



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)

First Quarterly Report 2020

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

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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 of the Stock Exchange (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.

FIRST QUARTERLY REPORT (UNAUDITED)

FOR THE THREE MONTHS ENDED 31 MARCH 2020

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 three months ended 31 March 2020 together with the comparative unaudited figures for the corresponding periods in 2019 as follows:

| | | For the three months ended 31 March | |
|--|-------|--|-----------|
| | | 2020 | 2019 |
| | Notes | RMB'000 | RMB'000 |
| Turnover | 3 | 129,952 | 140,961 |
| Cost of sales | | (18,572) | (22,564) |
| Gross profit | | 111,380 | 118,397 |
| Other revenue | | 17,182 | 7,394 |
| Distribution and selling costs | | (101,386) | (95,037) |
| Administrative expenses | | (10,212) | (12,695) |
| Profit from operations | | 16,964 | 18,059 |
| Finance costs | | (653) | (33) |
| Profit before taxation | | 16,311 | 18,026 |
| Taxation | 5 | (2,441) | (2,765) |
| Profit attributable to equity holders of the Company | | 13,870 | 15,261 |
| Earnings per share – Basic | 6 | 2.47 cents | 2.7 cents |
| Dividends | 7 | 19,609 | 39,217 |

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 GEM of the Stock Exchange of Hong Kong Limited on 24 May 2001.

The Group is principally engaged in the manufacture and distribution of chinese medicines and pharmaceutical products in the PRC under the brand names of Changlong and Qing Tong. There were no changes in the nature of the Group's principal activities during the period ended 31 March 2020.

2. BASIS OF PREPARATION

The unaudited consolidated results of the Group have been prepared under the historical cost convention as modified for the revaluation of financial instruments which have been measured at fair value, and in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2020 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

The condensed consolidated results for the three months ended 31 March 2020 are unaudited and have been reviewed by the audit committee of the Company.

3. TURNOVER

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 chinese medicines and pharmaceutical products in the PRC. During the period ended 31 March 2020, 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 presented.

5. TAXATION

| Unaudited For the three months ended 31 March | |
|---|---------|
| 2020 | 2019 |
| RMB'000 | RMB'000 |

The charge comprises

| | | |
|----------------|--------------|--------------|
| PRC income tax | <u>2,441</u> | <u>2,765</u> |
|----------------|--------------|--------------|

The PRC income tax is computed according to the relevant laws and regulations in the PRC. On 14 September, 2018, the Company was accredited as a "National New and High-tech Enterprise" by the Jilin Provincial Science and Technology Bureau (吉林省科學技術廳) and is entitled to a reduced PRC Enterprise Income tax rate of 15% for the three months ended 31 March 2020 (2019: 15%).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2020 is based on the unaudited profit attributable to equity holders of the Company of approximately RMB13,870,000 (2019: RMB15,261,000) and the weighted average of 560,250,000 shares (2019: 560,250,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the periods ended 31 March 2020 and 2019.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2020 (2019: Nil).

On 14 May 2020, a special dividend of RMB3.5 cents per share (including tax) (2019: RMB7 cents), totaling approximately RMB19,608,750 (2019: RMB39,217,500) in respect of previous financial year was proposed. The proposed dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 30 June 2020.

8. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2020 and 31 March 2019.

| | Retained Profits <i>RMB'000</i> |
|---|---|
| As at 1 January 2019 (Audited) | 1,133,025 |
| Net profit for the three months ended 31 March 2019 (Unaudited) | <u>15,261</u> |
| As at 31 March 2019 (Unaudited) | <u><u>1,148,286</u></u> |
| As at 1 January 2020 (Unaudited) | 1,183,259 |
| Net profit for the three months ended 31 March 2020 (Unaudited) | <u>13,870</u> |
| As at 31 March 2020 (Unaudited) | <u><u>1,197,129</u></u> |

DIVIDENDS

Entitlement to Special Dividend

The Board has recommended the payment of a special dividend of RMB3.5 cents per share (including tax) in respect of previous financial year. Subject to the approval of shareholders at the forthcoming EGM, the dividend cum-date and ex-date will be 8 July 2020 and 9 July 2020 respectively. The registers of members of the Company for entitlement of dividend will be closed from 11 July 2020 to 16 July 2020 (both days inclusive). All properly completed H shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 10 July 2020, for registration.

