



**吉林省輝南長龍生化藥業股份有限公司**  
**Jilin Province Huinan Changlong Bio-pharmacy Company Limited**  
*(a joint stock limited company incorporated in the People's Republic of China)*  
(Stock Code: 8049)

**Interim Report 2014**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to Jilin Province Huinan Changlong Bio-pharmacy Company Limited and its subsidiary (“the Group”). The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## UNAUDITED INTERIM RESULTS

The directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited ("the Company") are pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months and three months ended 30 June 2014 together with the comparative figures for the corresponding periods in 2013 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2014 and 30 June 2013

	Note	Six months ended 30 June		Three months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Turnover	3	<b>242,303</b>	213,266	<b>134,574</b>	114,257
Cost of sales		<b>(45,116)</b>	(39,807)	<b>(26,580)</b>	(19,602)
Gross profit		<b>197,187</b>	173,459	<b>107,994</b>	94,655
Other revenue	3	<b>1,473</b>	12,065	<b>341</b>	2,237
Distribution and selling costs		<b>(124,380)</b>	(125,903)	<b>(60,257)</b>	(54,182)
Administrative expenses		<b>(15,787)</b>	(8,414)	<b>(4,103)</b>	(4,087)
Profit from operations	5	<b>58,493</b>	51,207	<b>43,975</b>	38,623
Finance costs		<b>(213)</b>	(197)	<b>(98)</b>	(104)
Profit before taxation		<b>58,280</b>	51,010	<b>43,877</b>	38,519
Taxation	6	<b>(8,742)</b>	(7,652)	<b>(6,582)</b>	(5,777)
Profit attributable to equity holders of the Company		<b>49,538</b>	43,358	<b>37,295</b>	32,742
Earnings per share – Basic	7	<b>8.84 cents</b>	7.73 cents	<b>6.66 cents</b>	5.84 cents
Dividends	8	<b>–</b>	–	<b>–</b>	–

Note: Calculation of the earnings per share in 2013 and 2014 was based on 560,250,000 shares and 560,250,000 shares respectively.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014 and 31 December 2013

	Note	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets	9	4,860	4,890
Property, plant and equipment	10	82,551	99,483
Prepaid lease payments	11	17,335	17,335
Construction in progress	12	148,043	145,834
Intangible assets	13	9,928	11,229
<b>Total non-current assets</b>		<b>262,717</b>	278,771
<b>Current assets</b>			
Inventories	14	31,165	25,581
Trade receivables	15	173,680	121,184
Other receivables, deposits and prepayments		80,775	87,184
Prepaid lease payments	11	454	454
Loans receivables		36,590	36,950
Available-for-sale financial assets		50,000	30,000
Cash and cash equivalents		89,615	70,359
<b>Total current assets</b>		<b>462,279</b>	371,352
<b>Current liabilities</b>			
Trade payables	16	18,588	10,830
Other payables, deposits received and accruals		142,511	123,929
Deferred income		1,886	1,886
Income tax payable		3,935	3,935
Other tax payables		7,321	8,326
Loans from government authority		682	682
Dividend payable		1,873	1,873
<b>Total current liabilities</b>		<b>176,796</b>	151,461
<b>Net current assets</b>		<b>285,483</b>	219,891
<b>Total assets less current liabilities</b>		<b>548,200</b>	498,662
<b>Non-current liabilities</b>			
Loan from government authority		4,148	4,148
Bank borrowings		4,000	4,000
Deferred income		16,644	16,644
Deferred tax liabilities		338	338
		<b>25,130</b>	25,130
Net assets		<b>523,070</b>	473,532
Equity:			
<b>Share capital</b>	17	<b>56,025</b>	56,025
<b>Reserves</b>		<b>467,045</b>	417,507
<b>Total equity</b>		<b>523,070</b>	473,532

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2014 and 30 June 2013

	For the six months ended	
	30 June 2014	30 June 2013
	RMB'000	RMB'000
Net cash inflow from operating activities	<b>39,256</b>	9,283
Net cash outflow from investing activities	<b>(20,000)</b>	(15,500)
Net cash outflow from financing activities	<b>—</b>	(4,000)
	<hr/>	<hr/>
Increase/(Decrease) in cash and cash equivalents	<b>19,256</b>	(10,217)
Cash and cash equivalents at beginning of the period	<b>70,359</b>	89,374
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>89,615</b>	79,157
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Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>89,615</b>	79,157
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2014 and 30 June 2013

