



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8197)



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.

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This report, for which the directors (the "Directors") of Northeast Tiger Pharmaceutical Co., Ltd (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading.*

HIGHLIGHTS (Unaudited)

- Turnover of the Company for the nine months ended 30 September, 2016 was approximately RMB18,681,000 (2015: approximately RMB1,000), representing an increase of approximately 1,868,000.00% as compared with the same period in the previous year.
- Profit/(Loss) attributable to shareholders of the Company ("Shareholders") for the nine months ended 30 September, 2016 was approximately RMB(5,915,000) (2015: approximately RMB1,480,000).
- Earnings/(Loss) per share ("Shares") of the Company for the nine months ended 30 September, 2016 was approximately RMB(0.79) cents (2015: approximately RMB0.2 cents).
- The Directors do not recommend the payment of any dividend for the nine months ended 30 September, 2016 (2015: nil).

RESULTS (UNAUDITED)

The board of Directors ("Board") hereby announces the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September, 2016 (the "Period under Review"), together with the comparative figures for the corresponding periods of the previous financial year, as follows:

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Turnover					
Cost of sales	b	18,681 (17,584)	1 -	18,681 (17,584)	- -
Gross profit		1,097	1	1,097	-
Other revenue	c	952	6,694	702	5,696
Distribution and selling expenses		(34)	-	(34)	-
General, administrative and other operating expenses		(7,604)	(4,337)	(3,209)	(1,368)
Operating profit/(Loss)	d	(5,589)	2,358	(1,444)	4,328
Finance income/(Costs)		39	(878)	50	(250)
Profit/(Loss) before taxation		(5,550)	1,480	(1,394)	4,078
Taxation	e	(166)	-	(166)	-
Profit/(Loss) after taxation		(5,716)	1,480	(1,228)	4,078
Other comprehensive income		-	-	-	-
Total comprehensive income/(Loss) attributable to:					
Owners of the Company		(5,915)	1,480	(1,427)	4,078
Non-controlling interests		199	-	199	-
		(5,716)	1,480	(1,228)	4,078
Dividends		N/A	N/A	N/A	N/A
Earnings/(Loss) per Share - basic	f	RMB (0.79) cents	RMB 0.2 cents	RMB (0.19) cents	RMB 0.55 cents

Notes:

a. Accounting policy and basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standard ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and certain fixed assets are stated at fair value.

In the current period, the Company adopted a number of new and revised HKFRSs issued by the HKICPA. The Directors considered the adoption of these HKFRSs had no material effect on the results of the current or prior accounting period. Accordingly, no prior period adjustment has been required.

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the nine months ended 30 September, 2016 are consistent with those used in the audited accounts issued for the year ended 31 December, 2015.

b. Turnover

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax and discounts). During the period under review, turnover amounted to approximately RMB18,681,000.

All of the Company's revenues are generated in the PRC.

For the nine months ended 30 September, 2016, there are 2 customers individually contributing to 10% or more to the Group's revenue. Total sales to these customers amounted to approximately RMB18,244,000. There are no other customers individually contributing to 10% or more to the Group's revenue.

For the nine months ended 30 September, 2015, there are 2 customers individually contributing to 10% or more to the Group's revenue. Total sales to these customers amounted to approximately RMB1,000.

The management considers these customers have strong financial background and good creditability, there are no significant credit risks.

c. Other revenue

	Nine months ended 30 September,		Three months ended 30 September,	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
- Rental income	952	1,500	702	500
- Others	-	5,194	-	5,196
	952	6,694	702	5,696

d. Operating profit

Operating profit is stated after charging the following items:

	Nine months ended 30 September,		Three months ended 30 September,	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
- Interest(income)/expenses	(39)	878	(50)	250
- Depreciation of fixed assets	1,256	1,292	414	77
- Amortization of land use right	183	183	59	60
- Amortization of intangible assets	557	324	186	108

e. Taxation

The Company was established in the Jilin High-Technology Development Zone, the PRC. It is subject to enterprise income tax at a rate of 25% and value added tax at a rate of 17%.

