

北斗嘉藥業股份有限公司

BAYTACARE PHARMACEUTICAL CO., LTD.*

(formerly known as 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)

2017 First Quarterly Results Announcement For the three months ended 31 March, 2017

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This announcement, for which the directors (the “Directors”) of Baytacare 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 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 announcement 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 announcement misleading.*

HIGHLIGHTS

(Unaudited)

- Turnover of the Group for the three months ended 31 March, 2017 was approximately RMB6,177,000 (2016: nil).
- Profit/(loss) attributable to owners of the Company (the “Shareholders”) for the three months ended 31 March, 2017 was approximately RMB(6,578,000) (2016: approximately RMB(943,000)).
- Earnings/(loss) per share (the “Shares”) of the Company for the three months ended 31 March, 2017 was approximately RMB(0.80) cents (2016: approximately RMB(0.10) cents) .
- The Directors do not recommend the payment of any dividend for the three months ended 31 March, 2017 (2016: nil) .

RESULTS (UNAUDITED)

The board of Directors (“Board”) hereby announces the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March, 2017 (the “Period under Review”), together with the comparative figures for the corresponding period of the previous financial year, as follows:

	Notes	Three months ended 31 March,	
		2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Turnover	b	6,177	-
Cost of sales		(5,558)	-
Gross profit		619	-
Other revenue	c	-	500
Distribution and selling expenses		(812)	-
General, administrative and other operating expenses		(6,514)	(1,437)
Operating profit/(loss)	d	(6,707)	(937)
Finance costs		(101)	(6)
Profit/(loss) before taxation		(6,808)	(943)
Taxation	e	-	-
Profit/(loss) after taxation		(6,808)	(943)
Other comprehensive income		-	-
Total comprehensive income/(loss) attributable to shareholders		(6,808)	(943)

Owners of the Company		(6,578)	(943)
Non-controlling interests		<u>(230)</u>	<u>-</u>
		<u>(6,808)</u>	<u>(943)</u>
		RMB	RMB
Earnings/(loss) per Share-basic	f	<u>(0.80) cents</u>	<u>(0.10) cents</u>

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 three months ended 31 March, 2017 are consistent with those used in the audited accounts issued for the year ended 31 December, 2016.

b. Turnover

Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

c. Other revenue

	Three months ended 31 March,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	-	-
Bad debts recovered	-	-

Rental income	-	500
	-	500

Subsidy income is recognized upon granting of subsidy by the relevant authorities.

d. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following items:

	Three months ended 31 March	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
-Interest expenses	101	6
-Depreciation of Fixed Assets	411	423
-Amortization of Intangible Assets	2	-
-Amortization of Land Use Right	61	61

e. Taxation

The Company was established in The People's Republic of China (the "PRC"). It is subject to enterprise income tax ("EIT") 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 realization 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/(loss) attributable to owners of the Company which is the same as unaudited total comprehensive income/(loss) attributable to owners of the Company during the period under review, 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 three months ended 31 March, 2017 is 858,054,240 (2016: 746,654,240).

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

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital Reserve		Properties revaluation reserve	Statutory revenue reserve	(Accumulated losses)/Retained earnings	Non-controlling interest	Total reserves
	Share premium	Others					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	19,027	11,326	3,744	9,685	(37,287)	-	6,495
Total comprehensive income/(loss) for the period	0	0	0	0	(943)	-	(943)
As at 31 March 2016	19,027	11,326	3,744	9,685	(38,230)	-	5,552
As at 1 January 2017	102,618	11,326	7,934	9,685	(37,032)	7,874	102,405
Total comprehensive income/(loss) for the period	-	-	-	-	(6,578)	(230)	(6,808)
As at 31 March 2017	102,618	11,326	7,934	9,685	(43,610)	7,644	95,597

DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March, 2017 (2016: nil).

