BAYTA CARE
北斗嘉药业股份有限公司

北斗嘉藥業股份有限公司
Baytacare Pharmaceutical Co., Ltd.*

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code : 8197)

2018 Interim Report

* For identification purpose only

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This report, 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 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:- (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement in this report misleading.*

FINANCIAL HIGHLIGHTS
(Unaudited)

- Turnover of the Group for the six months ended 30 June 2018 was approximately RMB7,097,000 (2017: RMB15,094,000).
- Losses attributable to owners of the Company (the "Shareholders") for the six months ended 30 June 2018 was approximately RMB8,348,000 (2017: RMB9,593,000).
- Losses per share (the "Shares") of the Company for the six months ended 30 June 2018 was approximately RMB0.01cents (2017: approximately RMB1.1 cents).
- The Directors do not recommend the payment of any dividend for the six months ended 30 June 2018 （2017: nil）.

INTERIM RESULTS (UNAUDITED)

The board of Directors (the "Board") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 (the "Period under Review"), together with the comparative figures for the corresponding periods of the previous financial year, as follows:

		Six months ended 30 June		**Three months ended 30 June**	
		2018	2017	**2018**	2017
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	b	**7,097**	15,094	**7,097**	8,917
Cost of sales		**(6,745)**	(13,385)	**(6,745)**	(7,827)
Gross profit		**352**	1,709	**352**	1,090
Other revenue	c	**515**	465	**272**	243
Written back on impairment loss of trade receivables		**700**	–	**700**	–
Written back on impairment loss of trade deposit		**1,000**	–	**-**	–
Administrative and other operating expenses		**(10,092)**	(11,325)	**(457)**	(3,777)
Operating (loss)/profit	d	**(7,525)**	(9,151)	**867**	(2,444)
Finance costs		**(313)**	(607)	**(273)**	(506)
(Loss)/profit before income tax expense		**(7,838)**	(9,758)	**594**	(2,950)
Income tax expense	e	**-**	–	**-**	–
(Loss)/profit after income tax expense		**(7,838)**	(9,758)	**594**	(2,950)
Other comprehensive income		**-**	–	**-**	–
Total comprehensive (expense)/ income for the period		**(7,838)**	(9,758)	**594**	(2,950)
Total comprehensive income/ (expense) attributable to:					
Owners of the Company		**(8,348)**	(9,593)	**(5)**	(3,015)
Non-controlling interests		**510**	(165)	**599**	65
		(7,838)	(9,758)	**594**	(2,950)
Losses per share	f				
– Basic and diluted (RMB)		**(0.01) cents**	(1.10) cents	**(0.00)cents**	(0.40) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Intangible assets	g	**6,428**	6,606
Land use rights	h	**–**	–
Property, plant and equipment	i	**1,301**	1,732
Investment property	j	**69,699**	69,699
Deposit for acquisition of property, plant and equipment		**35,487**	35,487
		112,915	113,524
CURRENT ASSETS			
Biological assets		**27,229**	27,229
Trade and other receivables	k	**10,596**	16,234
Cash and bank deposits		**2,049**	919
		39,874	44,382
LESS: CURRENT LIABILITIES			
Trade and other payables	l	**(13,278)**	(10,558)
		(13,278)	(10,558)
NET CURRENT ASSETS		**26,596**	33,824
TOTAL ASSETS LESS CURRENT LIABILITIES		**139,511**	147,348
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(14,533)**	(14,533)
Long-term borrowings		**(22,500)**	(22,500)
		(37,033)	(37,033)
TOTAL NET ASSETS		**102,478**	110,315
CAPITAL AND RESERVES			
Share capital	m	**85,805**	85,805
Reserves		**23, 113**	31,460
Equity attributable to owners of the Company		**108,918**	117,265
Non-controlling interests		**(6,440)**	(6,950)
TOTAL EQUITY		**102,478**	110,315

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Others *RMB'000*	Property revaluation reserve *RMB'000*	Statutory revenue reserve *RMB'000*	Accumulate losses *RMB'000*	Sub-total *RMB'000*	Non-controlling interest *RMB'000*	Total *RMB'000*
As at 1 January 2017	85,805	102,618	11,326	7,934	9,685	(37,032)	180,336	7,874	188,210
Total comprehensive expense for the period	-	-	-	-	-	(9,593)	(9,593)	(165)	(9,758)
As at 30 June 2017	85,805	102,618	11,326	7,934	9,685	(46,625)	170,743	7,709	178,452
As at 1 January 2018	85,805	102,618	11,326	18,459	9,685	(110,627)	117,266	(6,950)	110,316
Total comprehensive (expenses)/ income for the period	-	-	-	-	-	(8,348)	(8,348)	510	(7,838)
As at 30 June 2018	85,805	102,618	11,326	18,459	9,685	(118,975)	108,918	(6,440)	102,478

