



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 2013

* 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”; together with its subsidiaries, the “Group”) 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 2013 were RMB618,537,000, representing an increase of 30.38% when compared with those of the corresponding period of last year.
- The Group's profit attributable to Shareholders for the three months ended 31 March 2013 was RMB130,308,000, representing an increase of 0.32% when compared with that of the corresponding period of last year.
- The Board does not recommend payment of any dividend for the three months ended 31 March 2013.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2013 (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 2013 (the "Period") and the comparative figures of the corresponding period of 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2013

		Unaudited three months ended 31 March	
	Notes	2013 RMB'000	2012 RMB'000
Turnover	3	618,537	474,406
Cost of sales		(172,349)	(174,540)
Gross profit		446,188	299,866
Other revenue	3	1,890	1,908
Other income		4,750	2,123
Selling and distribution expenses		(270,033)	(129,966)
General and administrative expenses		(28,049)	(20,348)
Profit before taxation		154,746	153,583
Taxation	4	(24,436)	(24,268)
Profits for the Period		130,310	129,315
Other comprehensive income for the Period, net of tax		–	–
Total comprehensive income for the Period		130,310	129,315
Profit attributable to:			
Owners of the Company		130,308	129,894
Non-controlling interests		2	(579)
		130,310	129,315
Total comprehensive income attributable to:			
Owners of the Company		130,308	129,894
Non-controlling interests		2	(579)
		130,310	129,315
Earnings per share attributable to owners of the Company (RMB) – basic and diluted	6	21.38 cents	21.31 cents



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2013

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 sales of pharmaceutical products. The principal activities of its subsidiaries are wholesales and manufacturing 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 7 May 2013.

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 2012.

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 being reported to the chief operating decision makers are the net profit of the Group and the reportable assets and liabilities being reported to the chief operating decision makers are the Group's assets and liabilities. Accordingly, the Group does not have separate reportable segments.

Turnover and other revenue recognised are as follows:

	Unaudited three months ended 31 March	
	2013 RMB'000	2012 RMB'000
Turnover		
Sales of manufactured pharmaceutical goods	618,537	474,406
Other revenue		
Interest income	1,890	1,908
Total revenue	620,427	476,314

4. TAXATION

	Unaudited three months ended 31 March	
	2013 RMB'000	2012 RMB'000
PRC enterprise income tax	24,436	24,268

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 PRC enterprise income tax at a rate of 15%.

5. DIVIDENDS

The Board does not recommend payment of an interim dividend for the three months ended 30 March 2013 (2012: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2013 is based on the unaudited net profit of approximately RMB130,308,000 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 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 three months ended 31 March 2012.

Diluted earnings per share has been presented even though there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2013 and 2012.

7. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013, audited	31,139	30,609	6,033	1,708,301	1,776,082	1,897	1,777,979
Profit attributable to owners of the Company	-	-	-	130,308	130,308	2	130,310
At 31 March 2013, unaudited	31,139	30,609	6,033	1,838,609	1,906,390	1,899	1,908,289
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



DIVIDENDS

On 19 March 2013, the Board recommended payment of a final dividend of RMB0.30 per share in respect of the year ended 31 December 2012 to the shareholders of the Company (the "Shareholders") whose names appear in the register of members of the Company on 14 June 2013. This proposed final dividend is subject to the approval by the Shareholders at the coming annual general meeting which will be held on 10 June 2013.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

As the government proactively carries out medical reforms, continues to tighten the medicine-related regulations and standards, increases investments in the pharmaceutical industry, and improves public health services, the fiscal investments in medical and healthcare sector have increased over years and medical insurance coverage has also expanded. Moreover, rural health services have strengthened, and new rural cooperative medical services have improved. Aside from the above favourable factors, the aging population, the accelerating urbanisation as well as the steady growth of the global pharmaceutical market have also contributed to the lasting and promising momentum of the pharmaceutical industry in the PRC in 2013.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been focusing its strategies on science and technology innovation, research and development ("R&D") acceleration, distribution enhancement and production optimisation. The Group aims to provide reliable, high-tech and high value-added pharmaceutical products. During the Period, to fully leverage on the opportunities arising from the market growth and to satisfy market demands, the Group has invested additional resources to enhance its production capabilities and technology application and accelerate the R&D of new products. Meanwhile, the Group has strived to tap into a broader market and to increase its market share in order to boost its turnover and profits, thus laying a solid foundation for sustainable development of the Company in the future.



Business Review

During the Period, in order to confront the difficult market condition brought about by the implementation of public bidding of basic drugs, the launching of the new Good Market Practice (“GMP”), dropping in drug-price and restrictions on antibiotics, the Group insisted on the pre-set development strategies and fully implemented the targets of the Twelfth Five-Year Plan, and therefore maintained a balanced and healthy development in R&D, management, production, human resources and market network. The outstanding results were attributable to the supports 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 continue to strengthen its product R&D and expand its market network to further enhance its brand awareness and competitiveness with an aim to build a pharmaceutical enterprise with worldwide recognition.

