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北 斗 嘉 藥 業 股 份 有 限 公 司
BAYTACARE PHARMACEUTICAL CO., LTD.*
(a joint stock limited company established in the People's Republic of China)
(Stock Code: 8197)

INTERNAL CONTROL REPORT

Reference is made to the announcement of the Company dated 21 December 2018 (the “**Announcement**”). Unless otherwise defined, all capitalised terms used herein have the same meaning as defined in the Announcement.

The board of directors (the “**Board**”) of the Company wishes to provide additional information on the internal control report referred to in the Announcement.

(1) Scope of the Review

The Company engaged NCN Risk Advisory Limited (“**NCN Risk**”) to conduct a review of the internal control system of the Company, with a focus on the following areas:

- (i) Controls on compliance with the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 of the GEM Listing Rules (the “**CG Code**”);
- (ii) Related Party Transactions as defined in Hong Kong Accounting Standard 24 “Related Party Transactions”;
- (iii) Connected Transactions as defined in Chapter 20 of the GEM Listing Rules;
- (iv) Notifiable Transactions as defined in Chapter 19 of the GEM Listing Rules;
and
- (v) Management override in respect of control procedures.

(2) Findings

Set out below are NCN Risk's major findings:

(i) Controls on compliance with the CG Code

- (a) NCN Risk reviewed the compliance checklists for the CG Code prepared by the Company for the three months ended 31 March 2018 and the six months ended 30 June 2018 (collectively, the "**2018 Interim Checklists**"). NCN Risk noted that notes and explanations were provided in the 2018 Interim Checklists, but that no references or source materials relating to the report content were attached.
- (b) NCN Risk noted that based on the notes and explanations in the 2018 Interim Checklists, the Company had certain non-compliances with the provisions of the CG Code for the three months ended 31 March 2018 and the six months ended 30 June 2018. Such non-compliances had neither been disclosed nor explained in the Interim Report 2018 of the Company, and this may constitute a breach of the GEM Listing Rules. The Board represented that these non-compliances had not been reported to them during the period from 1 April 2018 to 31 October 2018 (the "**Review Period**"). NCN Risk further noted that there is no documentation of the follow-up actions planned or taken for the abovementioned non-compliances.

Details of the non-compliances are as follows:

| Code Provision | Details of Non-Compliance |
|--|---|
| A.1.8 An issuer should arrange appropriate insurance cover in respect of legal action against its directors. | The Company has not arranged any insurance cover in respect of legal action against its directors during the Review Period. |
| A.3.2 An issuer should maintain on its website and on the GEM website an updated list of its directors identifying their role and function and whether they are independent non-executive directors. | The change of directors during the Review Period has not yet been updated in the list of directors on the Company's official website. |

(ii) Related Party Transactions

- (a) All directors of the Group (the “**Group Directors**”) are required to confirm, on a quarterly basis, the truthfulness, completeness and accuracy of his/her own information on the Related Party Register and Related Party Transactions Register maintained by the Company. Such confirmations should be returned to the Company within one month after the end of each quarter. NCN Risk noted that some confirmations on the identities of related parties and related party transactions were not returned by the Group Directors within the prescribed time period.
- (b) NCN Risk further noted that the Company has not regularly reviewed the information on the Related Party Register and Related Party Transactions Register to ensure their reliability.

(iii) Connected Transactions

- (a) All Group Directors and supervisors of the Company are required to confirm, on a quarterly basis, the truthfulness, completeness and accuracy of his/her own information on the Connected Person Register and Connected Transactions Register maintained by the Company. Such confirmations should be returned to the Company within one month after the end of each quarter. NCN Risk noted that some confirmations on the identities of connected persons and connected transactions were not returned by the Group Directors within the prescribed time period.
- (b) NCN Risk further noted that the Company has not regularly reviewed the information on the Connected Person Register and Connected Transactions Register to ensure their reliability.

(iv) Notifiable Transactions

- (a) NCN Risk noted that an acquisition agreement entered into by the Company on 20 January 2017 (the “**Acquisition Agreement**”) did not have prior approval from the Board. The failure of the former Chairman of the Company, Mr. Wang Shaoyan, to adhere to the internal controls procedures of the Company and to report the matter to the Board, led to the Company failing to notify the Stock Exchange, make an announcement and comply with other requirements in relation to the Acquisition Agreement required under Chapter 19 of the GEM Listing Rules.