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June,	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**1,304**	(58,451)
Net cash outflow from investing activities	**(174)**	(6,153)
Net cash inflow from financing activities	**-**	9,671
Increase/(decrease) in cash and cash equivalents	**1,130**	(54,933)
Cash and cash equivalents at beginning of period	**919**	61,702
Cash and cash equivalents at end of period Represented by Cash and Bank Balances	**2,049**	6,769

NOTES:

a. Basis of presentation and principal accounting policies

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" as well as with the applicable disclosure requirements of the Rules Governing the Listing Securities on the GEM of The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that investment properties are measured at fair value and biological assets are measured at fair value less costs to sell.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of the new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time the following new and amendments to HKFRSs which are mandatory effective for annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HKAS 40 (Amendments)	Transfers of Investment Property
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The application of the new and amendments to HKFRSs in the current interim period has had no material effect on the Group's result and financial position.

b. Segment information

The following is an analysis of the Group's revenue and results by reportable segment:

Six months ended 30 June 2018 (unaudited)

	Medicine business *RMB'000*	**Chinese herbs business** *RMB'000*	**Medicines sourcing/ trading business** *RMB'000*	**Big data business** *RMB'000*	**Total** *RMB'000*
RESULTS					
Reportable revenue from external customers	**–**	**–**	**7,097**	**–**	**7,097**
Reportable segment results	**220**	**(222)**	**1,275**	**(8,186)**	**(6,913)**
Unallocated corporate other income					**–**
Unallocated corporate expense					**(925)**
Loss before income tax expense					**(7,838)**
Income tax expense					**–**
Loss for the year					**(7,838)**

Six months ended 30 June 2017 (unaudited)

	Medicine business *RMB'000*	Chinese herbs business *RMB'000*	Medicines sourcing/ trading business *RMB'000*	Big data business *RMB'000*	Total *RMB'000*
RESULTS					
Reportable revenue from external customers	–	–	15,094	–	15,094
Reportable segment results	(2,308)	(250)	(198)	(5,523)	(8,279)
Unallocated corporate other income					–
Unallocated corporate expense					(1,479)
Loss before income tax expense					(9,758)
Income tax expense					–
Loss for the year					(9,758)

b. **Segment information (continued)**

As at 30 June 2018 (unaudited)

	Medicine business *RMB'000*	Chinese herbs business *RMB'000*	Medicines sourcing/ trading business *RMB'000*	Big data business *RMB'000*	Total *RMB'000*
ASSETS					
Reportable segment assets	**72,114**	**33,362**	**1,051**	**43,274**	**149,801**
Unallocated corporate assets					**2,988**
					152,789
LIABILITIES					
Reportable segment liabilities	**41,469**	**180**	**5,701**	**1,284**	**48,634**
Unallocated corporate liabilities					**1,677**
					50,311

As at 30 June 2017 (unaudited)

	Medicine business *RMB'000*	Chinese herbs business *RMB'000*	Medicines sourcing/ trading business *RMB'000*	Big data business *RMB'000*	Total *RMB'000*
ASSETS					
Reportable segment assets	80,239	59,271	26,699	37,601	203,810
Unallocated corporate assets					12,269
					216,079
LIABILITIES					
Reportable segment liabilities	23,327	90	11,700	405	35,522
Unallocated corporate liabilities					2,105
					37,627

c. **Other revenue**

	Six months ended 30 June		**Three months ended 30 June**	
	2018 *RMB'000* **(unaudited)**	2017 *RMB'000* (unaudited)	**2018** *RMB'000* **(unaudited)**	2017 *RMB'000* (unaudited)
Rental income	**506**	485	**253**	243
Sundry income	**8**	–	**19**	–
Bank interest received	**1**	–	**-**	–
	515	485	**272**	243

d. Operating profit/(loss)

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

	Six months ended 30 June		Three months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Depreciation of property, plant and equipment	**431**	607	**215**	304
Amortization of land use right	**–**	123	**–**	62
Amortization of intangible assets	**352**	495	**176**	248
	783	1,225	**391**	614

e. Income tax expense

The Company and its subsidiaries was established in The People's Republic of China (the "PRC"). They are subject to enterprise income tax ("EIT") at a rate of 25%.

According to the PRC tax laws and its interpretation rules, enterprises that engage in qualified agricultural business are eligible for exemption from payment of PRC EIT. The Group's principal subsidiary which is engaged in qualifying agricultural business is entitled to exemption of PRC EIT.

No provision for EIT has been made as the Company and the Company's subsidiaries has no taxable profits for the relevant periods.

f. Losses per share

The calculation of basic losses per share for a relevant period is based on unaudited oss attributable to owners of the Company which is the same as unaudited total comprehensive expense attributable to owners of the Company during the relevant periods 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 six months and three months ended 30 June 2018 are 858,054,240 and 858,054,240 respectively (2017: 858,054,240 and 858,054,240 respectively).

