



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 2020

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 2020 together with the comparative figures for the corresponding periods in 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2020 and 30 June 2019

| | Notes | Six months ended 30 June | | Three months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2020 (Unaudited) RMB'000 | 2019 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2019 (Unaudited) RMB'000 |
| Turnover | 4 | 285,644 | 299,404 | 155,692 | 158,443 |
| Cost of sales | | (42,370) | (50,478) | (23,798) | (27,914) |
| Gross profit | | 243,274 | 248,926 | 131,894 | 130,529 |
| Other revenue | 4 | 22,091 | 21,007 | 4,909 | 13,613 |
| Distribution and selling costs | | (126,178) | (182,650) | (24,792) | (87,613) |
| Administrative expenses | | (77,343) | (24,298) | (67,131) | (11,603) |
| Profit from operations | 6 | 61,844 | 62,985 | 44,880 | 44,926 |
| Finance costs | | (677) | (63) | (24) | (30) |
| Profit before taxation | | 61,167 | 62,922 | 44,856 | 44,896 |
| Taxation | 7 | (9,481) | (9,449) | (7,040) | (6,684) |
| Profit attributable to equity holders of the Company | | 51,686 | 53,473 | 37,816 | 38,212 |
| Earnings per share | | | | | |
| – Basic | 8 | 9.23 cents | 9.54 cents | 6.75 cents | 6.82 cents |
| Dividends | 9 | – | – | – | – |

Note: Calculation of the earnings per share in 2019 and 2020 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020 and 31 December 2019

| | Notes | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|---|-------|---|---|
| Assets and liabilities | | | |
| Non-current assets | | | |
| Bearer biological assets | 10 | 13,402 | 13,402 |
| Property, plant and equipment | 11 | 147,617 | 145,242 |
| Prepaid land lease payments | 12a | – | – |
| Right-of-use assets | 12b | 38,340 | 38,340 |
| Construction in progress | 13 | 76,423 | 74,061 |
| Intangible assets | 14 | – | – |
| Deferred tax assets | | 1,510 | 1,510 |
| Total non-current assets | | 277,292 | 272,555 |
| Current assets | | | |
| Inventories | 15 | 46,926 | 50,145 |
| Trade receivables | 16 | 247,670 | 260,154 |
| Contract assets | | 34,934 | 34,934 |
| Other receivables, deposits and prepayments | | 159,993 | 232,817 |
| Prepaid land lease payments | 12a | – | – |
| Financial assets at fair value through profit or loss | | 223,483 | 683,483 |
| Cash and cash equivalents | | 706,851 | 137,389 |
| Total current assets | | 1,419,857 | 1,398,922 |
| Current liabilities | | | |
| Trade payables | 17 | 38,702 | 34,553 |
| Contract liabilities | | 8,902 | 8,902 |
| Other payables and accruals | | 252,582 | 270,051 |
| Deferred income | | 307 | 989 |
| Income tax payable | | 16,999 | 29,255 |
| Other tax payables | | 24,538 | 22,516 |
| Loans from government authority | | 1,860 | 1,860 |
| Dividend payable | | 18,612 | 19,746 |
| Total current liabilities | | 362,502 | 387,872 |
| Net current assets | | 1,057,355 | 1,011,050 |
| Total assets less current liabilities | | 1,334,647 | 1,283,605 |

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--------------------------------|---|---|
| Note | | |
| Non-current liabilities | | |
| Loan from government authority | – | 490 |
| Deferred income | 43,832 | 44,582 |
| Deferred tax liabilities | 596 | – |
| | 44,428 | 45,072 |
| Net assets | 1,290,219 | 1,238,533 |
| Equity: | | |
| Share capital | 56,025 | 56,025 |
| Reserves | 1,234,194 | 1,182,508 |
| Total equity | 1,290,219 | 1,238,533 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2020 and 30 June 2019