	PRC statutory funds					
	Share capital	Share premium	Exchange reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013 (Audited)	56,025	51,098	–	33,242	253,893	394,258
Net profit for the six months ended 30 June 2013 (Unaudited)	–	–	–	–	43,358	43,358
At 30 June 2013 (Unaudited)	56,025	51,098	–	33,242	297,251	437,616
Net profit for the six months ended 31 December 2013 (Unaudited)	–	–	–	–	35,916	35,916
Balance as at 31 December 2013 (Audited)	56,025	51,098	–	33,242	333,167	473,532
Net profit for the six months ended 30 June 2014 (Unaudited)	–	–	–	–	49,538	49,538
At 30 June 2014 (Unaudited)	56,025	51,098	–	33,242	382,705	523,070

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## NOTES TO CONDENSED INTERIM ACCOUNTS:

### 1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-organized from a state-owned enterprise to a limited liability company. On 16 August 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was further converted into a joint stock limited company. On 20 April 1999, the Company made a bonus issue from capitalisation of retained profits at the proportion of one bonus share for every two existing shares. The Company's H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 24 May 2001.

The Group is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi.

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the period under review are consistent with those followed in the Company's 2013 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2014 are unaudited and have been reviewed by the audit committee of the Company.

### 3. TURNOVER AND REVENUE

The Group's turnover comprises the invoiced value of merchandise sold net of value – added tax and after allowances for returns and discounts.

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Turnover</b>				
Sales of medicine	<b>242,303</b>	213,266	<b>134,574</b>	114,257
<b>Other revenue</b>				
Other income	<u>1,473</u>	<u>12,065</u>	<u>341</u>	<u>2,237</u>
Total revenue for the year	<u><b>243,776</b></u>	<u>225,331</u>	<u><b>134,915</b></u>	<u>116,494</u>

### 4. SEGMENT INFORMATION

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the six months ended 30 June 2014, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in PRC. Accordingly, no business or geographical segmental analysis is prepared for the period.

### 5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	<b>4,300</b>	3,222	<b>2,150</b>	1,611
Amortisation of purchased know-how and prescription	<u><b>2,313</b></u>	<u>1,430</u>	<u><b>1,156</b></u>	<u>715</u>



## 6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>8,742</u>	<u>7,652</u>	<u>6,582</u>	<u>5,777</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2013: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2014 (2013: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2014 is based on the unaudited profit attributable to shareholders of approximately RMB49,538,000 and RMB37,295,000 respectively (2013: RMB43,358,000 and RMB32,742,000) and on the weighted average of 560,250,000 and 560,250,000 (2013: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2014 respectively.

There is no diluted earnings per share because there were no dilutive potential shares in existence during the relevant periods.

## 8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 2014 (2013: Nil).

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## 9. BEARER BIOLOGICAL ASSETS

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Ginseng	<b>4,342</b>	4,372
Vineyard	<b>518</b>	518
	<u><b>4,860</b></u>	<u>4,890</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group were:

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Net book value, beginning of period/year	<b>99,483</b>	107,462
Additions & Disposals	<b>(12,632)</b>	1,817
Depreciation	<b>(4,300)</b>	(9,796)
	<u><b>82,551</b></u>	<u>99,483</u>

## 11. PREPAID LEASE PAYMENTS

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Net book value, beginning of period/year	<b>17,789</b>	18,242
Amortisation	<u>—</u>	<u>(453)</u>
Net book value, end of period/year	<b>17,789</b>	17,789
Net book value at end of period/year	<b>17,789</b>	17,789
Portion classified as current assets	<u>(454)</u>	<u>(454)</u>
Non-current assets	<b>17,335</b>	17,335

The Group's medium-term land use rights are located in the PRC.