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

g. Intangible assets

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Net book value, at the beginning of period	**6,606**	7,005
Additions	**174**	71
Amortisation	**(352)**	(470)
Net book value, at the end of period	**6,428**	6,606

h. **Land use rights**

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Net book value, at the beginning of period	**-**	8,872
Additions	**-**	–
Amortisation	**-**	(144)
Revaluation surplus	**-**	27,557
Transfer to investment properties	**-**	(36,285)
Net book value, at the end of period	**-**	–

i. **Property, plant and equipment**

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Net book value, at the beginning of period	**1,732**	38,991
Additions	**-**	424
Disposal	**-**	(320)
Depreciation	**(431)**	(1,456)
Revaluation deficit	**-**	(2,499)
Transfer to investment properties	**-**	(33,408)
Net book value, at the end of period	**1,301**	1,732

j. **Investment properties**

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Net book value, at the beginning of period	**69,699**	–
Transfer from property, plant and equipment	**-**	33,408
Transfer from land use rights	**-**	36,284
Gain arising from change in fair value	**-**	7
Net book value, at the end of period	**69,699**	69,699

k. Trade and other receivables

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
Trade receivables	**16**	1,067
Prepayment and other receivables	**10,580**	15,167
	10,596	16,234

Trade receivables are generally granted a credit period of cash on delivery to 90 days from the invoice date for trade receivables to all customers. The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
0 - 30 days	**-**	1,051
31 - 60 days	**-**	–
61 - 90 days	**-**	–
91 - 180 days	**2,213**	9,193
181 - 365 days	**12,560**	6,280
over 365 days	**4,229**	4,229
Total trade receivables	**19,002**	20,753
Less: Allowance for doubtful debts	**(18,986)**	(19,686)
	16	1,067

l. Trade and other payables

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
Trade payables	**5,206**	5,206
Payables for PRC statutory contribution	**469**	602
Other taxes payable	**62**	275
Other payables and accruals	**7,540**	4,475
	13,278	10,558

The aging analysis of trade payables, which is based on invoice date is as follows:

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
0 to 1 month	**-**	–
2 to 6 months	**-**	–
7 to 12 months	**-**	4,711
Over 1 year	**5,206**	495
	5,206	5,206

m. Share capital

	As at 30 June 2018 (unaudited)		As at 31 December 2017 (audited)	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Issued and fully paid:				
Domestic shares of RMB0.1 each	**609,654**	**60,965**	609,654	60,965
H shares of RMB0.1 each	**248,400**	**24,840**	248,400	24,840
	858,054	**85,805**	858,054	85,805

n. Capital commitment

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Contracted but not provided for – Acquisition of property, plant and equipment	**40,229**	60,229

o. Alleged Claims

During the period, the board of directors of the Company (the "Board") had found the following alleged claims from third parties:

1. the Company had an outstanding liabilities of RMB20,000,000 (the "Outstanding liabilities") which remains unsatisfied to a third Party) (the "Alleged Claim 1");
2. the Company had a loan balance of RMB25,500,000 (the "Outstanding Loan") which remains outstanding to another third party (the "Alleged Claim 2").

Due to the lack of information for the Alleged Claim 1, the Board was unable to ascertain the genuineness of the Outstanding Liabilities. The Company has sought legal advice on the Alleged Claim 1 regarding the defense or counterclaim and established a special investigation committee (the "SIC"), comprising all independent non-executive directors, for the purpose of, among other things, investigating and reporting on the matters and events leading to and/or otherwise relating to the Alleged Claim 1, and recommending appropriate actions to be taken by the Group. Details are set out in the announcement dated 28 March 2018.

For the Alleged Claim 2, the Company engaged a professional firm to assist SIC to carry out the investigation. The investigation was completed in May 2018 and the SIC found that the Alleged Claim 2 was arising from a loan agreement of RMB45 million executed by Mr. Wang Shaoyan ("Mr. Wang"), a former executive director and former chairman of the Company, without prior approval of the Board in December 2016 ("Loan Agreement") for his personal connected company use. RMB19.5 million was repaid by his personal connected company to the lender and remains RMB25.5 million outstanding.

The SIC also located an undertaking signed by Mr. Wang dated 30 March 2018, pursuant to which Mr. Wang in his personal capacity undertook (i) to provide a several guarantee in favour of the lender in respect of the all amounts due and owing (including expenses) by the Company under the Loan Agreement, for a period of two years commencing from 30 March 2018; and (ii) on or before 13 April 2018, he would utilise his residential property situated in Beijing, the PRC, to raise funds, the entire amount would be used to repay a portion of the amounts due and owing by the Company under the Loan Agreement. According to the information available to the SIC, the market value of the property in Beijing is approximately RMB26 million.