| | Share capital | Share premium | PRC statutory funds Statutory surplus reserve | Retained profits | Total |
|--|--------------------------|--------------------------|--|-----------------------------|-------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January 2019 (Audited) | 56,025 | 51,098 | 33,242 | 992,660 | 1,133,025 |
| Net profit for the six months ended 30 June 2019 (Unaudited) | — | — | — | 53,472 | 53,472 |
| At 30 June 2019 (Unaudited) | <u>56,025</u> | <u>51,098</u> | <u>33,242</u> | <u>1,046,132</u> | <u>1,186,497</u> |
| Net profit for the six months ended 31 December 2019 (Unaudited) | — | — | — | 91,254 | 91,254 |
| Dividends paid | — | — | — | (39,218) | (39,218) |
| Balance as at 31 December 2019 (Audited) | <u>56,025</u> | <u>51,098</u> | <u>33,242</u> | <u>1,098,168</u> | <u>1,238,533</u> |
| Net profit for the six months ended 30 June 2020 (Unaudited) | — | — | — | 51,686 | 51,686 |
| At 30 June 2020 (Unaudited) | <u><u>56,025</u></u> | <u><u>51,098</u></u> | <u><u>33,242</u></u> | <u><u>1,149,854</u></u> | <u><u>1,290,219</u></u> |

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 2019 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2020 are unaudited and have been reviewed by the audit committee of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new and amended standards and interpretations are mandatory for the first time for financial year beginning 1 January 2020:

| | |
|---|--------------------------------|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

The adoption of these new and amended HKFRSs had no significant effects on the results and financial position of the Group for the current and prior periods.

4. 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 | |
|----------------------------|-----------------------------|---------|-------------------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Turnover | | | | |
| Sales of medicine | 285,644 | 299,404 | 155,692 | 158,443 |
| Other revenue | | | | |
| Other income | 22,091 | 21,007 | 4,909 | 13,613 |
| Total revenue for the year | 307,735 | 320,411 | 160,601 | 172,056 |

5. 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 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 prepared for the period.

6. PROFIT FROM OPERATIONS

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

| | Six months ended | | Three months ended | |
|----------------------------------|------------------|----------|--------------------|----------|
| | 30 June | | 30 June | |
| | 2020 | 2019 | 2020 | 2019 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Depreciation | 10,114 | 10,638 | 5,057 | 5,319 |
| Amortisation of intangible asset | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

7. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

| | Six months ended | | Three months ended | |
|----------------|------------------|---------|--------------------|---------|
| | 30 June | | 30 June | |
| | 2020 | 2019 | 2020 | 2019 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| PRC income tax | 9,481 | 9,449 | 7,040 | 6,684 |

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2019: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2020 (2019: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2020 is based on the unaudited profit attributable to shareholders of approximately RMB51,686,000 and RMB37,816,000 respectively (2019: RMB53,473,000 and RMB38,212,000) and on the weighted average of 560,250,000 and 560,250,000 (2019: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2020 respectively.

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

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

10. BEARER BIOLOGICAL ASSETS

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|---------|---|---|
| Ginseng | 13,402 | 13,402 |

11. PROPERTY, PLANT AND EQUIPMENT

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

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Net book value, beginning of period/year | 145,242 | 156,591 |
| Additions & Disposals & Transfer from construction in progress | 12,489 | 8,880 |
| Depreciation & Written back on disposals | (10,114) | (20,229) |
| Net book value, end of period/year | 147,617 | 145,242 |

12. LEASE

(a) Prepaid land lease payments

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Net book value, beginning of period/year | - | 15,522 |
| Impact on adoption of HKFRS 16 | - | (15,522) |
| | <u> </u> | <u> </u> |
| Net book value, end of period/year | <u> </u> | <u> </u> |

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the period/year are as follows:

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Net book value, beginning of period/year | 38,340 | - |
| Impact on adoption of HKFRS 16 | - | 15,522 |
| Additions | - | 23,910 |
| Depreciation charge | - | (1,092) |
| | <u> </u> | <u> </u> |
| Net book value, end of period/year | <u>38,340</u> | <u>38,340</u> |

13. CONSTRUCTION IN PROGRESS

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Net book value, beginning of period/year | 74,061 | 67,588 |
| Additions | 2,362 | 6,473 |
| | <u>76,423</u> | <u>74,061</u> |