The Company provides for taxation on the basis of its income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

f. Earnings/(Loss) per Share

The calculation of basic earnings per Share for a relevant period is based on unaudited profit attributable to Shareholders for the period, divided by the respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the nine months ended 30 September, 2016 are 748,316,284 (2015: 746,654,240).

No diluted earnings per share were presented as there were no dilutive potential ordinary shares in existence during the relevant periods.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Attributable to non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Others RMB'000	Property revaluation reserve RMB'000	Statutory revenue reserve RMB'000	Retained earnings RMB'000		
As at 1 January 2015	74,665	19,027	11,326	-	9,685	(44,388)	-	70,315
Total comprehensive income/(Loss) for the period	-	-	-	-	-	1,480	-	1,480
As at 30 September 2015	74,665	19,027	11,326	-	9,685	(42,908)	-	71,795
As at 1 January 2016	74,665	19,027	11,326	3,744	9,685	(37,287)	-	81,160
New H shares issued	4,140	28,953	-	-	-	-	-	33,093
Capital contribution from non-controlling interests	-	-	-	-	-	-	8,000.00	8,000
Total comprehensive income/(Loss) for the period	-	-	-	-	-	(5,915)	199.00	(5,716)
As at 30 September 2016	78,805	47,980	11,326	3,744	9,685	(43,202)	8,199	116,537

DIVIDENDS

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

BUSINESS REVIEW AND PROSPECTS

Business review

During the Period under Review, the Group has made effort to open up new business.

On 13 April 2016, the Company entered into a strategic framework cooperation agreement with Anhui Pharmaceutical (Group) Co., Ltd.* (安徽省醫藥(集團)股份有限公司) ("Anhui Pharmaceutical") and Zhonghe Beidou Information Technology Co., Ltd.* (中和北斗信息技術股份有限公司) ("Zhonghe Beidou") (the "Strategic Cooperation Framework Agreement"). Anhui Pharmaceutical is a major commercial enterprise established in December 2002 under the approval of its provincial government. Its predecessor was a pharmaceutical company with 58 years of history. Anhui Pharmaceutical is one of the first GSP certified corporations in the People's Republic of China (the "PRC"), the vice president unit of Anhui Pharmaceutical Profession Association* (安徽省醫藥行業協會), and a provincial pharmaceutical reserve unit of Anhui Province. It possesses self-operated import and export right. Its wholly-owned subsidiary, Anhui Green Cross Pharmaceutical Chain Co., Ltd.* (安徽省綠十字醫藥連鎖有限公司) is one of the first GSP certified corporations in Anhui Province, and is one of the pharmaceutical chain retailers in Anhui Province with cross-regional operating licence. Zhonghe Beidou is a hi-tech joint stock enterprise specialising in the application of Beidou Navigation Satellite System (北斗衛星導航系統), and is one of the local agents of Beidou navigation services for civil use approved and authorised by China National Administration of GNSS and Applications* (中國衛星導航定位應用管理中心). Zhonghe Beidou has a team of advanced technology talents who are involved in the operation and management, technological development, and promotion and application of Beidou system with the PRC government. It has a cloud platform for the management and services of Beidou satellite for civil use, Beidou navigation positioning software, Beidou precise timing technology and various core technologies of the Beidou application platforms for military and civil use, which allow it to possess certain competitive edges within the industry in terms of providing smart education, smart medical services, wildfire services, safe school bus services, monitoring and control of water and air pollution, and surveillance of pipe networks by using Beidou satellite. Pursuant to the Strategic Cooperation Framework Agreement, the parties shall jointly establish a project company (the "Project Company") of "pharmaceutical and Beidou big data, development of health related big data and healthcare management service" in the PRC. The Project Company shall develop its business mainly towards the integration of pharmaceutical technology with big data, development of smart medical services and healthcare management services and the construction of health Beidou big data.