In view of the amount outstanding and the personal undertakings provided by Mr. Wang in favour of lender, the Board is of the view that the Loan Agreement and the transactions contemplated therein would not have material impact on the Group's financial performance and financial positions. Details of the investigation findings are set out in the announcement dated 9 July 2018. The Company has already instituted legal actions against Mr. Wang for entering into the Loan Agreement without the authorisation of the Board, failure to carry out his duties as a Director and to protect the interest of the Group.

p. Review of interim consolidated financial statements

The condensed interim consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Attributable to owners of the Company						
	Share premium RMB'000	Others RMB'000	Property revaluation reserve RMB'000	Statutory revenue reserve RMB'000	(Accumulate losses)/ Retained earnings RMB'000	Non-controlling interest RMB'000	Total reserves RMB'000
As at 1 January 2017	102,618	11,326	7,934	9,685	(37,032)	7,874	102,405
Total comprehensive expense for the period	-	-	-	-	(9,593)	(165)	(9,758)
As at 30 June 2017	102,618	11,326	7,934	9,685	(46,625)	7,709	92,647
As at 1 January 2018	102,618	11,326	18,459	9,685	(110,627)	(6,950)	24,511
Total comprehensive income/(expense) for the period	-	-	-	-	(8,348)	510	(7,838)
As at 30 June 2018	102,618	11,326	18,459	9,685	(118,975)	6,440	16,673

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: nil).

BUSINESS REVIEW AND PROSPECTS

Business review

During the Period under Review, the effect of industrial structure changes brought about by China's economic restructuring and supply-side structural reforms gradually appear, at the same time, the Chinese government's requirements over environmental protection management also increased, and the China's economy is still in the new normal phase, and gradually began to pick up after a dip. In general, the Chinese consumer goods market continues to maintain a steady growth. However, with the Chinese government implementing more comprehensive and deepening reform measures to enable citizens to enjoy basic and quality medical services at a reasonable price, the pharmaceutical industry has undergone turbulent changes and restructuring. The relevant policies include the implementation of a new version of GMP to improve the quality of production and the elimination of non-compliant pharmaceutical companies; the implementation of better policies to further optimize the drug bidding mechanism for essential drugs; and implementing additional measures to regulate drug promotion activities. More stringent policies and fierce market competition increase production and operating costs, and the domestic prices continue to rise, and the production and sales costs continue to increase, which further compromise the profitability of the industry. In spite of this, the Chinese government continues to encourage the integration of medicine, medical treatment and internet technology, which should create new opportunities for the development of the industry.

The Group's business is classified into four main segments: A. Chinese Herbs Business; B. Medicines Business; C. Medicines Sourcing/Trading Business; and D. Big Data Business.

A. Chinese Herbs Business

Feasibility Study

As disclosed in the Company's first quarterly report for the three months ended 31 March 2018 (the "2018 First Quarterly Report"), Antao County Northeast Tiger Xinxing New Product Co., Ltd. (安圖縣東北虎新興特產有限公司), a wholly-owned subsidiary of the Company obtained forest concession rights of the forest land situate at Jilin Province, the People's Republic of China (the "Forest Land") from Jilin Fu Man Shan Zhen Co., Ltd. (吉林福滿山珍有限公司) pursuant to the agreement dated 27 September 2010 (as amended and supplemented by the supplemental agreement dated 24 February 2011 and the settlement agreement dated 14 March 2014).

In September 2017, the board of directors of the Company (the "Board") engaged an independent expert team to conduct a feasibility study in respect of plantation of Chinese herbs on the Forest Land (the "Feasibility Study") and prepared a Feasibility Study report on 31 October 2017 (the "Feasibility Study Report"). According to the Feasibility Study Report, the Forest Land is suitable to cultivate Chinese herbs, including Ginseng (林下參), Sehisandra (五味子), Dandelio (蒲公英), Platycodon (桔梗) and underground Ganoderma Incidum (林下靈芝) (the "Chinese Herbs").

Plantation Plan

In December 2017, the Company formulated a plantation plan in relation to the plantation of Chinese Herbs on the Forest Land. Considering various factors including without limitation, life span of the species, technical difficulties in management, economic returns of the species and the opinion of Chinese herbs plantation experts, the Company will follow the advice of the Chinese herbs plantation experts and plan to cultivate Chinese Herbs on the Forest Land as follows (the "Chinese Herbs Plantation Project"):-

Species	**Area of plantation (in mu(畝))**
Ginseng (林下參)	100
Underground Sehisandra (五味子)	360
Dandelio (蒲公英)	200
Underground Platycodon (桔梗)	200
Underground Ganoderma Incidum (林下靈芝)	200

The market price fluctuation of the Chinese Herbs market is relatively high. In order to reduce the impact of market volatility on the return of the Chinese Herbs, the Company plans to form strategic alliances with Chinese medicine manufacturers, such as the Strategic Cooperation (as defined below) entered into between the Company and Zhuhai Guangyuan (as defined below). The Company has been searching for suitable professional talents to form a specialized management group to manage the Chinese Herbs Plantation Project and a specialized consultant group to provide consultancy and advice for the construction, development and planning of the Chinese Herbs Plantation Project.

