



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 with limited liability)

(Stock Code: 8049)

Interim Report 2016

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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 2016 together with the comparative figures for the corresponding periods in 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2016 and 30 June 2015

	Note	Six months ended 30 June,		Three months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Turnover	3	296,987	264,277	147,370	142,547
Cost of sales		(57,526)	(47,170)	(31,015)	(27,549)
Gross profit		239,461	217,107	116,355	114,998
Other revenue	3	4,511	10,312	2,694	9,443
Distribution and selling costs		(164,381)	(153,536)	(70,252)	(73,393)
Administrative expenses		(17,289)	(9,715)	(6,427)	(4,271)
Profit from operations	5	62,302	64,168	42,370	46,777
Finance costs		(34)	(155)	(5)	(80)
Profit before taxation		62,268	64,013	42,365	46,697
Taxation	6	(9,314)	(9,602)	(6,329)	(7,005)
Profit attributable to equity holders of the Company		52,954	54,411	36,036	39,692
Earnings per share – Basic	7	9.45 cents	9.71 cents	6.43 cents	7.08 cents
Dividends	8	–	–	–	–

Note: Calculation of the earnings per share in 2015 and 2016 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016 and 31 December 2015

	Note	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	9	5,503	5,557
Property, plant and equipment	10	179,271	134,986
Prepaid lease payments	11	16,428	16,428
Construction in progress	12	14,696	74,557
Intangible assets	13	–	659
Total non-current assets		215,898	232,187
Current assets			
Inventories	14	38,217	28,764
Trade receivables	15	265,684	212,073
Other receivables, deposits and prepayments		101,637	84,412
Prepaid lease payments	11	454	454
Loans receivables		12,500	12,500
Available-for-sale financial assets		226,000	154,500
Cash and cash equivalents		146,465	183,104
Total current assets		790,957	675,807
Current liabilities			
Trade payables	16	28,917	21,857
Other payables, deposits received and accruals		135,414	95,841
Deferred income		1,949	1,949
Income tax payable		10,864	13,416
Other tax payables		19,521	13,695
Bank Borrowings		4,000	4,000
Loans from government authority		682	682
Dividend payable		1,501	1,501
Total current liabilities		202,848	152,941
Net current assets		588,109	522,866
Total assets less current liabilities		804,107	755,053
Non-current liabilities			
Loan from government authority		2,908	2,908
Deferred income		23,863	27,863
Deferred tax liabilities		327	327
		27,098	31,098
Net assets		776,909	723,955
Equity:			
Share capital	17	56,025	56,025
Reserves		720,884	667,930
Total equity		776,909	723,955

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2016 and 30 June 2015

	For the six months ended	
	30 June 2016	30 June 2015
	RMB'000	RMB'000
Net cash inflow from operating activities	32,340	43,985
Net cash (outflow to) inflow from investing activities	(71,500)	24,873
Net cash inflow from financing activities	2,521	8,320
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(Decrease)/increase in cash and cash equivalents	(36,639)	77,178
Cash and cash equivalents at beginning of the period	183,104	89,615
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	146,465	166,793
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Analysis of balances of cash and cash equivalents		
Cash and bank balances	146,465	166,793
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2016 and 30 June 2015

	PRC statutory funds				
	Share capital	Share premium	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (Audited)	56,025	51,098	33,242	465,952	606,317
Net profit for the six months ended 30 June 2015 (Unaudited)	—	—	—	54,411	54,411
At 30 June 2015 (Unaudited)	56,025	51,098	33,242	520,363	660,728
Net profit for the six months ended 31 December 2015 (Unaudited)	—	—	—	63,227	63,227
Balance as at 31 December 2015 (Audited)	56,025	51,098	33,242	583,590	723,955
Net profit for the six months ended 30 June 2016 (Unaudited)	—	—	—	52,954	52,954
At 30 June 2016 (Unaudited)	56,025	51,098	33,242	636,544	776,909

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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 2015 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2016 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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of medicine	296,987	264,277	147,370	142,547
Other revenue				
Other income	4,511	10,312	2,694	9,443
Total revenue for the year	301,498	274,589	150,064	151,990

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 2016, 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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	10,691	11,500	5,345	5,750
Amortisation of intangible asset	659	3,040	330	1,520

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
PRC income tax	<u>9,314</u>	<u>9,602</u>	<u>6,329</u>	<u>7,005</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2015: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2016 (2015: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2016 is based on the unaudited profit attributable to shareholders of approximately RMB52,954,000 and RMB36,036,000 respectively (2015: RMB54,411,000 and RMB39,692,000) and on the weighted average of 560,250,000 and 560,250,000 (2015: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2016 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 2016 (2015: Nil).