## 12. CONSTRUCTION IN PROGRESS

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Net book value, beginning of period/year	<b>145,834</b>	66,777
Additions	<u>2,209</u>	<u>79,057</u>
Net book value, end of period/year	<b>148,043</b>	145,834

### 13. INTANGIBLE ASSETS

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Cost:		
At 1 January	<b>71,985</b>	71,985
Additions	<u>—</u>	<u>—</u>
At 30 June 2014/31 December 2013	<u><b>71,985</b></u>	<u>71,985</u>
Accumulated amortization:		
At 1 January	<b>60,756</b>	56,130
Amortisation for the period/year	<u><b>1,301</b></u>	<u>4,626</u>
At 30 June 2014/31 December 2013	<u><b>62,057</b></u>	<u>60,756</u>
Net book value:		
At 30 June 2014/31 December 2013	<u><b>9,928</b></u>	<u>11,229</u>

Purchased know-how and prescription were all acquired by cash from independent third parties.

## 14. INVENTORIES

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	<b>15,903</b>	8,411
Work in progress	<b>13,280</b>	14,886
Finished goods	<b>6,640</b>	6,942
	<u><b>35,823</b></u>	<u>30,239</u>
Less: provision for obsolete and slow-moving inventories	<u><b>(4,658)</b></u>	<u>(4,658)</u>
	<u><b>31,165</b></u>	<u>25,581</u>

As at 30 June 2014, inventories amounting to approximately RMB31,165,000 (2013: RMB30,007,000) were carried at net realizable value.

## 15. TRADE RECEIVABLES

Trade receivables are stated at cost less provision for doubtful debts. Provisions for doubtful debts are made based upon the directors' knowledge of the customers, the creditworthiness and settlement history, and the aging of the outstanding trade receivables.

The following is an aged analysis of trade receivables, net of provision for impairment for trade receivables, at the balance sheet dates:

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Current	<b>54,890</b>	38,299
31-90 days	<b>56,995</b>	39,767
91-180 days	<b>31,563</b>	22,023
More than 180 days	<b>30,232</b>	21,095
	<b><u>173,680</u></b>	<u>121,184</u>

The directors consider the carrying amount of trade receivables approximates their fair value.

## 16. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates:

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Current	<b>5,174</b>	3,015
31-90 days	<b>3,084</b>	1,797
More than 90 days	<b>10,330</b>	6,018
	<b><u>18,588</u></b>	<u>10,830</u>

Trade payables principally comprise amounts outstanding for trade purchases. The directors consider that the carrying amount of trade payables approximates their fair value.

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## 17. SHARE CAPITAL

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Registered, issued and fully paid:		
387,750,000 domestic shares of RMB0.10 each	<b>38,775</b>	38,775
172,500,000 H shares of RMB0.10 each	<b>17,250</b>	17,250
	<b><u>56,025</u></b>	<b><u>56,025</u></b>

## 18. CAPITAL COMMITMENTS

As at 30 June 2014, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Acquisition of intangible assets	<b>2,940</b>	2,940
Acquisition of property, plant and equipment	<b>1,140</b>	1,140
	<b><u>4,080</u></b>	<b><u>4,080</u></b>

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## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING RESULTS**

For the six months ended 30 June 2014, the Group recorded a turnover of approximately RMB242,303,000, representing an increase of 13.6% from RMB213,266,000 for the corresponding period in 2013. Profit attributable to shareholders for the six months ended 30 June 2014 was RMB49,538,000, representing an increase of RMB6,180,000 from RMB43,358,000 for the corresponding period in 2013.

The gross profit margin for the six months ended 30 June 2014 was approximately 81.4% representing a 0.1% increase as compared to that of 81.3% for the period ended 30 June 2013. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 51.3% in 2014. This represented a decrease from 59% when compared to the same period last year. General and administrative expenses from RMB8,414,000 for the six months ended 30 June 2013 to RMB15,787,000 for the same period in 2014.

### **BUSINESS REVIEW**

#### **Production Facilities**

In 2013, the addition of the construction in progress included acquisition of a plot of land of approximately 50,000 sq.m., which will be the third phase of our new production line developments, while the lands acquired in the year 2012 represented the first and second development phase.