As regards to the status of the Chinese Herbs Plantation Project, the Company will source suitable seeds of the Chinese Herbs. If everything goes smooth and suitable management team is in place, the Company will commence cultivation plan in September when the climate will be most favorable for the growth of the seeds of the Chinese Herbs.

Harvest of ginsengs

Since cultivation of the Chinese Herbs requires time, the Company will harvest matured underground wild ginsengs grown on the Forest Land for sale in the interim. As disclosed in the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report"), the value of existing "Chinese herbs- underground ginsengs (matured)" as at 31 December 2017 was RMB27,229,000. During the financial year ended 31 December 2017, approximately 3,000 pieces of underground ginsengs in the amount of RMB833,000 were harvested. For further details, please refer to Note 20 of the 2017 Annual Report. As the market price of ginsengs for the financial year ended 31 December 2017 did not meet the expectation of the Company's management, the Board considered that it was in the interest of the Group not to sell in mass quantity during 2017. The Board will closely monitor the market price of ginsengs and will sell more as and when appropriate.

B. Medicines Business

As disclosed in the Company's announcement dated 8 June 2018 (the "Announcement"), the Company has on 8 June 2018 entered into: (1) a strategic framework agreement (the "Framework Agreement"); and (2) an agency agreement, with Zhuhai Guangyuan Co., Ltd.* (珠海廣緣醫藥有限公司) ("Zhuhai Guangyuan"), to enhance the sales and distribution channel of the Company's products and to allow the Company to act as the authorized distributor of the Product (as defined below)for Zhuhai Guangyuanin Jilin Province, China (the "Agency Agreement").

Under the Framework Agreement, the Company and Zhuhai Guangyuan aim to achieve the followings (the "Strategic Cooperation"):-

1. promote cooperation between Zhuhai Guangyuan and the Group in the area of pharmacy chain;
2. promote comprehensive cooperation through integration of membership management of Zhuhai Guangyuan's pharmacy chain stores and the Company's Beidou big data healthcare management capabilities;
3. facilitate in-depth cooperation between the Group and Zhuhai Guangyuan in the area of pharmaceutical distribution; and
4. reduce production and processing costs of the existing processed Chinese herbal medicine of Zhuhai Guangyuan and promote the circulation of the Group's Chinese herbal medicine planting products.

The Agency Agreement

Zhuhai Guangyuan is the distributor of Jiangsu Huaming Biotechnology Co., Ltd.* (江蘇華鳴生物科技有限公司), the manufacturer of hydroxyphenylalanine urine test reagent (a chemical chromogenic method) (the "Product"), in Guangdong and Jilin Provinces. According to the Agency Agreement, the Company will act as an authorized distributor of the Product for Zhuhai Guangyuan and will be responsible for the marketing, promotion and after-sales services of the Product in Jilin Province for a 5-year period, from 8 June 2018 to 7 June 2023.

For further details of the Strategic Cooperation and the Agency Agreement, please refer to the Announcement.

As disclosed in the Announcement, by entering into the Framework Agreement, the Group can leverage on Zhuhai Guangyuan's 3000 nationwide chain stores which would allow the Group to reduce the distribution costs of traditional Chinese medicine. Such Chinese medicine may include, among others, the Chinese medicine produced using the Chinese Herbs harvested from the Forest Land as raw materials.

Going forward, the Company will consider forming strategic alliances with other medicines manufactures or distributors, similar to the one with Zhuhai Guangyuan, and utilizing its existing or new sourcing/trading channels developed through such alliances with the goal to revive its Medicines Business and complement its Chinese Herbs Business. However, in view of high research and development costs for the medicines industry, long product life cycle, ever increasing raw materials and labor costs with no sign of slowing down, increasingly stringent government regulations on the medicines industry and large amount of capital required for medicine manufacturing, instead of manufacturing the medicines itself, the Company plans to source various medicines from manufacturers and distributors and/or outsource the manufacturing process of the Chinese medicines using the Company's Chinese herbs as raw materials.

C. Medicines Sourcing/Trading Business

The Company has on 12 May 2016 established a joint venture company named as天津中合盛國際貿易有限公司(the "JV Company") with Beijing Shangzheng Technology Co., Ltd.*(北京上正科技有限公司) ("Beijing Shangzheng Technology") with are registered capital of RMB20,000,000 in which the Company holds 60% equity interest and Beijing Shangzheng Technology holds 40% equity interest respectively. The JV Company is a non-wholly owned subsidiary of the Group. As disclosed in the Company's announcement dated 10 May 2016, Beijing Shangzheng Technology is principally engaged in the marketing operation, hardware and software application of navigation systems, and production and trading of commodities and has various business partners domestically and internationally and established extensive trading channels.

The Company has been conducting its Medicines Business, Sourcing/Trading Business through the JV Company and Beijing Shangzheng Technology's established trading channels and other long established trading channels.

