
Transfer from construction-in-progress	10,247
Disposals	(12)
At 31 December 2011 and 1 January 2012, audited	370,245
Additions	11,946
Transfer from construction-in-progress	2,073
Disposals	(12)
At 30 June 2012, unaudited	384,252
Accumulated depreciation and impairment:	
At 1 January 2011, audited	76,774
Charge for the year	22,265
Written back on disposals	(1)
At 31 December 2011 and 1 January 2012, audited	99,038
Charge for the Period	12,078
Written back on disposals	(1)
At 30 June 2012, unaudited	111,115
Net book value:	
At 30 June 2012, unaudited	**273,137**
At 31 December 2011, audited	271,207

As at 30 June 2012, all buildings of the Group are located in the PRC.

Depreciation expense of RMB10,027,000 (six months ended 30 June 2011: RMB7,551,000) have been expensed in cost of sales and RMB2,051,000 (six months ended 30 June 2011: RMB3,196,000) have been included in administrative expenses for the Period.

10. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 50-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2011, audited	20,513
Amortisation of prepaid lease payments	(413)
At 31 December 2011 and 1 January 2012, audited	20,100
Amortisation of prepaid lease payments	(373)
At 30 June 2012, unaudited	**19,727**

Analysed for reporting purposes as:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Current assets (included in other receivables, deposits and prepayments)	**412**	413
Non-current assets	**19,315**	19,687
	19,727	20,100

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Long-term lease	**9,402**	9,420
Medium-term lease	**10,325**	10,680
	19,727	20,100

11. TRADE AND BILLS RECEIVABLES

Details of the ageing analysis are as follows:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
1 to 90 days	**228,732**	136,180
91 to 180 days	**35,417**	94,386
181 to 365 days	**9,632**	2,247
Over 365 days	**5,456**	3,727
	279,237	236,540
Less: Provision of impairment loss recognised in respect of trade receivables	**(5,456)**	(3,727)
	273,781	282,813

Customers are generally granted with credit term of 180 days.

Trade and bills receivables as at 30 June 2012 are denominated in RMB.

12. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
1 to 90 days	**113,409**	79,624
91 to 180 days	**95,547**	36,615
181 to 365 days	**2,565**	5,546
Over 365 days	**22,063**	21,043
	233,584	142,828

Trade and bills payables as at 30 June 2012 are denominated in RMB.

13. SHARE CAPITAL

	Number of shares	Nominal value Domestic shares	H shares	Total
	'000	RMB'000	RMB'000	RMB'000
At 31 December 2011, audited (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960
At 30 June 2012, unaudited (nominal value of RMB0.10 each)	**609,600**	**44,504**	**16,456**	**60,960**

14. BANKING FACILITIES

As at 30 June 2012, approximately RMB85,381,000 (as at 31 December 2011: RMB34,481,000) of the banking facilities were secured by pledged bank deposits of RMB85,381,000 (as at 31 December 2011: RMB34,481,000).

15. COMMITMENTS

As at 30 June 2012, the Group had the following significant capital commitments:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Contracted but not provided for:		
– Purchase of technical know-how	**3,130**	3,130
– Purchase of property, plant and machinery	**86,457**	84,309

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of finished goods to Luoxin Pharmacy Group Company Limited ("Luoxin Pharmacy Group") (note (i))	**188,015**	195,346
Sales of finished goods to Shandong Luosheng Pharmacy Co., Limited ("Shandong Luosheng") (note (ii))	**27,738**	26,762
Sales of finished goods to Shandong Mingxin Pharmacy Co., Limited ("Shandong Mingxin") (note (iii))	**13,049**	24,396

Notes:

(i) Luoxin Pharmacy Group is a shareholder and promoter of the Company. Mr. Liu Baoqi is a director for both Luoxin Pharmacy Group and the Company.

(ii) Shandong Luosheng is a fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Luosheng. Mr. Liu Baoqi and Mr. Liu Zhenhai are also directors of Shandong Luosheng.

(iii) Shandong Mingxin is a fellow subsidiary, of which Luoxin Pharmacy Group is holding 51% of the equity interests of Shandong Mingxin. Mr. Liu Baoqi and Mr. Liu Zhenhai are also directors of Shandong Mingxin.

17. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Board on 7 August 2012.

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 was approved by the shareholders of the Company at the annual general meeting held on 15 May 2012.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

With the medical reforms actively implemented by the PRC government, including the further tightening of regulations on the pharmaceutical industry, the improvement of public health services and rural health services, the perennial increase in medical, healthcare and pharmaceutical expenditures, the expansion of medical insurance coverage and the enhancement of the new rural cooperative medical services model, coupled with the rapid aging of population and urbanisation in the PRC in recent years, and the steadily growing global pharmaceutical market, the development of the pharmaceutical industry in the PRC will continue to be promising in the foreseeable future.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to its core strategies, i.e. enhancing capabilities in technology innovations, research and development, distribution and production, and striving to provide reliable, high-technology and high value-added pharmaceutical products. During the Period, the Group fully leveraged on the opportunities arising from market expansion and adjusted to market demands by investing additional resources to enhance its production capacity and technologies and expedite 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, with a view to laying a solid foundation for sustainable development of the Group in the future.