The first and second development phase represented an area of approximately 12,000 sq.m., which houses six production lines and two workshops for producing five medicaments under two Good Manufacturing Practice Certificates; and an area of approximately 20,000 sq.m., which houses size production lines and three workshops for producing six medicaments under two Good Manufacturing Practice Certificates, respectively. The first development phase has been completed and in use since 2012, while the second phase has been completed in 2013 and have commenced operation in February 2014. The third phase is currently under construction. We believe the developments will further enhance our group production capacity.



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## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2014, the Group's primary source of funds was cash from the operating activities. As at 30 June 2014, the Group had cash and bank balances and consolidated net asset value of approximately RMB89,615,000 and RMB523,070,000 respectively.

For the six months ended 30 June 2014, the Group mainly generated revenue and incurred costs in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

As at 30 June 2014, the Group had no material contingent liabilities.

## **GEARING RATIO**

As at 30 June 2014, the Group had short-term bank borrowings of RMB Nil (2013: RMB6,000,000) and a gearing ratio of approximately 0%. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2014.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2014 are set out in note 18 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2014, there was no change in the Company's share capital. As at 30 June 2014, the Group's operations were financed mainly by shareholders' equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund the operation with internal resources.

## **FUTURE PROSPECTS**

There has been an increase in the Group's turnover and profit attributable to equity holders of the Company as compared with the same period last year. In addition, the sales of Hai Kun Shen Xi capsule has reached approximately RMB178,259,000 for the six months ended 30 June 2014 as compared to approximately RMB145,000,000 for the six month ended 30 June 2013.

The Directors would like to take this opportunity to express their gratitude to the management and staff for their dedication and contribution to the Group, and to thank our fellow business partners and equity holders for their continuing support. The Directors will endeavor to explore every potential opportunity for business growth, creating a promising future and successful results in the years ahead.

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## DIRECTORS' INTERESTS IN SHARES

At 30 June 2014, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

### Long positions in shares

Director	Type of Interests	Capacity	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Mr. Zhang Hong	Personal	Beneficial owner	101,937,000	26.29	18.19
Mr. Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Mr. Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Mr. Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 30 June 2014, none of the Directors, supervisors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and chief executives or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors, supervisors and chief executives to acquire such rights in any other body corporate.

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## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### Long positions in shares

Name of shareholder	Capacity/Nature of Interest	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Huinan County SAB (Note)	Beneficial owner	81,975,000	21.14	14.63

Note: Apart from the equity interest in the Company, Huinan County SAB does not have any direct or indirect interest in the Company, including representation in the Board of Directors.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other person (other than the Directors, supervisors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### Long positions in H shares

Name of shareholder	Capacity	Number of H Shares	Percentage of H Shares	Percentage of total registered Share Capital
Chen Jingwei	Beneficial owner	29,520,000	17.11%	5.269%
Shen Qianzhen	Beneficial owner	13,996,000	8.11%	2.498%

## COMPETING INTEREST

During the period under review, none of the Directors, the management shareholders, the significant shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business, which competes or may compete with the business of the Group.

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## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2014, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## **BOARD PRACTICES AND PROCEDURES**

During the period under review, the Company had not fully complied with the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules in respect of the Code on Corporate Governance Practices (the "CCGP"). The main deviations from the code provision set out in the CCGP were as follows:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Hong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

- the Audit Committee composes exclusively of independent non-executive directors;
- the independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Zhang Hong, the chairman, is a substantial shareholder of the Company and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

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## AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprise three independent non executive directors, namely Shen Yu Xiang, Xue Chang Qing and Yan Li Jin, Shen Yu Xiang is the Chairman of the audit committee. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group.

The committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited results of the Group for the period ended 30 June 2014.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had 458 employees (30 June 2013: 450 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2014, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed shares.

By order of the Board  
**Zhang Hong**  
Chairman

Jilin, the PRC  
12 August 2014

*As at the date of this report, the Board comprises six executive directors, being Zhang Hong, Zhang Xiao Guang, Tian Xin Guo, Chen Qi Ming, Wu Guo Wen, Zhao Bao Gang and three independent non-executive directors, being Shen Yu Xiang, Gao Yong Cai and Yan Li Jin.*