BUSINESS REVIEW AND PROSPECTS

Business review

Since 2016, the global economy has been struggling to attain steady growth. Nevertheless, the PRC government continued to push ahead reform on the supply side, including the launch of a series of measures to stabilize growth which have gradually added more positive factors in the economic structure and led to the growth of gross domestic product of 6.7% in 2016, slightly exceeding market expectations.

The Group's business is classified into four main segments: (i) pharmaceutical and Beidou big data, development of health-related big data and healthcare management service; (ii) planting, cultivation and

sale of Chinese herbs; (iii) trading business and (iv) development, manufacture and sale of medicines.

The Group has been continuously assessing the current business strategy, with the aim to streamline its business, enhance overall performance, prospects and attractiveness to market investors. The Directors consider that pharmaceutical and Beidou big data, development of health-related big data and healthcare management service have great market potential and good earnings prospect. Taking into account the above factors and the limited growth potential of the medicine business, the Group will contemplate to gradually dispose of the business of development, manufacture and sale of medicines, while strengthening the segment of trading business and planting, cultivation and sale of Chinese herbs and increasing the development effort on pharmaceutical and Beidou big data, development of health-related big data and healthcare management service in the future.

(i) Pharmaceutical and Beidou big data, development of health-related big data and healthcare management service

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 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”) to engage in “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 28 November, 2016, due to commercial reasons, the Company, Anhui Pharmaceutical and Zhonghe Beidou entered into a supplemental agreement, pursuant to which it was agreed that the form of cooperation under the Strategic Cooperation Framework Agreement shall be changed such that (1) the Company and Zhonghe Beidou shall form the Project Company; and (2) Anhui Pharmaceutical will enter into cooperation agreement(s) with the Project Company separately for the specific projects in the future.

The registration procedures with the relevant industry and commerce bureau in the PRC have been completed and the Project Company was established on 8 December, 2016. On 21 April, 2017, the Company (as purchaser) and Zhonghe Beidou (as vendor) entered into an equity transfer agreement, pursuant to which Zhonghe Beidou agreed to transfer and the Company agreed to acquire the 10% equity interest in the Project Company held by Zhonghe Beidou. Upon the completion of the aforesaid equity transfer, the Project Company will become a wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company dated 21 April, 2017.

On 28 November, 2016, the Company entered into the assets transfer agreement as purchaser with Beijing Heng Yuan Ji Ye Investment Management Co., Ltd.* (北京恒源基業投資管理有限公司) as vendor to acquire the property located in Chaoyang District, Beijing, the PRC with a construction area of 592.13 square metres (the “Property”) at the aggregate consideration of RMB66,600,000 (the “Property Acquisition”). The Property will be used as the Group’s Beijing headquarter office to cope with the operation needs of the Group and pave for the future growth and development of the Group. The Directors consider that the Property Acquisition may lower the office rental cost of the Group in the long term. In addition, the Directors consider that the Property Acquisition may (i) facilitate centralization of its management and operation, improve flexibility of its future development and enhance overall competitiveness by improving staff efficiency, cohesion and communication; (ii) cope with and promote its business expansion plans, staff recruitment and long-term future growth; and (iii) broaden fixed asset base with capital appreciation potential.

On 10 March, 2017, the Company established a wholly-owned subsidiary, namely Beijing Baytacare Management Consulting Co., Ltd. * (“Beijing Baytacare Management Consulting”), with a registered capital of RMB10,000,000. Beijing Baytacare Management Consulting was registered in Chaoyang District, Beijing. The business scope of Beijing Baytacare Management Consulting as shown in its business licence includes enterprise management consulting; economic and trade consulting; corporate planning; financial advisory (excluding auditing, capital verification, checking of account, assessment, accounting consulting, agency accounting and other business requiring special approval, and issuing a corresponding audit report, a verification report, an account-checking report, an assessment report and other text materials); market research; trademark agency; copyright trade; product design; technology promotion services; organization of cultural and artistic exchange

activities (excluding performances); undertaking exhibitions and display activities; design, production, acting as agent, placing of advertisements; technology development, providing technical advice, technology promotion, technical services; data processing (except the bank card center processing in data, cloud computing data center with the PUE value of more than 1.5); sales of electronic products, medical equipment in class I, medical equipment, machinery and equipment.