On 9 May 2016, the Company entered into an investment cooperation agreement (the "Investment Cooperation Agreement") with Beijing Shangzheng Technology Co., Ltd.* (北京上正科技有限公司) ("Beijing Shangzheng Technology") to establish a JV company (the "JV Company"). The registered capital of the JV Company shall be RMB20,000,000. Pursuant to the Investment Cooperation Agreement, the Company and Beijing Shangzheng Technology shall contribute RMB12,000,000 and RMB8,000,000 and shall hold the equity interests in the JV Company as to 60% and 40%, respectively. Beijing Shangzheng Technology was registered in 海澱高科技園區 (Haidian Hi-Tech Park*), Beijing. Beijing Shangzheng Technology is principally engaged in the marketing operation, hardware and software application of navigation systems, and production and trading of commodities. Beijing Shangzheng Technology has various business partners domestically and internationally, and has established extensive trading channels. The scope of business of the JV Company covers sales of medical equipment; import and export of commodities; import and export agency; technology promotion; provision of technical services; import and export of technologies; provision of satellite application technology, computer system integration services; development of computer hardware and software and ancillary equipment, mechanical equipment, instruments and chemical products; corporate planning; wholesales of chemical products (excluding category 1 precursor chemicals and hazardous chemicals) and electronic equipment. The actual scope of business of the JV Company

shall be subject to business registration. The Board considers that establishing the JV Company promotes further business expansion and diversification of the Company. The Board is of the view that the terms of the Investment Cooperation Agreement are entered into on normal commercial terms and are fair and reasonable, and the entering of the Investment Cooperation Agreement is in the interests of the Company and the shareholders of the Company as a whole. During September 2016, the JV Company has generated revenue of approximately RMB18,681,000.

During the Period under Review, the Group is confronted with lots of difficulties. The marketing environment is harsh due to weak global economy, unabated downward pressure on domestic economy, sluggish market demands, worsening international trade protectionism and escalating oversupply. With the deepening of the medical reform of the PRC, open tendering for drug procurement across the nation still favors low-price tenders, thus affecting the profitability of pharmaceutical preparations. Expenses on environmental protection and safety are increasing with growing pressure of rigid cost rise.

The Group has been engaged in breeding, processing and sales of underground ginseng and related traditional Chinese medicine herbs in the past few years. On 23 March 2016, mandatory unconditional cash offer was made by GF Securities (Hong Kong) Brokerage Limited (for and on behalf of Solar Halo Limited) and Beijing Baoying Chuangfu Investment Management Center (Limited Partnership)* (北京寶盈創富投資管理中心(有限合夥)) for all the issued H shares and domestic shares of the Company respectively. As stated in the composite document dated 23 March 2016 for mandatory unconditional cash offer, the Offerors will conduct a detailed review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group with the aim of growing and expanding its business and strengthening its financial position. Subject to the results of the review, the Offerors may explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

On 27 September 2010, Antao County Northeast Tiger Xinxing New Product Co., Ltd. * (安圖縣東北虎新興特產有限公司) ("Xinxing Co") (a wholly-owned subsidiary of the Company) entered into an agreement (as amended by a supplemental agreement dated 24 February 2011) (the "Agreement") with Jilin Fu Man Shan Zhen Co., Ltd. * (吉林福滿山珍有限公司) ("Fu Man Shan Zhen"), pursuant to which Fu Man Shan Zhen has agreed to transfer to Xinxing Co the Forest Concession Right of the Forest Land at the consideration of approximately RMB173,530,000 for a term of approximately 70 years until 31 December 2080 (the "Acquisition"). Pursuant to the Agreement, the first instalment of RMB100,000,000 shall be paid by Xinxing Co to Fu Man Shan Zhen by way of cash on or before 31 December 2010; the remaining RMB73,530,000 shall be paid in 10 equal instalments in cash in the coming ten years before 31 December each year, commencing from 2011. The Acquisition was approved in an extraordinary general meeting of the Company on 6 October 2011, and was subsequently completed.

As disclosed in the 2015 annual report of the Company, the acquisition of the Forest Concession Right of the Forest Land by the Group can be used to develop three major industries on the Forest Land, namely:-(A) breeding of traditional Chinese medicine herbs; (B) tourism industry; and (C) timber logging. The timber logging business has not been carried out by the Group and the Company has focused on breeding and processing of traditional Chinese medicine, especially breeding and processing of underground ginseng. In order to extend the business to the timber logging, logging permits are required. It has recently been discovered that the relevant logging permits could not be obtained. The relevant government authorities did not indicate the relevant logging permits could be obtained in the foreseeable future and no reason has been provided so far.