Business Review

For the six months ended 30 June 2012 , amid the pressured market environment brought by the implementation of a number of policies, such as the tendering of essential drugs, the new GMP, the drug price reduction and the restriction of the use of antibiotics, the Group has consistently implemented its established development strategies and the targets of the Twelfth Five-Year Plan, and sustained the balanced and healthy development of the research and development, management, production, human resources and market network of the Group. The outstanding results achieved by the Group during the Period 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 established or 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), the "National Post-Doctoral Research Workshop" (國家博士後科研工作站), "Key High-Tech Enterprise under the State Torch Program" (國家火炬計劃重點高新技術企業), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory" (山東省凍乾粉針劑藥物重點實驗室), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Engineering Laboratory" (山東省凍乾粉針劑藥物工程實驗室), the position of "Taishan Scholar – Pharmaceutical expert consultant" (泰山學者－藥學特聘專家) and the "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站), which have built a strong platform for talent introduction, research and development and technology improvement, which in turn strengthens the research and development capabilities and overall competitiveness of the Group.

2. *New products and patents*

During the Period, the Group was applying for 30 patents of invention in the PRC. As of 30 June 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 organisation, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Company 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" (十大最具成長力藥企) in China and has been one of the "Top 100 Pharmaceutical Companies in China" (中國製藥工業百強企業). Since 2011, the Company has been named as one of the "The Third Top 20 Most Competitive Listed Pharmaceutical Companies in China" (第三屆中國最具競爭力醫藥上市公司20強) 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 speeding up the construction of its solid dosage workshop (in compliance with European Union certification standards) and Lyophilized Powder Injection workshop and solid dosage workshop (both in compliance with the new GMP standard of China).

(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 expected to be completed and commence operations in the second half of 2012.

3. External Investments

During the Period, the Company, Fei County People's Hospital (費縣人民醫院) and Linyi People's Hospital (臨沂市人民醫院) have entered into a cooperation agreement on 6 June 2012 to jointly establish the Second People's Hospital of Fei County (費縣第二人民醫院) , with a proposed investment amount of RMB40 million from the Group.

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, aiming to build the third terminal direct sales network.

Financial Review

For the six months ended 30 June 2012, the Group's unaudited turnover was approximately RMB1,004,977,000, representing an increase of approximately 28.72% from approximately RMB780,772,000 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.

For the six months ended 30 June 2012, the unaudited cost of sales was approximately RMB353,732,000, representing an increase of 15.24% from approximately RMB306,964,000 for the corresponding period of last year.

For the six months ended 30 June 2012, the unaudited gross profit margin was 64.80%, representing an increase of 4.12% from 60.68% for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added values and upgrade of product portfolio.

For the six months ended 30 June 2012, the unaudited operating expenditure was approximately RMB371,249,000, representing an increase of 72.99% from approximately RMB214,602,000 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 six months ended 30 June 2012, the unaudited profit attributable to owners of the Company was approximately RMB243,290,000, representing an increase of 5.38% from approximately RMB230,879,000 for the corresponding period of last year.

Weighted average earnings per share were RMB0.3991 for the six months ended 30 June 2012.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 30 June 2012, the Group's cash and cash equivalents amounted to approximately RMB677,390,000 (as at 30 June 2011: RMB794,548,000). As at 30 June 2012, the Group did not have any borrowings (as at 30 June 2011: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 June 2012, the Group had bank deposits of approximately RMB85,381,000 pledged as security for remittance under acceptance (as at 30 June 2011: bank deposits of approximately RMB11,190,000 were pledged as security for remittance under acceptance).

Major Acquisition and Disposal

For the six months ended 30 June 2012, the Group did not have any major acquisition or disposal.

Significant Investment

For the six months ended 30 June 2012, the Group did not make any significant investment.

Contingent Liabilities

For the six months ended 30 June 2012, the Group did not have any substantial contingent liabilities.

Exchange Risk

The Group operates and conducts business in the PRC, and all of 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 national policies and thus enjoy optimistic prospects. In the pharmaceutical industry, being one of the supported industries under the Twelfth Five-Year Plan, it's expected that 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" (《關於加快醫藥行業結構調整的指導意見》) (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 its 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 production cost and expanding 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 unaudited financial statements of the Group for the six months ended 30 June 2012 were approved by the Board on 7 August 2012.

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

As at 30 June 2012, the interests and short positions of each of the 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 30 June 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	320,639,949	72.05%	52.60%

Note:

1. These 320,639,949 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 51.73% 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 320,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 30 June 2012 was 320,639,949 (representing 72.05% of total issued Domestic Shares and 52.60% of the Company's total issued share capital). On 31 March 2012, Luoxin Pharmacy Group held 250,639,949 Domestic Shares, representing 56.32% of the total issued Domestic Shares and 41.12% of the Company's total issued share capital. On 21 May 2012, Luoxin Pharmacy Group acquired 35,000,000 Domestic Shares from Mr. Liu Zhenhai (劉振海), an executive Director and vice chairman of the Company and nephew of Mr. Liu, and 35,000,000 Domestic Shares from Mr. Liu Zhendong (劉振東), also a nephew of Mr. Liu.

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 30 June 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 30 June 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	320,639,949	72.05%	52.60%
Zuo Hongmei (左洪梅)	Family interest (note 1)	320,639,949	72.05%	52.60%

Notes:

1. These 320,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group is owned as to approximately 51.73% 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 320,639,949 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 320,639,949 Domestic Shares held by Mr. Liu.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in the former Appendix 15 of the GEM Listing Rules from 1 January 2012 to 31 March 2012 and complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in the existing Appendix 15 of the GEM Listing Rules (the "New CG Code") from 1 April 2012 to 30 June 2012.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 20 November 2005 with written terms of reference which was revised on 13 March 2012 in compliance with the New CG Code. The duties of the Audit Committee are to review and supervise the financial reporting process and the internal control policies and procedures of the Group. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (傅天忠) *(Chairman)*, Mr. Fu Hongzheng (付宏征) and Ms. Li Hongjian (李宏建).

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. Having made specific enquiry of all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries redeemed, purchased or sold any of the Company's 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 52.60% of the Company's total 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 51.73% 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 associates (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, 7 August 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 purposes only*