9. BEARER BIOLOGICAL ASSETS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Ginseng	5,058	5,058
Vineyard	<u>445</u>	<u>499</u>
	<u>5,503</u>	<u>5,557</u>

10. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Net book value, beginning of period/year	134,986	144,307
Additions & Disposals & Transfer from construction in progress	54,976	1,952
Depreciation & Impairment & Written back on disposals	(10,691)	(11,273)
	<u>179,271</u>	<u>134,986</u>

11. PREPAID LEASE PAYMENTS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Net book value, beginning of period/year	16,882	17,335
Amortisation	–	(453)
	<u>16,882</u>	<u>16,882</u>
Net book value, end of period/year	16,882	16,882
Net book value at end of period/year Portion classified as current assets	16,882 (454)	16,882 (454)
	<u>16,428</u>	<u>16,428</u>

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

12. CONSTRUCTION IN PROGRESS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Net book value, beginning of period/year	74,557	66,781
Additions	650	8,055
Transfer to property, plant and equipment	(60,511)	(279)
	<u>14,696</u>	<u>74,557</u>

13. INTANGIBLE ASSETS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Cost:		
At 1 January	67,975	67,975
Additions & Disposal	-	-
	<u>67,975</u>	<u>67,975</u>
At 30 June 2016/31 December 2015	<u>67,975</u>	<u>67,975</u>
Accumulated amortization:		
At 1 January	67,316	65,456
Amortisation and written back on disposal and impairment for the period/year	659	1,860
	<u>67,975</u>	<u>67,316</u>
At 30 June 2016/31 December 2015	<u>67,975</u>	<u>67,316</u>
Net book value:		
At 30 June 2016/31 December 2015	<u>-</u>	<u>659</u>

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

14. INVENTORIES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	18,738	11,122
Work in progress	9,904	14,948
Finished goods	12,692	5,811
	41,334	31,881
Less: provision for obsolete and slow-moving inventories	(3,117)	(3,117)
	38,217	28,764

As at 30 June 2016, inventories amounting to approximately RMB38,217,000 (2015: RMB28,764,000) 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:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Current	94,615	115,434
31-90 days	10,256	6,590
91-180 days	35,269	10,592
More than 180 days	125,544	79,457
	265,684	212,073

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:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Current	5,980	4,520
31-90 days	5,815	4,396
More than 90 days	17,122	12,941
	28,917	21,857

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

17. SHARE CAPITAL

	Number of shares	30 June 2016 (Unaudited) RMB'000	Number of shares	31 December 2015 (Audited) RMB'000
Domestic shares of RMB0.10 each	387,750,000	38,775	387,750,000	38,775
H shares of RMB0.10 each	172,500,000	17,250	172,500,000	17,250
	560,250,000	56,025	560,250,000	56,025

18. CAPITAL COMMITMENTS

As at 30 June 2016, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Acquisition of intangible assets	1,750	1,750
Acquisition of construction in progress	-	650
Acquisition of property, plant and equipment	-	221
	1,750	2,621

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2016, the Group recorded a turnover of approximately RMB296,987,000, representing an increase of 12.38% from RMB264,277,000 for the corresponding period in 2015. Profit attributable to shareholders for the six months ended 30 June 2016 was RMB52,954,000, representing a decrease of RMB1,457,000 from RMB54,411,000 for the corresponding period in 2015.

The gross profit margin for the six months ended 30 June 2016 was approximately 80.6% representing a 1.5% decrease as compared to that of 82.1% for the period ended 30 June 2016. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 55% in 2016. This represented a decrease from 58% when compared to the same period last year. General and administrative expenses increase from RMB9,715,000 for the six months ended 30 June 2015 to RMB17,289,000 for the same period in 2016.

BUSINESS REVIEW

Production Facilities

In 2014, the Group invested in altering the production line for fucoidan, with an invested amount of RMB10,000,000. The alteration was completed and the operation was commenced in 2015 and this helped to fulfill the demand of Hai Kun Shen Xi capsule (海昆腎喜膠囊), the dominant product of the Group.

In 2015, RMB5,000,000 was invested to build and enhance the craftsmanship. RMB2,000,000 was invested to build Membrane Workshop and the official commencement of operation in 2016 is expected. The solid dosage capsule production workshop Two, Membrane workshop, Pre-delivery processing workshop One have obtained the new version of Good Manufacturing Practice Certificate in 2015.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2016, the Group's primary source of funds was cash from the operating activities. As at 30 June 2016, the Group had cash and bank balances and consolidated net asset value of approximately RMB146,465,000 and RMB776,909,000 respectively.

For the six months ended 30 June 2016, 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 2016, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2016, the Group had short-term bank borrowings of RMB 4,000,000 (2015: RMB Nil) and a gearing ratio of approximately 0.5%. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2016.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2016 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2016, there was no change in the Company's share capital. As at 30 June 2016, 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.

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.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2016, 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

Save as disclosed above, as at 30 June 2016, 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, 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 2016, 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2016, 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.

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 Gao Yong Cai, Qiu Fangping and Tian Jie, Gao Yong Cai 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 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 440 employees (30 June 2015: 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 2016, 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 2016

As at the date of this report, the Board comprises four executive directors, being Zhang Hong, Zhang Xiao Guang, Zhao Bao Gang, Wu Guo Wen and three independent non-executive directors, being Gao Yong Cai, Qiu Fangping and Tian Jie.

This report will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for 7 days from the day of its posting.