The key factor for the Group to pursue the Acquisition at that time was for the development of business of breeding of Chinese medicine herbs and the Group had no intention to expand to the business of the timber logging at that time. In this connection, the Group was not concerned whether logging permits has been obtained at the time of Acquisition and the valuation conducted at the time of Acquisition did not take into account any valuation on logging permits or any possible economic return to be derived from timber logging on the Forest Land.

The Company has already paid a sum of approximately RMB102,300,000 out of the total consideration of RMB173,530,000 pursuant to the Agreement, of which RMB2,300,000 has been returned by Fu Man Shan Zhen to Xinxing Co in December 2013. As a result of the said subsequent development, Fu Man Shan Zhen and Xinxing Co entered into a settlement agreement on 14 March 2014 (the "Settlement Agreement") whereby the parties thereto agreed and confirmed that:-(i) the Forest Concession Right (subject to the Breeding Rights) shall be returned to Fu Man Shan Zhen; and (ii) Xinxing Co shall no longer be liable to settle the unpaid portion of the consideration pursuant to the Agreement. According to the Settlement Agreement, for a sum of approximately RMB102,300,000 paid by Xinxing Co: - (a) RMB10,000,000 be paid by Fu Man Shan Zhen in cash within 15 days after the signing of the Settlement Agreement and (b) remaining sum of RMB90,000,000 be paid by 18 equal installments in cash in the coming 18 years before 31 December each year, commencing from 2014. In order to secure the repayment of the amount owed by Fu Man Shan Zhen, Fu Man Shan Zhen also agreed that Xinxing Co shall continue to have the Breeding Rights until full payment, in addition to the right to further claim against Fu Man Shan Zhen for its default in repaying any part of the amount owed, if any. For the avoidance of doubt, Fu Man Shan Zhen and Xinxing Co agreed that the ownership of any biological assets in the Forest Land shall belong to Xinxing Co. In the event of early repayment of the amount owed by Fu Man Shan Zhen with prior consent of Xinxing Co, the Settlement Agreement will be terminated. The Breeding Rights shall lapse upon termination of the Settlement Agreement. The ownership of the biological assets on the Forest Land (if not harvested beforehand) will belong to Fu Man Shan Zhen instead after the termination. However, Xinxing Co has the right to harvest all

biological assets on the Forest Land prior to the time of lapse of Breeding Rights. Further, Xinxing Co has the priority to continue to use the Forest Land on same rate as those offered by other parties, should it wish to continue to use the Forest Land. The Settlement Agreement was approved on 29 May 2014 by shareholders of the Company at a general meeting in accordance with the GEM Listing Rules.

Breeding and processing of Traditional Chinese Medicine

Chinese medicine herbs including underground ginseng (林下參), asarum (細辛), acanthopanax (刺五加), fritillaria ussuriensis maxim (平貝母), fragrant solomonseal rhizome (玉竹), and forest frog (林蛙) can be planted or bred on the Forest Land taking into account the weather and soil conditions of the Forest Land. Wild schisandra chinensis (野生五味子) can also be artificially cultivated and managed on the Forest Land.

(i) Underground Ginseng (林下參)

Ginseng is regarded as "King of Herbs" (百草之王) and is a precious Chinese medicine herbs. There are more than 4,000 years of history of using ginseng. Underground ginseng refers to a method where seeding of ginseng seeds is through manual methods on the mountainous area. Ginseng seeds are grown for 10 to 20 years or above without any human interruption. Underground ginseng can also be called transplanted ginseng. The nutrition effect of underground ginseng can be as good as wild ginseng. In the PRC, breeding of underground ginseng was developed in 1990. At first, transplantation of family ginseng (家參) was developed. In view of the increasing demand for ginseng, seeding of ginseng seeds through manual methods and allowing ginseng to grow naturally became the trend. In 2004, PRC Government announced 14 cities or counties in Changbai Mountain areas as place of origin of ginseng and "Changbai Mountain Ginseng" became place of origin for protected products nationally. To better control the quality of "Changbai Mountain Ginseng", 《關於振興人參產業的意見》(Opinion Regarding Reinforcing Ginseng Industry) was introduced in 2012. In the above opinion, the brand "the Changbai Mountain Ginseng" has to be reinforced in full gear and through various policies, industry production chain will be reinforced. As such, GAP underground ginseng will be further developed in the near future.