(ii) Planting, cultivation and sale of Chinese herbs

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) 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 agreed to transfer to Xinxing Co the forest concession right of the forest land situated at Jilin Province, the PRC (the “Forest Land”) at the consideration of approximately RMB173,530,000 for a term of approximately 70 years until 31 December, 2080 (the “Agreement”). 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 2016 annual report of the Company, the forest concession right of the Forest Land can be used to develop three major industries, 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 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 timber logging at that time. In this connection, the Group was not concerned whether the 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 the 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 Xinxing Co’s right to use the Forest Land for agricultural and animal breeding purposes at nil consideration for 18 years commencing from the date of the settlement and the economic benefits arising from such activities during the period (the “Breeding Rights”) shall be returned to Fu Man Shan Zhen; (ii) Xinxing Co shall no longer be liable to settle the unpaid portion of the consideration pursuant to the Agreement; (iii) Fu Man Shan Zhen shall refund an aggregate of RMB100,000,000 in cash (i.e. RMB10,000,000 to be paid in cash within 15 days after signing of the Settlement Agreement and the remaining RMB90,000,000 be paid by 18 equal installments in cash in the next 18 years before 31 December each year, commencing from 2014) (the “Refund”); and (iv) Xinxing Co has the priority to continue to use the Forest Land on the same rate as those offered by other parties, should it wish to continue to use the Forest Land upon expiry of the 18-years period when Fu Man Shan Zhen fully settled the Refund and upon negotiation by the parties.

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 herb. 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, the 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 “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. sieboldi* Miq (華細辛) spreads over the Shanxi Province of the PRC. Normally, the quality of *A. Heterotropoides* Fr is better than *A. sieboldi* 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 2.5 kg 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 the three provinces of north-eastern part of the PRC (Heilongjiang, Jilin and Liaoning) and also in Hebei Province and Shanxi Province. Cortex of *Acanthopanax Senticosus* (cortex *acanthopanax*) 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)

Schizandra (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. Schizandra can also serve as a processing raw material for fruit wines and fruit drinks. Schizandra 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 Schizandra is approximately RMB40-50 per kg. According to market practice, planting (cultivating) the materials in the Forest Land can enhance taste of product, prolong or shorten harvest time because of less input of manpower and material resources, avoidance of market risk and effective use of 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 the 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) are mainly produced in our country Northeast's Changbai Mountain area and is the Northeast area's unique frog variety. The current market price of forest frog's oviduct is approximately RMB5,200 per kg.

Antao Country, in which Xinxing Co is situated, 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 governments of these two areas have accumulated 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 near 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 2200-3000 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 PRC government and the weather condition is suitable for breeding of underground ginseng.

The Directors consider the potential for future growth of ginseng industry can be attributed to a

combination of the competitive strengths, including the following:

- (1) as the economy of the PRC is developing and people start to have more concern on their health, they are willing to spend on purchasing health-related products or health supplement to improve their health. Ginseng has long been regarded as having a high nutrition value and can cure different kinds of health problems and is widely used in Chinese pharmaceutical products; and
- (2) Jilin Province is a province suitable for breeding of underground ginseng and there are no other provinces in the PRC where the climatic environment is suitable for breeding of underground ginseng. Therefore, the Directors consider that the competition in ginseng industry is not as severe as other pharmaceutical companies in the PRC.