On one hand, the Board will consider selling the Product through the aforesaid established sourcing/trading channels. One the other hand, the Board will also consider sourcing medicines from other medicines manufacturers and distributors and distribute or sell related medicines and products through the aforesaid established trading networks. The Company has been recruiting suitable talents to expand its Sourcing/Trading Business and expects that there will be active business activities in the Medicines Business, Sourcing/Trading Business for 2018.

D. Big Data Business

As regards the Company's Big Data Business, the Company disclosed in its 2018 First Quarterly Report that there are seven software under development and to be delivered to the Company. The Company has obtained copyrights of these software and has been negotiating with a few potential business partners for business cooperation.

During the period under review, compared with the corresponding period in 2017, turnover amounted to approximately RMB7,097,000 (2017: RMB15,094,000), representing a decrease approximately 52.99%, due to the default of old customers, the Company carried out medicines sourcing business more conservatively in the first half of the year; General, administrative and other operating expenses amounted to approximately RMB10,092,000 (2017: approximately RMB11,325,000), representing a decrease approximately 10.89%, due to the personnel simplification of the Group. Finance costs amounted to approximately RMB313,000 (2017: approximately RMB607,000). Total comprehensive expense attributable to owners of the Company amounted to approximately RMB8,348,000 (2017: approximately RMB9,593,000).

PROSPECTS

Looking ahead to the second half of 2018, the Chinese economy will maintain stable growth. The demand side will be affected the slowdown in domestic demand and foreign demand. In 2018, the Ministry of Industry and Information Technology of the PRC will adhere to the basic requirements for high quality development, adhere to new development concepts, implement in depth the industrial internet innovation and development strategy, carry out "323" actions for the development of industrial internet, build up network, platform and security three main systems, boost the integration of large scale enterprise innovation and the application of SMEs in two types of applications, build up industry, ecology and internationalization supports, and promote the development of industrial internet to a new level.

The Company formulated a feasible plantation plan for the cultivation of Chinese Herbs on the Forest Land in December 2017 which will be continued to put into execution in second half of 2018. Whilst the cultivation of the Chinese Herbs requires time, the Company will harvest existing matured underground wild ginsengs grown on the Forest Land for sale in the interim if the market price is considered favourable to the Company.

The Company has entered into the Strategic Cooperation with Zhuhai Guangyuan on 8 June 2018 to enhance the sales and distribution channel of the Company's products. As disclosed in the Announcement, by entering into the Framework Agreement, the Group can leverage on Zhuhai Guangyuan's 3000 nationwide chain stores which would allow the Group to reduce the distribution costs of traditional Chinese medicine and expand its Medicines Business which will be mutually complementary to the Chinese Herbs Business.

The Company will act as the authorized distributor of the Product for Zhuhai Guangyuan in Jilin Province, China pursuant to the Agency Agreement as disclosed in the Announcement.

Apart from the long established medicines and related products' distribution channel and through Beijing Shangzheng Technology's established sourcing/trading channels, the Board will consider selling the Product and other medicines sourced from other medicines manufacturers or distributors through these established trading channels on the way forward;

The Company has been developing its Big Data Business continuously. The Company has obtained copyrights for the seven software disclosed in its 2018 First Quarterly Report and the Company has identified suitable partners, and the cooperation will be implemented in the second half of the year.

The Board considers that there will be potential synergy effect between its Chinese Herbs Business, Medicines Business, Big Data Business and Medicines Sourcing/Trading Business as follows:-

(a) the Chinese Herbs Business, Medicines Business, the Strategic Cooperation and health management services are all health related business;

(b) the Chinese Herbs harvested from the Forest Land may be utilized to produce Chinese medicines and distributed under the Strategic Cooperation with Zhuhai Guangyuan and other distribution channels; and

(c) established sourcing/trading channels of the Trading Business and other medicines and related products' distribution channels shall serve as a sourcing management or distribution outlet for the products from the Group's Chinese Herbs Business and Medicines Business.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the Company had total assets of approximately RMB152,789,000 which were financed by current liabilities of approximately RMB13,278,000, deferred tax liabilities of approximately RMB14,533,000, long-term borrowings of approximately RMB22,500,000 and shareholders' equity of approximately RMB102,478,000.

The Company generally services its debts primarily through cash generated from its operations. The financial position of the Company remains healthy. As at 30 June 2018, the Company had cash and bank balances of approximately RMB2,049,000 and are denominated in Renminbi.

As at 30 June 2018, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 3.04. It is in the view of the Directors believed that the Group does not have liquidity problem. The asset-liability ratio of the Group, defined as a ratio between total debts and total assets, was 23%.

Save as disclosed above, as at 30 June 2018, the Company did not have any committed borrowing facilities.