(ii) Asarum (細辛)

Asarum belongs to Aristolochiaceae (馬兜鈴科) and asarum, the perennial herb for medicinal plant which is suitable for undergrowth. Wild species are the *A. heterotropoides Fr* (遼細辛) which spreads over the north-eastern part of the PRC and *A. sieboldii Miq* (華細辛) spreads over the Shanxi Province of the PRC. Normally, the quality of *A. heterotropoides Fr* is better than *A. sieboldii Miq*, therefore, the breeding is mainly on *A. heterotropoides Fr*. Asarum is not only for the domestic demand, but there is also a great demand of asarum from other countries and asarum has been a quick selling product in the traditional Chinese medicine herbs market. Upon conducting a site visit of the Forest Land, the Forest Land suitable for undergrowth of asarum is up to 400 hectares (the available area is 160 hectares), with the production cycle of 4 years. At present, the price of dry asarum product is approximately RMB26-40 per kg. The artificial breeding production can be harvested in 3-4 years, and this kind of breeding can produce fresh asarum of approximately 2.5kg per square meter on the Forest Land.

(iii) Acanthopanax senticosus (刺五加)

Acanthopanax senticosus is acanthopanax and deciduous shrub with perennial rootstock. It is mainly distributed in three provinces of north-eastern part of the PRC (Heilongjiang, Jilin and Liaoning), also in Hebei Province and Shanxi Province. Cortex of Acanthopanax Senticosus (cortex acanthopanaxis) is a common valuable Chinese material for producing Chinese medicine. Acanthopanax Senticosus is suitable to be planted in a sparse forestland and the harvesting cycle is normally about 4-6 years. Before the freeze-up starting from late October each year, 133 acanthopanax senticosus per mu can be planted in the Forest Land and can be harvested once every 5 years. According to on-site investigation of the Forest Land, approximately 350 hectares (the available area is 140 hectares) is suitable for breeding of acanthopanax senticosus. The production value of acanthopanax senticosus is approximately RMB1,064 per mu.

(iv) Fritillaria Ussuriensis Maxim (平貝母)

Fritillaria Ussuriensis Maxim is a perennial plant of liliaceae and its subterranean stem can be for medicinal use. Fritillaria Ussuriensis Maxim has 60 days of growth period, can be interplanted or planted in forest land. Artificially cultivated Fritillaria Ussuriensis Maxim can be harvested once in two years. It is estimated that planted use level is 0.35-0.75kg/m², with the output of unit area of 1-2.5kg/m². According to on-site investigation of the Forest Land, approximately 100 hectares is suitable for planting Fritillaria Ussuriensis Maxim and it is estimated that the production cycle is about 2 years. It is estimated that approximately RMB7,000 production value can be generated on each mu of the Forest Land.

(v) Fragrant Solomonseal Rhizome (玉竹)

Fragrant Solomonseal Rhizome is a perennial plant of liliaceae and its subterranean stem can be for medical use. It is suitable to survive in a cool, damp, shade environment and is wild in darkness place in valley, river, underwood, brushwood and by a mountain road side. It is suitable to grow in subacid yellow sand soil and can be planted in uncultivated or idle hillside. Fragrant Solomonseal Rhizome can be harvested after 2- 3 years' planting. According to onsite investigation of the Forest Land, there is an area of 100 hectares suitable for planting fragrant solomonseal rhizome in the Forest Land and the production cycle is approximately 3 years. The current market price of fragrant Solomonseal Rhizome is approximately RMB24.30 per kg.

(vi) *Management and Conservation of Wild Schisandra Chinensis (野生五味子)*

Schisandra (北五味子) is a common valuable Chinese medicinal material. Schisandra chinensis is nourishing and is the first choice for producing health care products and drugs that are beneficial to brain, can soothe the nerves and regulate the nervous system. Schisandra can also serve as a processing raw material for fruit wines and fruit drinks. Schisandra is a multi-functional, multi-use wild plant with high development and utilization value, a broad application prospect and beneficial in resource conservation. According to on-site investigation, 125 tones (50 kg per hectare) of fresh fruit of schizandra can be produced annually, meaning 25 tones of dry schizandra can be produced. The current market price of dry Schisandra is approximately RMB40-50 per kg. Planting (cultivating) the materials in the Forest Land can enhance taste of product, prolong or shorten harvest time according to market quotations because of less input of manpower and material resources, avoid market risk and effectively use forest lands while protecting species resources.