The market value of ginseng and herbs is highly dependent on, among others, the level of maturity, color, size, appearance, and prevailing market demand. In view of the Group's intention to harvest ginseng and herbs as and when it finds it is the appropriate harvest time for a better market value which could in turn maximise the return to the Group, there had been no harvesting of ginseng and herbs for the three months ended 31 March, 2017 and thus no revenue was generated therein. The Group plans to increase future business income from ginseng and herbs through the following strategies:

- (1) expanding production capacities of breeding of underground ginseng;
- (2) maintaining the quality of ginseng seedlings and seeds so that high quality ginseng can be produced;
- (3) continuing to focus on production safety, environmental protection, operational excellence and community relations; and
- (4) strengthening its research and development and developing more ginseng-related products.

In addition, the Group is actively looking for relevant experts to make the best planning for the future development of the Forest Land. At the same time, the Group intends to adjust the management team to integrate the existing resources of the Company and seek the best interests for the shareholders.

(iii) General trading

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 海淀高科技園區 (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 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 the Period under Review, the JV Company carried out the trading business.

(iv) Development, manufacture and sale of medicines

Since 2016, against the backdrop of the continuous deepening of the pharmaceutical system reform in PRC, pharmaceutical enterprises have been facing severe challenges in terms of tightening of control over the medical insurance premiums, the consistency evaluation of generic drugs (仿製藥一致性評價) and the introduction of key monitored drug list by various provinces and cities. The entire industry underwent a painful period for reform. In April 2016, the State Council published the “Notice on Issuing the Key Tasks in 2016 of Deepening Reform of the Pharmaceutical and Healthcare System”* (《關於印發深化醫藥衛生體制改革二零一六年重點工作任務通知》) (the “Notice”), which required public hospitals to implement the two-invoice system. The Notice stated that the two-invoice system would first be implemented in 11 provinces at the initial stage before it is implemented nationwide. This leads to rapid destocking of the distributors, which directly affects the sales in the industry. It is expected that many pharmaceutical enterprises will be forced out of the industry or merged during this consolidation stage of the industry. In addition, the profit of the industry is under pressure due to the continuous increase in the costs of packaging, raw materials and wages.

On 28 November, 2016, the Company entered into an assets transfer agreement as vendor with Jilin Chun Hua Qiu Shi Agricultural Development Co., Ltd. * (吉林春華秋實農業開發有限公司) as the purchaser to dispose of the assets at the aggregate consideration of RMB48,800,000 (the “Disposal”). The assets disposed were previously used by the Group in the GMP Chinese medicine business, which was principally engaged in the production and sales of Chinese medicine under the brand name of “東北虎” (Northeast Tiger*) in the PRC as well as pharmaceutical research and development. The original products produced and sold by the Group included small-volume injections, granules, pills, capsules and drops. The Directors have been continuously assessing the Group’s current business strategy, with the aim to streamline its business, enhance overall performance, prospects and attractiveness to market investors. The Directors basically foresee little growth potential of the original medication business, and coupled with the fact that the revenue of the original business is negligible, therefore limiting the choices and fund-raising capability of the Company. There is a need to implement the strategy of streamlining the key businesses as an opportunity to improve the financial condition of the Group, so as to improve the prospects of the Group. The Directors have assessed the structure of the Disposal and considered the Disposal is a good opportunity for the Group to restructure its strategic business position and focus its resources on implementing development opportunities (including but not limited to “pharmaceutical and Beidou big data, development of health related big data and healthcare management service”) while improving and consolidating the Group’s financial position and cash flow.

During the Period under Review, compared with the corresponding period in 2016, due to the comprehensive development of the business by the Group, turnover amounted to approximately RMB6,177,000 (2016:nil). Distribution and selling expenses amounted to approximately RMB812,000(2016:nil), due to the increase of selling activities. General, administrative and other operating expenses amounted to approximately RMB6,514,000 (2016: approximately RMB1,437,000) due to increase of staff cost for developing new business. Finance income/(costs) amounted to approximately RMB(101,000) (2016: approximately RMB(6,000)). Total comprehensive income/(loss) attributable to owners of the Company amounted to approximately RMB(6,578,000) (2016: approximately

RMB(943,000)).