LONG-TERM BORROWINGS

As at 30 June 2018, the long-term borrowing with carrying amount of RMB22,500,000 (2017: RMB22,500,000) is unsecured and bears interest at a discount of 10% to the lending interest rate per annum for lending for five years promulgated by The People's Bank of China. It was granted by Jilin City Finance Bureau for the purpose of developing Yong Chong Cao Jun Powder Capsule over 20 years. The borrowing is repayable by instalments based on the scheduled repayment dates set out in the agreement until March 2030.

The gearing ratio of the Group as at 30 June 2018 (defined as long-term borrowing, short-term borrowing, and bank overdrafts divided by total shareholders' equity) was approximately 35%.

TREASURY POLICIES

The Group adopts a conservative approach towards treasury policies. The general credit terms in relation to the accounts receivable of the Group is ranging from cash on delivery to 90 days. In certain circumstances, the credit period may be extended to appropriate level after relevant due diligence investigation. In determining the length of the credit term extended to any specific customer, the Group will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Group's management also puts endeavors on credit control on its customers by closely monitoring the outstanding balance owed by them. The actions taken by the Group include conducting monthly reviews on accounts receivable, following up each debtor overdue more than 90 days and enforcing the collection of outstanding balance of accounts receivable. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of financial condition of its customers.

To manage liquidity risk, the management closely monitors the liquidity position to ensure that the liquidity position of the Group can meet its funding requirements.

EMPLOYEE INFORMATION

Remuneration of the Group's employees was determined by reference to the performance, qualification and experience of the relevant staff. Based on operating result, a discretionary incentive bonus based on individual performance may be distributed to reward their contributions to the Group. The management is of the opinion that employees are the most treasured assets of the Group. Accordingly, the Group has actively created a corporate environment to nurture them to their full potentials. As at 30 June 2018, total heads of staff was 15 (31 December 2017: 33), payroll costs of the Group for the six months ended 30 June 2018 amounted to approximately RMB2,150,000 (31 December 2017: RMB6,593,000). Other employee benefits, including retirement benefits, medical insurance and housing fund contributions, remained at appropriate levels. Various training and development courses were also offered to enable employees to upgrade their skills.

A remuneration committee is set up for reviewing the Group's emolument policy and structure for the remuneration of the Directors and senior management of the Group. The remunerations of the Directors and senior management are determined with reference to the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

SIGNIFICANT INVESTMENT

For the six months ended 30 June 2018, the Group did not have any significant investment.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2018, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures

CHARGES ON ASSETS

As at 30 June 2018, the Group did not have any charges on assets.

FOREIGN EXCHANGE RISK

Since all of the income and most of the expenses of the Group are denominated in Renminbi, as at 30 June 2018, the Directors consider the impact from foreign exchange exposure of the Group is minimal. As at the date of this announcement, the Group has no hedging policy with respect to the foreign exchange exposure.

CONTINGENT LIABILITIES

Up to the date of this report, except as disclosed in this announcement, the Group did not have other material contingent liabilities.

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

As at 30 June 2018, none of the Directors, supervisors (the "Supervisors") and the chief executive or their respective associates had interests and short positions 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 (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 of members of Company; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules 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 June 2018, 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 for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the persons or companies (not being a Director, Supervisor or chief executive of the Company) who have interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed under the provisions of Division 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	Capacity	Number of domestic shares held	Approximate percentage of domestic shares (%)	Approximate percentage of shareholding (%)
Beijing Baoying Chuangfu Investment Management Center (Limited Partnership) *(Note 1)*	Beneficial owner	398,534,660	65.37	46.44
Guo Feng *(Note 1)*	Beneficial owner	137,611,830	22.57	16.04
Wang Yu Qin *(Note 2)*	Interest of controlled corporation	31,500,000	5.17	3.67
Beijing Zhong Jia Hui Tong Investment Management Company Limited* (北京中嘉慧通投資管理有限公司) *(Note 2)*	Beneficial owner	31,500,000	5.17	3.67
Yu Bo *(Note 3)*	Interest of controlled corporation	31,500,000	5.17	3.67
Beijing Yue Sheng Investment Management Company Limited* (北京悅升投資管理有限責任公司) *(Note 3)*	Beneficial owner	31,500,000	5.17	3.67

Notes:

1. Pursuant to the letters of intent entered into between Beijing Baoying Chuangfu Investment Management Center (Limited Partnership) ("Beijing Baoying"), Guo Feng ("Ms. Guo") and 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 31 December 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 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.

   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.

2. Wang Yu Qin (王玉琴) holds 100% equity interest in Beijing Zhong Jia Hui Tong Investment Management Company Limited* (北京中嘉慧通投資管理有限公司).

3. Yu Bo (于波) holds 95% equity interest in Beijing Yue Sheng Investment Management Company Limited* (北京悅升投資管理有限責任公司).

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any other person who had interests or short positions 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.

