



**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)

**Third Quarterly Report 2016**

## **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.*

## THIRD QUARTERLY RESULTS (UNAUDITED)

For the nine months ended 30 September 2016

### CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The Board of Directors (the "Board") of Jilin Province Huinan Changlong Bio-pharmacy Company Limited ("the Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months and three months ended 30 September 2016 together with the comparative unaudited figures for the corresponding periods in 2015 as follows:

	Notes	For the nine months ended 30 September		For the three months ended 30 September	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Turnover	3	<b>473,513</b>	398,945	<b>176,526</b>	134,668
Cost of sales		<b>(95,043)</b>	(72,457)	<b>(37,517)</b>	(25,287)
Gross profit		<b>378,470</b>	326,488	<b>139,009</b>	109,381
Other revenue		<b>6,344</b>	18,033	<b>1,833</b>	7,721
Distribution and selling costs		<b>(257,232)</b>	(238,098)	<b>(92,851)</b>	(84,562)
Administrative expenses		<b>(23,648)</b>	(11,516)	<b>(6,359)</b>	(1,801)
Profit from operations		<b>103,934</b>	94,907	<b>41,632</b>	30,739
Finance costs		<b>(52)</b>	(168)	<b>(18)</b>	(13)
Profit before taxation		<b>103,882</b>	94,739	<b>41,614</b>	30,726
Taxation	5	<b>(15,582)</b>	(14,211)	<b>(6,268)</b>	(4,609)
Profit attributable to equity holders of the Company		<b>88,300</b>	80,528	<b>35,346</b>	26,117
Earnings per share – Basic	6	<b>15.7 cents</b>	14.4 cents	<b>6.31 cents</b>	4.66 cents

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## NOTES:

### 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 brand names of Changlong and Shendi.

### 2. BASIS OF PREPARATION

The unaudited quarterly financial statements of the Group 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 accounting policies adopted in preparing the unaudited consolidated results for the nine months and three months ended 30 September 2016 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

The condensed consolidated results for the nine months and three months ended 30 September 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.

#### 4. SEGMENTAL INFORMATION

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the nine months ended 30 September 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. TAXATION

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>15,582</u>	<u>14,211</u>	<u>6,268</u>	<u>4,609</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 nine months and three months ended 30 September 2016 (2015: Nil).

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2016 is based on the unaudited profit attributable to equity holders of approximately RMB88,300,000 and RMB35,346,000 respectively (2015: RMB80,528,000 and RMB26,117,000) 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 September 2016 respectively.

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

#### 7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (2015: Nil).

## 8. RESERVES

	PRC statutory funds				Total RMB'000
	Share Capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	
At 1 January 2015 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>33,242</u>	<u>465,952</u>	<u>606,317</u>
Net profit for the nine months ended 30 September 2015 (Unaudited)	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,528</u>	<u>80,528</u>
At 30 September 2015 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>33,242</u>	<u>546,480</u>	<u>686,845</u>
Balance as at 31 December 2015 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>33,242</u>	<u>583,590</u>	<u>723,955</u>
Net profit for the nine months ended 30 September 2016 (Unaudited)	<u>0</u>	<u>0</u>	<u>0</u>	<u>88,300</u>	<u>88,300</u>
At 30 September 2016 (Unaudited)	<u><u>56,025</u></u>	<u><u>51,098</u></u>	<u><u>33,242</u></u>	<u><u>671,890</u></u>	<u><u>812,255</u></u>

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## **BUSINESS REVIEW AND PROSPECTS**

### **OPERATING RESULTS**

For the nine months ended 30 September 2016, the Group recorded a turnover of approximately RMB473,513,000, representing an increase by 18.7% from RMB398,945,000 during the corresponding period in 2015. Profit attributable to shareholders for the nine months ended 30 September 2016 was RMB88,300,000, representing an increase by 9.65% from RMB80,528,000 during the corresponding period in 2015.

This satisfactory result was mainly due to the increase in the sales of the Company's core products, particularly Hai Kun Shen Xi capsule.

The gross profit margin for the period ended 30 September 2016 was approximately 79.9%, representing a 1.9% decrease as compared to that of 81.8% for the same period last year.

The selling expense as a percentage of turnover was 54% in 2016. This represented a decrease from 59% when compared to the same period last year. The decrease in selling expenses was due to an decrease in the advertising and promotional expenses. General and administrative expenses increased from RMB11,516,000 to RMB23,648,000 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.

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## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2016, the Group's primary source of funds was cash from the operating activities. As at 30 September 2016, the Group had cash and bank balances and consolidated net asset value of approximately RMB145,078,000 and RMB812,255,000 respectively.

For the nine months ended 30 September 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.

## **GEARING RATIO**

As at 30 September 2016, the Group had short-term bank borrowings of RMB Nil and a gearing ratio of 0%. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 September 2016.

## **FUTURE PROSPECTS**

Looking ahead, the management believed that Hai Kun Shen Xi capsule has reached maturity in the market and this medicine has taken over the Compound Huonaoshu capsule as our best selling product.

The Directors also 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 September 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:



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## 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 September 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 and chief executives to acquire such rights in any other body corporate.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 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.

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## 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 <i>(Note)</i>	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 September 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 nine months ended 30 September 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 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 September 2016.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the nine months ended 30 September 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  
14 November 2016

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

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