14. INTANGIBLE ASSETS

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|---|---|---|
| Cost: | | |
| At 1 January | 68,135 | 68,135 |
| Additions & Disposal | — | — |
| | <u>68,135</u> | <u>68,135</u> |
| At 30 June 2020/31 December 2019 | | |
| | 68,135 | 68,135 |
| Accumulated amortization and impairment loss: | | |
| At 1 January | 68,135 | 68,135 |
| Impairment for the period/year | — | — |
| | <u>68,135</u> | <u>68,135</u> |
| At 30 June 2020/31 December 2019 | | |
| | 68,135 | 68,135 |
| Net book value: | | |
| At 30 June 2020/31 December 2019 | <u>—</u> | <u>—</u> |

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

15. INVENTORIES

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Inventories comprise: | | |
| At cost: | | |
| Raw materials | 18,855 | 20,119 |
| Work in progress | 23,791 | 25,386 |
| Finished goods | 5,374 | 5,734 |
| | <u>48,020</u> | <u>51,239</u> |
| Less: provision for obsolete and slow-moving inventories | <u>(1,094)</u> | <u>(1,094)</u> |
| | <u>46,926</u> | <u>50,145</u> |

As at 30 June 2020, inventories amounting to approximately RMB46,926,000 (2019: RMB50,145,000) were carried at net realizable value.

16. 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 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--------------------|---|---|
| Current | 63,778 | 66,993 |
| 31–90 days | 50,744 | 53,302 |
| 91–180 days | 28,673 | 30,118 |
| More than 180 days | 104,475 | 109,741 |
| | 247,670 | 260,154 |

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

17. TRADE PAYABLES

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

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|-------------------|---|---|
| Current | 1,738 | 1,552 |
| 31–90 days | 4,935 | 4,406 |
| More than 90 days | 32,029 | 28,595 |
| | 38,702 | 34,553 |

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

18. SHARE CAPITAL

| | Number of shares | 30 June 2020 (Unaudited) RMB'000 | Number of shares | 31 December 2019 (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 |
| | <u>560,250,000</u> | <u>56,025</u> | <u>560,250,000</u> | <u>56,025</u> |

19. CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments contracted for but not provided for in respect of the following:

| | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|--|---|---|
| Acquisition of intangible assets | 1,750 | 1,750 |
| Acquisition of property, plant and equipment | 171 | 171 |
| | <u>1,921</u> | <u>1,921</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2020, the Group recorded a turnover of approximately RMB285,644,000, representing a decrease of 4.6% from RMB299,404,000 for the corresponding period in 2019. Profit attributable to shareholders for the six months ended 30 June 2020 was RMB51,686,000, representing a decrease of RMB1,787,000 from RMB53,473,000 for the corresponding period in 2019.

The gross profit margin for the six months ended 30 June 2020 was approximately 85.3% representing a 2.2% increase as compared to that of 83.1% for the period ended 30 June 2019. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 44.2% in 2020. This represented a decrease from 61% when compared to the same period last year. General and administrative expenses increase from RMB24,298,000 for the six months ended 30 June 2019 to RMB77,343,000 for the same period in 2020.

BUSINESS REVIEW

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. For the six months ended 30 June 2020, the Group's primary source of funds was cash from the operating activities. As at 30 June 2020, the Group had cash and bank balances and consolidated net asset value of approximately RMB706,851,000 and RMB1,290,219,000 respectively.

For the six months ended 30 June 2020, 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 2020, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2020, the Group had short-term bank borrowings of RMB Nil (2019: 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 2020.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2020 are set out in note 19 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2020, there was no change in the Company's share capital. As at 30 June 2020, 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 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 |
|----------------------|-------------------|------------------|---------------------------|-------------------------------|--|
| 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. Xu Xiang Fu | Personal | Beneficial owner | 5,227,000 | 1.348 | 0.933 |
| Mr. Wu Guo Wen | Personal | Beneficial owner | 900,000 | 0.232 | 0.161 |

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

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 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had 856 employees and has employed some temporary sales persons (30 June 2019: 870 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 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 August 2020

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.