Research and Development

1. Building a platform for technology R&D

The Company currently have established or been awarded with a state-province joint engineering laboratory, the “Industrial Model Enterprise (Shandong) of the National Comprehensive Technology Platform for New Drug R&D” (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 Workstation” (國家博士後科研工作站), the “Key High-Tech Enterprise under the State Torch Program” (國家火炬計劃重點高新技術企業), the “Key Lyophilised Powder Injection Pharmaceutical Laboratory of Shandong Province” (山東省凍乾粉針劑藥物重點實驗室), the “Lyophilised Powder Injection Pharmaceutical Engineering Laboratory of Shandong Province” (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). The above achievements and awards provide a stronger R&D platform for recruiting talents and improving technologies and production techniques, thus, further strengthening the R&D capabilities and the overall competitiveness of the Group.



2. *New products, patents and achievements*

As at 31 March 2013, the Group had 69 invention patents pending in the PRC. As at 31 March 2013, the Group had registered 66 patents, of which 56 were invention patents registered in the PRC.

During the Period, the Group had obtained 2 manufacturing approvals for new products, bringing the total number of manufacturing approvals to 284 as at 31 March 2013.

As at 31 March 2013, the Group had obtained 46 new drug certificates.

As at 31 March 2013, the Group had 3 projects listed in the State Torch Program.

During the Period, the Company had obtained the manufacturing approval for ambroxol hydrochloride injection, a new respiratory drug developed by the Company, which will be made available to the market together with oxaliplatin injection and its active pharmaceutical ingredients (antineoplastic drug), gemcitabine hydrochloride injection and its active pharmaceutical ingredients (antineoplastic drug) and fasudil hydrochloride injection and its active pharmaceutical ingredients (cardiovascular drug), of which manufacturing approvals were obtained in the fourth quarter of 2012. The sale of the above new drug will become a new growth driver.

Production and Management

1. The Group continued to implement effective strategies in its seven integral systems, 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 Group and further enhanced its risk resistance capacities and overall competence. The Company has been awarded the “Top 100 Pharmaceutical Companies in China” (中國製藥工業百強企業) consecutively since 2006, and was once again awarded the “2012 Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China” (2012年中國醫藥研發產品線最佳工業企業). 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. (“Yuxin”), an indirect wholly-owned subsidiary of the Company, obtained the Drug Manufacturing Certificate (藥品生產許可證), and completed the construction of its infusion workshop and ancillary facilities.

2 solid preparation workshops and 1 lyophilised powder injection workshop, currently constructed in compliance with the new GMP Standards, have passed the certification of the new national GMP standards. After renovated in compliance with the new GMP, 1 bacteria-free active pharmaceutical ingredient workshop, 1 powder injection packaging workshop, 1 lyophilised powder injection workshop and 1 small volume injection workshop have passed the certification of the new GMP.

(2) Active pharmaceutical ingredients: Shandong Hengxin Pharmacy Co., Ltd. (“Hengxin”), also an indirect wholly-owned subsidiary of the Company, speeds up the construction of an active pharmaceutical ingredient project and the first phase of the synthetic active pharmaceutical ingredient workshop of the project is already in operation.

3. *External Investment*

Cooperating with the People’s Hospital of Fei County and Linyi People’s Hospital, the Company is constructing the Second People’s Hospital of Fei County during the Period. With the investment of RMB40 million injected under the relevant cooperation agreement, the construction of the hospital is progressing rapidly.

Sales and Marketing

The Group continued to integrate marketing resources and form outstanding sales teams to increase the market share and competitiveness of its products. At present, the Group has an extensive and seamless sales network throughout China under a well-established marketing management system. The Group has accelerated the development of the rural market and formed an OTC (over-the-counter) sales network, aiming to build the third terminal direct sales network.



Financial Review

The Group's unaudited turnover for the Period was approximately RMB618,537,000, representing an increase of approximately 30.38% from approximately RMB474,406,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added-values, an upgrade of the Group's product portfolio and the acceleration of sales network development to increase the market share of its products.

The unaudited cost of sales for the Period was approximately RMB172,349,000, representing a decrease of 1.26% from approximately RMB174,540,000 for the corresponding period of last year.

The unaudited gross profit margin for the Period was 72.14%, representing an increase of 8.93% from 63.21% for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added-values and an upgrade of the Group's product portfolio.

The unaudited operating expenditure for the Period was approximately RMB298,082,000, representing an increase of 98.31% from approximately RMB150,314,000 for the corresponding period of last year. The increase of operating expenditure was due to changes in sales mix (the sales mix was associated with different cost patterns of sales and marketing expenses) and an increase in research and development expenses for future products.