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the three months ended 31 March 2020, the Group reported a turnover of approximately RMB129,952,000, representing a decrease of approximately RMB11,009,000 as compared with the same period last year. Profit attributable to equity holders of the Company for the three months ended 31 March 2020 was RMB13,870,000, representing a decrease of 9% from RMB15,261,000 for the corresponding period in 2019. Basic earning per share was RMB2.47 cents.

The gross profit margin for the three months ended 31 March 2020 was approximately 85.7%, representing a 1.7% increase as compared to that of 84% for the period ended 31 March 2019. The Board believes that there were no significant fluctuation for the production and material cost.

The distribution and selling costs as a percentage of turnover was 78% in 2020. This represented a 10.6% increase from 67.4% when compared to the same period last year. Administrative expenses decrease from RMB12,695,000 for the three months ended 31 March 2019 to RMB10,212,000 for the same period in 2020. This increase in distribution and selling costs and decrease in administrative expenses did not exceed the Group's monthly budget and were in line with the Group's expectation during the strategic planning for 2020.

Production Facilities

During the year, the Company put in more efforts in hardware transformation by upgrading and transforming small-volume injection workshop, lyophilized powder injection workshop, membrane workshop and injection raw material workshop and acquiring new equipment, which resulted in improved production capacity and satisfied the demand of the market.

During the year, a solid medicine workshop has been newly-built and some testings had been carried out. The workshop is used for research and development and consistency evaluation of generic drugs such as irbesartan tablets, febuxostat tablets and metformin compound preparations. The Company's product mix has continued to expand, its research and development capabilities and market competitiveness have also improved. Pharmaceutical research for irbesartan tablets was completed recently.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. As at 31 March 2020, the Group had cash and bank balances amounted to RMB131,450,000 (2019: RMB150,467,000). As at 31 March 2020, the Group had unaudited consolidated net asset value of approximately RMB1,197,129,000 (2019: RMB1,148,286,000).

For the three months ended 31 March 2020 and 2019, the Group generated revenue and incurred costs mainly in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

GEARING RATIO

The Group's gearing ratio as at 31 March 2020 was 0.2% (as at 31 March 2019: 0.2%), which was calculated by dividing the amount of bank borrowings of the Group as at 31 March 2020 by total assets as at 31 March 2020 and then multiplied by 100%.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2020, 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 |
|------------------|-------------------|------------------|---------------------------|-------------------------------|--|
| Zhang Hong | Personal | Beneficial owner | 101,937,000 | 26.29 | 18.19 |
| Zhang Xiao Guang | Personal | Beneficial owner | 42,315,000 | 10.91 | 7.55 |
| Wu Guo Wen | Personal | Beneficial owner | 900,000 | 0.232 | 0.161 |

Save as disclosed above, as at 31 March 2020, 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' and Supervisors' 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, supervisor 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 31 March 2020, 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 31 March 2020, 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 or the management shareholders, significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any business, which competes or may compete with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period ended 31 March 2020, 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.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with Corporate Governance Code as set out in the Appendix 15 of the GEM Listing Rules throughout the period ended 31 March 2020 subject to the deviations disclosed hereof.

BOARD OF DIRECTORS

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 non-executive 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 31 March 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the three months ended 31 March 2020, 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 May 2020

As at the date hereof, the executive directors of the Company are Zhang Hong, Zhang Xiao Guang, Zhao Bao Gang, Wu Guo Wen, Zhang Yi and Xu Xiang Fu; the independent non-executive directors of the Company are Gao Yong Cai, Gao Qi Pin and Tian Jie.

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