Prospects

Looking to 2017, 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 government will also raise its requirements on environmental protection. The PRC economy remained at a new normal stage, and achieved a stable performance while staying low. Overall, consumables market in the PRC maintained a steady growth. The country's supportive policies to integrate pharmaceuticals and treatment with internet technology have also created new development opportunities for the industry.

The General Office of the State Council issued the Guiding Opinions for Promoting and Regulating Healthcare Big Data Application and Development* (《關於促進和規範健康醫療大數據應用發展的指導意見》) (hereinafter referred to as the “Guiding Opinions”) on 24 June, 2016, which vigorously promotes the interconnection, integration, disclosure and sharing of the governmental healthcare information systems and the public healthcare data, with the aim to eliminate the deficiency of information, actively foster an environment which would promote the safe and innovative application of the healthcare data, explore new service models and cultivate new development patterns through “Internet + Healthcare”.

The Guiding Opinions state that, the development goal is to establish a platform to provide the national and provincial population with health information and national-wide platform for drug bidding and procurement business, basically, forming an inter-departmental healthcare information sharing pattern by the end of 2017. By 2020, a tiered public platform with national medical and health information will be established, thus realizing inter-departmental and inter-regional sharing of basic information such as population, legal person and geographic space and the integration of related data resources including medical treatment, medicine, healthcare and health information. In a regional setting, the following will be achieved: (i) establishing 100 regional clinical information demonstration centers with the existing resources; (ii) enabling the possession of electronic health data and health cards for the urban and rural residents; (iii) constantly improving policies and regulations, safety protection and refining the system.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March, 2017, the Group had total assets of approximately RMB227,853,000 which were financed by current liabilities of approximately RMB 23,931,000, long-term liabilities of approximately RMB 22,520,000 and shareholders' equity of approximately RMB 181,402,000.

The Group generally services its debts primarily through cash generated from its operations. The financial position of the Group remains healthy. As at 31 March, 2017, the Group had cash and bank balances of approximately RMB 20,808,000. Taking into consideration of its current financial resources, the Directors believe that the Group 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 31 March, 2017, none of the Directors, supervisors (the “Supervisors”) and the chief executive or

their respective associates had interests and short positions in the shares (the “Shares”), underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (“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 and Supervisors to be notified to the Company and the Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 31 March, 2017, 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 which would fall to be disclosed under Divisions 2 and 3 of Part XV 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	Approximate percentage of shareholding (%)
Beijing Baoying Chuangfu Investment Management Center (Limited Partnership)(note 1)	398,534,660	46.44
Guo Feng (note 1)	137,611,830	16.04

Note 1:

Pursuant to the letters of intent entered between Beijing Baoying Chuangfu Investment Management Center (Limited Partnership)(“the purchaser”) and Guo Feng (“Ms.Guo”), Zhang Yabin (“Mr.Zhang”) respectively (the “Letters of Intent”):

(1) Ms. Guo and Beijing Baoying have agreed to enter into (i) a share transfer agreement before 31December 2016 pursuant to which Ms. Guo shall sell, and Beijing Baoying shall purchase, an aggregate of 137,611,830 Domestic Shares at RMB0.1674 per domestic share for an aggregate consideration of RMB23,036,220, and (ii) a share pledge agreement pursuant to which Ms. Guo shall pledge an aggregate of 137,611,830 Domestic Shares to Beijing Baoying; and

(2) Mr. Zhang and Beijing Baoying have agreed to enter into (i) a share transfer agreement before 31 July 2016 pursuant to which Mr. Zhang shall sell, and Beijing Baoying shall agree to purchase, an aggregate of 1,618,960 Domestic Shares at RMB0.1674 per domestic share for an aggregate consideration of RMB271,014, and (ii) a share pledge agreement pursuant to which Mr. Zhang shall pledge an aggregate of 1,618,960 Domestic Shares to Beijing Baoying. As at the date of this report, the aforesaid share transfer agreements have not been entered into.

