



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 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 2018 together with the comparative figures for the corresponding periods in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2018 and 30 June 2017

	Note	Six months ended 30 June		Three months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Turnover	3	312,070	309,492	151,563	156,425
Cost of sales		(55,548)	(59,732)	(28,328)	(31,724)
Gross profit		256,522	249,760	123,235	124,701
Other revenue	3	16,383	13,351	11,442	7,165
Distribution and selling costs		(194,606)	(186,596)	(85,677)	(81,794)
Administrative expenses		(12,809)	(11,191)	(5,823)	(5,890)
Profit from operations	5	65,490	65,324	43,177	44,182
Finance costs		(93)	(43)	(67)	(15)
Profit before taxation		65,397	65,281	43,110	44,167
Taxation	6	(9,875)	(9,824)	(6,493)	(6,657)
Profit attributable to equity holders of the Company		55,522	55,457	36,617	37,510
Earnings per share – Basic	7	9.91 cents	9.90 cents	6.54 cents	6.70 cents
Dividends	8	–	–	–	–

Note: Calculation of the earnings per share in 2017 and 2018 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018 and 31 December 2017

	Note	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	9	11,403	11,440
Property, plant and equipment	10	154,352	166,133
Prepaid lease payments	11	15,520	15,520
Construction in progress	12	45,036	44,127
Intangible assets	13	-	-
Deferred tax assets		316	316
Total non-current assets		226,627	237,536
Current assets			
Inventories	14	57,295	50,722
Trade receivables	15	260,362	244,855
Other receivables, deposits and prepayments		99,134	108,577
Prepaid lease payments	11	454	454
Loans receivables		2,500	2,500
Available-for-sale financial assets		513,000	483,000
Cash and cash equivalents		159,026	110,428
Total current assets		1,091,771	1,000,536
Current liabilities			
Trade payables	16	28,761	35,201
Other payables, deposits received and accruals		152,405	111,697
Deferred income		1,941	1,789
Income tax payable		27,380	27,380
Other tax payables		12,482	21,236
Loans from government authority		1,333	1,333
Dividend payable		1,130	1,447
Total current liabilities		225,432	200,083
Net current assets		866,339	800,453
Total assets less current liabilities		1,092,966	1,037,989
Non-current liabilities			
Loan from government authority		1,092	1,637
Deferred income		25,325	25,325
		26,417	26,962
Net assets		1,066,549	1,011,027
Equity:			
Share capital	17	56,025	56,025
Reserves		1,010,524	955,002
Total equity		1,066,549	1,011,027

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2018 and 30 June 2017

	For the six months ended	
	30 June 2018	30 June 2017
	RMB'000	RMB'000
Net cash (outflow to)/inflow from operating activities	(40,675)	59,810
Net cash outflow to investing activities	(924)	(5,650)
(Decrease)/increase in cash and cash equivalents	(41,599)	54,160
Cash and cash equivalents at beginning of the period	200,625	146,465
Cash and cash equivalents at end of the period	159,026	200,625
Analysis of balances of cash and cash equivalents		
Cash and bank balances	159,026	200,625

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2018 and 30 June 2017

	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 2017 (Audited)	56,025	51,098	33,242	726,260	866,625
Net profit for the six months ended 30 June 2017 (Unaudited)	—	—	—	55,457	55,457
At 30 June 2017 (Unaudited)	56,025	51,098	33,242	781,717	922,082
Net profit for the six months ended 31 December 2017 (Unaudited)	—	—	—	88,945	88,945
Balance as at 31 December 2017 (Audited)	56,025	51,098	33,242	870,662	1,011,027
Net profit for the six months ended 30 June 2018 (Unaudited)	—	—	—	55,522	55,522
At 30 June 2018 (Unaudited)	56,025	51,098	33,242	926,184	1,066,549

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 GEM 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 2017 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2018 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	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of medicine	312,070	309,492	151,563	156,425
Other revenue				
Other income	16,383	13,351	11,442	7,165
Total revenue for the year	328,453	322,843	163,005	163,590

4. SEGMENT INFORMATION

The Group has only one business segment which is in the manufacture and distribution of Chinese medicines and pharmaceutical products in the PRC. For the six months ended 30 June 2018, 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	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	16,716	9,161	8,358	4,580
Amortisation of intangible asset	-	-	-	-

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>9,875</u>	<u>9,824</u>	<u>6,493</u>	<u>6,657</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2017: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2018 (2017: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2018 is based on the unaudited profit attributable to shareholders of approximately RMB55,522,000 and RMB36,617,000 respectively (2017: RMB55,457,000 and RMB37,510,000) and on the weighted average of 560,250,000 and 560,250,000 (2017: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2018 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 2018 (2017: Nil).