The unaudited profit attributable to the Shareholders for the Period was approximately RMB130,308,000, representing an increase of 0.32% from approximately RMB129,894,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.21 for the Period.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 31 March 2013, the Group's cash and cash equivalents amounted to approximately RMB501,973,000 (as at 31 March 2012: RMB763,348,000). As at 31 March 2013, the Group did not have any borrowing (as at 31 March 2012: nil).



Pledged Bank Deposits/Cash and Cash Equivalents

As at 31 March 2013, the Group had bank deposits of approximately RMB32,726,000 pledged as security for remittance under acceptance (as at 31 March 2012: RMB40,070,000).

Financial Assets at Fair Value through Profit and Loss

As at 31 March 2013, the Group has financial assets at fair value through profit and loss of approximately RMB600,000,000 (as at 31 March 2012: RMB250,000,000). Such financial assets comprised four investments in wealth management products, offered by licensed banks in the PRC.

Summary of the financial assets as at 31 March 2013 are as follows:

Investment Amount (RMB)	Investment period	Fixed investment return % per annum
100,000,000	9/2012 to 9/2013	4.8 %
100,000,000	11/2012 to 5/2013	4.6 %
200,000,000	10/2012 to 4/2013	4.5 %
200,000,000	10/2012 to 10/2013	4.7 %

The relevant amounts of the financial assets, being the Group's operating cash flow surplus, were previously held by the Group as cash or bank deposits prior to making the said investments, with an aim to optimise utilisation of the Group's operating cash flow surplus.

Major Acquisition and Disposal

The Group did not have any major acquisition or disposal during the Period.

Significant Investment

The Group did not make any significant investment during the Period.

Contingent Liabilities

The Group did not have any substantial contingent liabilities during the Period.



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 in 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 development of pharmaceutical industry is one of the key priorities in future national policies, thus enjoys optimistic prospects. Being one of the key industries favoured by the Twelfth Five-Year Plan, the pharmaceutical industry will enjoy more resources allocated by the Central Government 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 industry concentration. The Group is confident in maintaining its sustained 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 and the Ministry of Health and the State Food and Drug Administration of the PRC in November 2010 sets out the goals of speeding up the restructuring of the pharmaceutical industry, cultivating independent innovation capabilities and enhancing production concentration. The Opinions are beneficial to the development of innovative enterprises as a whole and provide more room for the growth of competitive enterprises.

In the future, the Group will continue to pursue the strategic direction of a “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 investments in scientific researches to consolidate its standing in scientific researches and technologies, and to enhance the capabilities of its R&D team. The Group strives for developing more products of higher technology, better quality and higher added-value. The Group also aims at reducing production costs and expanding production scale so as to strengthen its competitiveness in economies of scale, low production costs and product differentiation. Our product capacity will increase upon completion and commencement of production of its new plants of “Yuxin” and “Hengxin” to satisfy the ever growing market demands for pharmaceutical products. The new plants will also increase the effectiveness of introducing new dosage types and expanding the R&D scope of new drugs, thus facilitating the Group’s overall business development. The Group will also accelerate the establishment of its sales teams and proactively broaden its sales network so as to enhance the market share of its products and continue to improve its core competitiveness.

It is the expectation of the Group that “Luoxin” will be built into a pharmaceutical enterprise with worldwide recognition through the above strategies. With the rapid growth in productivity and the launch of more high value-added products, the Group is confident in maintaining a steady business growth and bringing satisfactory returns to its Shareholders.



APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Period were approved by the Board on 7 May 2013.

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

As at 31 March 2013, 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 31 March 2013

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	325,639,949	73.17%	53.42%

Note:

These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group Co., Ltd.* (羅欣醫藥集團有限公司) ("Luoxin Pharmacy Group", previously known as Linyi Luoxin Pharmacy Company Limited* (臨沂羅欣醫藥有限公司)). 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 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 31 March 2013 was 325,639,949 (representing 73.17% of total issued Domestic Shares and 53.42% of the Company's total issued share capital).



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

The register of substantial Shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2013, 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 2013

Name	Capacity/Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Luoxin Pharmacy Group	Beneficial owner	325,639,949	73.17%	53.42%
Ms. Zuo Hongmei (左洪梅)	Family interest (<i>Note</i>)	325,639,949	73.17%	53.42%

Note:

These 325,639,949 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 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. Ms. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 325,639,949 Domestic Shares that Mr. Liu is interested in.

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 Corporate Governance Code and Corporate Governance Report contained in the prevailing Appendix 15 of the GEM Listing Rules (the "New CG Code") which was put into effect on 1 April 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 four independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (傅天忠) (Chairman), Mr. Fu Hongzheng (付宏征), Ms. Li Hongjian (李宏建) and Prof. Chen Yun Zhen (陳允震).

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 with 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 during 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 53.42% 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 said 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 with these undertakings.

Save as disclosed above, none of the Directors, the substantial Shareholders 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 May 2013

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) is non-executive Directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征), Ms. Li Hongjian (李宏建) and Prof. Chen Yun Zhen (陳允震) are independent non-executive Directors.

* *For identification purpose only*