As informed by Baoying Chuangfu, Ms. Guo and Mr. Zhang, they were occupied by their other business commitments during the past several months. As such, each of Ms. Guo and Mr. Zhang have not entered into any definitive share transfer agreements in respect of their respective relevant Domestic Shares before 31 December 2016 and before 31 July 2016 as originally contemplated under the Letters of Intent .

On 23 March 2017, the Board was informed by Baoying Chuangfu that Baoying Chuangfu proposes to enter into a share transfer agreement with each of Ms. Guo and Mr. Zhang to complete the aforesaid acquisitions of 137,611,830 and 1,618,960 Domestic Shares respectively in or around April 2017 (the “Acquisitions”).

Taking into account (i) the 137,611,830 Domestic Shares held by Ms. Guo and the 1,618,960 domestic shares held by Mr. Zhang to be transferred to Beijing Baoying pursuant to the Letters of Intent; (ii) the 398,534,660 Domestic Shares beneficially held by Beijing Baoying, Beijing Baoying shall hold an aggregate of 537,765,450 Domestic Shares.

Save as disclosed above, as at 31 March, 2017, the Directors were not aware of any other person who had an interest or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV 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.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 March, 2017, the Group was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Group or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Group, or had exercised any such right.

COMPETING INTERESTS

During the three months ended 31 March, 2017 and as at the date of this announcement, none of the Directors, Supervisors, the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business which competes or may compete with the business of the Group.

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 of the Group. The audit committee comprises Mr. Zhao Zhen Xing, 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 unaudited results for the three months ended 31 March, 2017 and was of the opinion that the preparation of results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CORPORATE GOVERNANCE CODE

The Directors considered that during the Period under Review, the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required as set out in Rules 5.48 to 5.67 of the GEM Listing Rules for securities transactions by Directors (the "Model Code"). The Company has confirmed after making due enquiries with the Directors in accordance with the

Model Code, that all the Directors have complied with the standard of dealings and the Model Code in relation to securities transaction by Directors during the three months ended 31 March, 2017.

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

Since the commencement of trading of the H shares of the Company on GEM on 28 February, 2002, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

Proposed adoption of share option scheme

On 12 April, 2017, the Board proposed to adopt a share option scheme (the "Share Option Scheme") pursuant to Chapter 23 of the GEM Listing Rules, with the aim to motivate the initiative of the management, key employees and consultants, to attract and retain talents, and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company so as to promote the long-term and stable development of the Group. The proposed adoption of the Share Option Scheme is subject to, among others, the approval of the Shareholders at the annual general meeting, the H shareholders' class meeting and the domestic shareholders' class meeting to be convened. For details, please refer to the announcement of the Company dated 12 April, 2017.

Proposed change of non-executive Director and independent non-executive Director

On 12 April, 2017, the Board announced the following changes on the composition of the Board:

- (1). Mr. Guo Aiqun (郭愛群) ("Mr. Guo") resigned as a non-executive Director with effect from the close of the annual general meeting to be convened by the Company (the "AGM");
- (2). Mr. Chen Youfang (陳有方) ("Mr. Chen") resigned as an independent non-executive Director and a member of the audit committee of the Company (the "Audit Committee") with effect from the close of the AGM;
- (3). Mr. Shi Peng (師鵬) ("Mr. Shi") has been nominated as a candidate for election at the AGM as a non-executive Director subject to the approval of the Shareholders; and
- (4). Mr. Gao Zhikai (高志凱) ("Mr. Gao") has been nominated as a candidate for election at the AGM as an independent non-executive Director subject to the approval of the Shareholders.

For details, please refer to the announcement of the Company dated 12 April, 2017.

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

By Order of the Board
Wang Shaoyan
Chairman

Beijing, the PRC
8 May, 2017

As at the date of this announcement, 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the day of its posting and the Company's website at <http://www.northeasttiger.com> from the date of this announcement.

**for identification purpose only*