(vii) *Forest frog's oviduct (林蛙油) of Changbai Mountain*

"The Chinese Pharmacology" records: forest frog's oviduct "can nourish lung, promotes saliva or body fluids, is the intensifier and nutritious high quality goods for the feeble human body". The forest frog for producing forest frog's oviduct (林蛙油) is mainly produced in the northeast's Changbai Mountain area of the PRC and is the unique frog variety in the north-eastern area. The current market price of forest frog's oviduct is approximately RMB5,200 per kg.

Xinxing Co is located in Antao County which is located in the southwestern part of 延邊朝鮮自治區 (Yanbian Chaosian Autonomous Prefecture*), Jilin Province, the PRC. Antao County has an area of 7,438 km². Yanbian Prefecture and Antao County are mainly mountainous areas located in Jilin Province, the PRC. To strive for developing local economy, the local governments of these two areas always encourage all kinds of enterprises to develop forest land resources. At present, the planting of organic food and organic Chinese medicine herbs and forest activities have become the hotspots of local economic growth in Yanbian Prefecture and Antao County. After many years of efforts in attracting outside capital investment, the local government of these two areas have gathered experiences in developing mountainous areas and forest land with private enterprises.

Jilin Province is geographically located in the middle latitude area of Northern continent. Its eastern part is near to Yellow Sea (黃海) and Japan Sea (日本海) and is relatively humid. Its western part is far away from the sea and is nearly to Mongolia Highland (蒙古高原) and is relatively dry. As a result of its unique geographical location, the four seasons in Jilin Province is particularly distinctive. The average yearly temperature in Jilin Province is 2-6 degree celsius. Sun light over a year is in average about 2,200-3,000 hours, yearly rainfall is about 400-900 mm. As the eastern part of Jilin Province is near to the sea, there are approximately 130 non-frozen days annually and approximately 150 non-frozen days annually in the western part of Jilin Province.

According to the Research on Local Chinese Medicines Herbs (道地藥材的成因研究) and Research on Relationship between Local Chinese Medicines Herbs and Environment (道地藥材與環境相關性研究), normally the breeding of Chinese medicine herbs is affected by factors like sunlight, temperature and rainfall. The traditional Chinese herbs materials including underground ginseng, Asarum (細辛), Acanthopanax senticosus (刺五加), Fritillaria Ussuriensis Maxim (平貝母), Fragrant Solomonseal Rhizome (玉竹), Wild Schisandra Chinensis (野生五味子) etc. bred on the Forest Land is recognized as local Chinese medicine herbs suitable for breeding in Jilin Province by the State and the weather condition is suitable for breeding of underground ginseng.

During the Period under Review, compared with the corresponding period in 2015, due to the quick development of the business of the JV Company established by the Company with Beijing Shangzheng Technology, turnover amounted to approximately RMB 18,681,000 (2015: approximately RMB1,000), representing an increase of approximately 1,868,000.00%. Other income amounted to approximately RMB952,000 (2015: approximately RMB6,694,000), representing a decrease of approximately 85.78%, mainly due to decrease of rental income from renting out of redundant plant and no written-off account payable recovered. Distribution and selling expenses amounted to approximately RMB34,000 (2015: nil), due to the increase of selling activities. General, administrative and other operating expenses increased by approximately 75.33% to approximately RMB7,604,000 due to increase of new staff cost for developing new business. Finance income/(costs) amounted to approximately RMB39,000 (2015: approximately RMB(878,000)) due to interest income generated from increased bank deposit. Total comprehensive income/(loss) attributable to owners of the Company amounted to approximately RMB(5,915,000) (2015: approximately RMB1,480,000).