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9. BEARER BIOLOGICAL ASSETS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Ginseng	11,403	11,440

10. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Net book value, beginning of period/year	166,133	172,672
Additions & Disposals & Transfer from construction in progress	4,935	14,335
Depreciation & Written back on disposals	(16,716)	(20,874)
Net book value, end of period/year	154,352	166,133

11. PREPAID LEASE PAYMENTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Net book value, beginning of period/year	15,974	16,428
Amortisation	<u>—</u>	<u>(454)</u>
Net book value, end of period/year	15,974	15,974
Net book value at end of period/year	15,974	15,974
Portion classified as current assets	<u>(454)</u>	<u>(454)</u>
Non-current assets	<u>15,520</u>	<u>15,520</u>

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

12. CONSTRUCTION IN PROGRESS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Net book value, beginning of period/year	44,127	23,271
Additions	909	24,179
Transfer to property, plant and equipment	<u>—</u>	<u>(3,323)</u>
Net book value, end of period/year	<u>45,036</u>	<u>44,127</u>

13. INTANGIBLE ASSETS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cost:		
At 1 January	67,975	67,975
Additions & Disposal	<u> -</u>	<u> -</u>
At 30 June 2018/31 December 2017	<u>67,975</u>	<u>67,975</u>
Accumulated amortization:		
At 1 January	67,975	67,975
Amortisation and written back on disposal and Impairment for the period/year	<u> -</u>	<u> -</u>
At 30 June 2018/31 December 2017	<u>67,975</u>	<u>67,975</u>
Net book value:		
At 30 June 2018/31 December 2017	<u><u> -</u></u>	<u><u> -</u></u>

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

14. INVENTORIES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	22,709	20,163
Work in progress	24,756	21,981
Finished goods	11,155	9,903
	<u>58,620</u>	<u>52,047</u>
Less: provision for obsolete and slow-moving inventories	<u>(1,325)</u>	<u>(1,352)</u>
	<u>57,295</u>	<u>50,722</u>

As at 30 June 2018, inventories amounting to approximately RMB57,295,000 (2017: RMB50,722,000) 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Current	46,222	43,467
31-90 days	55,859	52,533
91-180 days	45,608	42,892
More than 180 days	112,673	105,963
	<u>260,362</u>	<u>244,855</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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Current	6,254	7,654
31-90 days	4,764	5,831
More than 90 days	17,743	21,716
	<u>28,761</u>	<u>35,201</u>

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 2018 (Unaudited) RMB'000	Number of shares	31 December 2017 (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 2018, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Acquisition of intangible assets	1,750	1,750
Acquisition of property, plant and equipment	327	327
	2,077	2,077

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2018, the Group recorded a turnover of approximately RMB312,070,000, representing an increase of 0.83% from RMB309,492,000 for the corresponding period in 2017. Profit attributable to shareholders for the six months ended 30 June 2018 was RMB55,522,000, representing an increase of RMB65,000 from RMB55,457,000 for the corresponding period in 2017.

The gross profit margin for the six months ended 30 June 2018 was approximately 82.2% representing a 1.5% increase as compared to that of 80.7% for the period ended 30 June 2017. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 62.3% in 2018. This represented an increase from 60.2% when compared to the same period last year. General and administrative expenses increase from RMB11,191,000 for the six months ended 30 June 2017 to RMB12,809,000 for the same period in 2018.

BUSINESS REVIEW

Production Facilities

During the year, the purchase and construction of equipment and testing works of Jilin Changlong Yuan Biological Technology Company Limited, a wholly-owned subsidiary, have completed and the accreditation of health food products has passed. Its product, the Ai Ke Sai Lun Granules (艾科賽倫顆粒) has been launched to the market, providing a new profit driver for the enhancement of the Group's result.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2018, the Group's primary source of funds was cash from the operating activities. As at 30 June 2018, the Group had cash and bank balances and consolidated net asset value of approximately RMB159,026,000 and RMB1,066,549,000 respectively.

For the six months ended 30 June 2018, 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 2018, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2018, the Group had short-term bank borrowings of RMB Nil (2017: RMB Nil) 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 2018.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2018 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2018, there was no change in the Company's share capital. As at 30 June 2018, 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 2018, 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 2018, 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 2018, 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 2018, 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 2018, 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, Gao Qi Pin 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 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 520 employees (30 June 2017: 524 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 2018, 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 August 2018

As at the date of this report, the Board comprises six executive directors, being Zhang Hong, Zhang Xiao Guang, Zhao Bao Gang, Wu Guo Wen, Zhang Yi and Xu Xiang Fu and three independent non-executive directors, being Gao Yong Cai, Gao Qi Pin 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.