COMPETING INTERESTS

During the six months ended 30 June 2018 and as at the date of this announcement, none of the Directors and 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 as well as risk management of the Company. The audit committee comprises Ms. Hui Lai Yam, Mr. Gao Zhika and Mr. Chen Youfang, all of whom are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 30 June 2018 and was of the opinion that the preparation of the unaudited results for the six months ended 30 June 2018 complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code ("CG Code") contained in Appendix 15 to the GEM Listing Rules. The Company and the Directors confirm, to the best of their knowledge, that the Company has complied with the code provisions contained in the CG Code throughout the six months ended 30 June 2018 except for code provisions A.5.1.

Code provision A.5.1 of the CG Code stipulates that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent nonexecutive directors. Following the resignation of Mr. Yang Yulin as an independent non-executive Director with effect from 1 April 2018, the Company failed to meet the composition requirement of the nomination committee under code provision A.5.1 of the CG Code. However, following the appointment of Ms. Hui Lai Yam, an independent non-executive Director as a member of the nomination committee of the Company effective on 15 June 2018, the Company has fully complied with the requirements under code provision A.5.1 of the CG Code.

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 six months ended 30 June, 2018.

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

For the six months ended 30 June 2018, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities.

CHANGE OF DIRECTORS AND SUPERVISORS

For the six months ended 30 June 2018, there were the following changes in the Directors and Supervisors of the Company:

1. Mr. Wang Shaoyan (王少岩) has ceased to be an executive director of the Company with effect from the close of the annual general meeting of the Company held on 15 June 2018 (the "AGM");
2. Mr. Jiang Xiaobin(姜曉斌) has ceased to be an executive director of the Company with effect from the close of the AGM;
3. Mr. Yang Yulin (楊育林) has resigned as an independent non-executive director of the Company with effect from 1 April 2018;
4. Ms. Han Xue (韓雪) has ceased to be a member of the supervisory board of the Company with effect from the close of the AGM;
5. Ms. Yang Lixue (楊漓雪) has ceased to be a member of the supervisory board of the Company with effect from the close of the AGM;
6. Mr. Fang Yao (方耀) has been appointed as an executive director of the Company with effect from the close of the AGM;
7. Mr. Guo Aiqun (郭愛群) has been appointed as an executive director of the Company with effect from the close of the AGM;
8. Mr. Chen Youfang (陳有方) has been appointed as an independent non-executive director of the Company with effect from the close of the AGM;
9. Ms. Li Li (李藜女士) has been appointed as a member of the supervisory board of the Company with effect from the close of the AGM; and
10. Mr. Zhao Haitao (趙海濤先生) has been appointed as a member of the supervisory board of the Company with effect from the close of the AGM.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the Annual Results announcement dated 29 March 2018 and the Annual Report for the year ended 31 December 2017.

On 20 January 2017, the Company had entered into the acquisition agreement, pursuant to which the Company would acquire (a) 190 school buses from Beijing Shan Shi Media Technology Limited("Beijing Shan Shi") for the consideration of RMB38 million; and (b) Beidou monitoring system from Zhonghe Beidou Information Limited("Zhonghe Beidou") for the consideration of RMB30 million(the "Acquisition Agreement").

The Acquisition Agreement was entered into by Mr. Wang Shaoyan("Mr. Wang") (former chairman and executive Director) who did not adhere to the internal controls procedures and report the matter to the Board for consideration and approval prior to entering into the Acquisition Agreement for and on behalf of the Company.

As advised by the PRC legal adviser of the Company, although the entering of the Acquisition Agreement without the prior approval of the Board was not in compliance with the internal controls procedures of the Company and the Company Law, the obligations under the Acquisition Agreement remain binding on the Company.

As one of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition Agreement, when aggregated, exceeded 25% but was less than 100%, the Acquisition Agreement constituted a major transaction for the Company under Chapter 19 of the GEM Listing Rules and was subject to notification, announcement and Shareholders' approval requirements pursuant to Chapter 19 of the GEM Listing Rules.

Due to Mr. Wang's failure to adhere to the internal controls procedures of the Company and report the matter to the Board, the Company failed to notify the Stock Exchange, make an announcement and comply with other relevant requirements in relation to the Acquisition Agreement as required under Chapter 19 and Chapter 20 of the GEM Listing Rules. The Company will seek the Shareholders' approval to confirm and ratify the Acquisition Agreement and the transactions contemplated thereunder.

A circular containing, among other things, further details of the Acquisition Agreement is expected to be dispatched to the Shareholders on or before 31 August 2018, as the Company will require more than 15 business days after publication of this announcement to prepare the relevant information to be included in the circular.

For details, please refer to the announcements dated 9 July 2018 and 31 July 2018 of the Company.

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
Cui Bingyan
Executive Director

Beijing, the PRC
10 August 2018

As at the date of this report, the Company's executive directors are Cui Bingyan, Fang Yao and Guo Aiqun; the Company's non-executive directors are Shi Peng and Cao Yang and the Company's independent non-executive directors are Hui Lai Yam, Gao Zhikai, and Chen Youfang.

* *for identification purposes only*