Prospects

Looking forward, structural changes in the industry will continue, driven by the structural adjustment in the domestic economy and structural reform in the supply side. The PRC will also raise its requirements in environmental protection. Deepening reform in public hospitals and the introduction of hierarchical medical systems have also added challenges to the marketing efforts of pharmaceutical companies. More products will face the possibility of price reduction along with the implementation of a new round of tendering in many provinces. The PRC has also raised the standards in new medicine approvals in order to improve product quality. This move will also gradually eliminate companies lacking core competitiveness and lead to a more healthy development in the industry. The PRC government's supportive policies to integrate pharmaceuticals and treatment with internet technology have also created new development opportunities for the industry.

The performance engaged by the Group before has fallen short of expectation and has not been able to bring about material breakthrough to the Group's business development. The Group's incomes and profits from breeding, processing and sales of underground ginseng and related traditional Chinese medicine herbs from business have been declining precipitously due to such unfavourable factors as rises in raw material prices and energy costs and decrease in market demand. For maximization of all shareholders' interest, the Group is planning to shift the business direction and keeps looking for opportunity to increase its profitability and diversify its business and seek for strategic cooperation. With the experience and connections of the Group's management, we are fully confident of the long-term development of the Group and so our business transformation shall be a wise decision.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2016, the Group had total assets of approximately RMB157,295,000 which were financed by long-term liabilities of approximately RMB 22,520,000, current liabilities of approximately RMB18,238,000 and shareholders' equity of approximately RMB116,537,000.

The Group generally services its debts primarily through cash generated from its operations. The financial position of the Group remains healthy. As at 30 September, 2016, the Group had cash and bank balances of approximately RMB 25,828,000.

On 20 September 2016, an aggregate of 41,400,000 H-shares of the Company had been successfully allotted and issued by the Company at the placing price of HK\$0.97 per H-share to no less than six placees, who and whose ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons. None of the placees has become a substantial shareholder of the Company immediately after the completion of the placing.

On 13 July 2016 (after trading hours), the Company entered into the conditional subscription agreements with three subscribers respectively pursuant to which the Company has conditionally agreed to allot and issue an aggregate of 70,000,000 domestic shares of the Company to the subscribers at a price of RMB0.89 per domestic share, and it is expected to complete the placing soon.

Taking into consideration of its current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September, 2016, none of the Directors, supervisors and the chief executive of the Company had interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, supervisors and chief executive of the Company to be notified to the Company and the Stock Exchange.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30 September 2016, the Company was not a party to any arrangements to enable the Directors, supervisors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, supervisors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or supervisor of the Company, as at 30 September, 2016, the persons or companies (not being a Director, supervisor or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

- Long positions in Shares

Name	Number of domestic shares held/interested	Approximate percentage of shareholding (%)
Beijing Baoying Chuangfu Investment Management Center (Limited Partnership)	398,534,660	50.57%
Guo Feng	137,611,830	17.46%

Save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or the underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be registered in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

During the Period under Review, none of the Directors and supervisors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has an interest in any business which competes or may compete with the business of the Company.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems as well as risk management of the Company. The audit committee comprises Mr. Zhao Zhen Xing (Chairman), Mr. Chen Youfang and Ms. Hui Lai Yam, all of whom are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's third quarterly unaudited results for the nine months ended 30 September, 2016 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CORPORATE GOVERNANCE

Throughout the Period under Review, the Group has been fully compliant with all code provisions of the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

The Company has adopted a model code of practice with standards not lower than those required under the GEM Listing Rules for securities transactions by directors, supervisors and chief executive. The Company has made due enquiries with the Directors, supervisors and chief executive of the Company in accordance with the code of practice, all Directors, supervisors and chief executive of the Company had confirmed that they have complied with the standard of dealings and model code of practice during the Period under Review in relation to securities transaction by Directors, supervisors and chief executive.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed above, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities during the Period under Review.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support to the Company.

By Order of the Board

Wang Shaoyan
Chairman

Beijing, the PRC
30 October, 2016

As at the date of this report, the Company's executive directors are Wang Shaoyan, Cui Bingyan and Qin Haibo; the Company's non-executive directors are Guo Aiqun and Cao Yang and the Company's independent non-executive directors are Zhao Zhen Xing, Chen Youfang and Hui Lai Yam.

* For identification purposes only