(v) Controls on management override

- (a) NCN Risk noted that the Company has two reporting channels for whistleblowers to raise their concerns regarding existing or potential misconduct, malpractice or irregularities within the Group, namely a telephone hotline and an email address. The telephone hotline and the email address are the private mobile number and private email address of the chairman of the Audit Committee, Mr. Chen Youfang, respectively. NCN Risk noted that a private email address may increase the risk of omission.
- (b) NCN Risk noted that significant accounting estimates and judgments made by the management in the preparation of the Company's consolidated financial statements do not have adequate documentation for their conclusion of accounting treatments made.

(3) Major Recommendations by NCN Risk, and Actions and Remedial Measures by the Company

Set out below are NCN Risk's major recommendations, and the actions and remedial measures carried out or which will be carried out by the Company:

Major Recommendations

Actions and Remedial Measures

(i) Controls on compliance with the CG Code

- (a) The Board should review the CG Code before approving the quarterly, interim and annual reports of the Company to avoid any potential omission of disclosures.

The Company has confirmed that the Board will review the compliance checklist for the CG Code before approving the quarterly, interim and annual reports of the Company.

- (b) The references or source materials relating to the content of the Corporate Governance Report have to be attached to the compliance checklist for the CG Code and properly filed which can facilitate the efficiency of amendments, if any.

The Company has confirmed that it will attach references or source materials relating to the content of the Corporate Governance Report to the compliance checklist for the CG Code and file them properly.

Major Recommendations

- (c) Any deviations or non-compliances of the provisions of the CG Code identified in the CG Code compliance checklist have to be disclosed in the Company's half-yearly report or annual report with reasonable and supportable explanation.
- (d) Follow-up action plan for the non-compliances of the CG Code has to be prepared. Follow-up actions that have been taken by the Company have to be recorded to evaluate whether further remedial effort is required.

(ii) Related Party Transactions

- (a) The Company should remind all Group Directors shortly before and after the prescribed time limit for the return of the confirmations.
- (b) The Company should perform a regular review on the information in the Related Party Register and Related Party Transactions Register. In addition, the Company should engage a professional search agent to verify the information declared by the Group Directors on a sampling basis.
- (c) In addition to the internal training provided by the Company, the Company may also enrol its directors and employees for relevant external training seminars at its expense.

Actions and Remedial Measures

The Company has confirmed that it will disclose any deviations from or non-compliance with the CG Code in the next annual report.

The Company has already updated the list of directors on its website, and is negotiating the terms of directors and officers liability insurance with an insurance company. The Company is also formulating the follow-up action plan for the non-compliances of the CG Code.

The Company will remind all Group Directors to strictly comply with the prescribed time limit for returning confirmations.

The Company has confirmed that it has designated the finance manager of the Company to perform regular reviews on the Related Party Register and Related Party Transactions Register. The Company is also considering implementing third party verification on the information declared by the Group Directors.

The Company has confirmed that it will enrol its directors and employees for relevant external training seminars at its expense.

Major Recommendations

Actions and Remedial Measures

(iii) Connected Transactions

(a) The Company should remind all Group Directors and supervisors of the Company shortly before and after the prescribed time limit for the return of the confirmations.

The Company will remind all Group Directors and supervisors of the Company to strictly comply with the prescribed time limit for returning confirmations.

(b) The Company should perform a regular review on the information in the Connected Person Register and Connected Transactions Register. In addition, the Company should engage a professional search agent to verify the information declared by the Group Directors and supervisors of the Company on a sampling basis.

The Company has confirmed that it has designated the company secretary of the Company to perform regular reviews on the Connected Person Register and Connected Transactions Register. The Company is also considering implementing third party verification on the information declared by the Group Directors and supervisors of the Company.

(c) In addition to the internal training provided by the Company, the Company may also enrol its directors and employees for relevant external training seminars at its expense.

The Company has confirmed that it will enrol its directors and employees for relevant external training seminars at its expense.

(iv) Notifiable Transactions

(a) The Company should seek independent professional advice before entering into any possible notifiable transaction to determine whether it is a notifiable transaction or not.

The Company has confirmed that it will seek independent legal advice to determine whether a controversial transaction should be regarded as a notifiable transaction.

Major Recommendations

(b) The management of the Company should deepen their understanding of notifiable transactions as defined in Chapter 19 of the GEM Listing Rules. In addition to the internal training provided by the Company, the Company may also enrol its directors and employees for relevant external training seminars at its expense.

(v) Controls on management override

(a) An official email address should be registered specifically for whistleblowing purposes. Access to this email account should be restricted to personnel designated for whistleblowing by the Board.

(b) In addition to the internal training provided by the Company, the Company may also enrol its directors and employees for relevant external training seminars at its expense.

(c) The references, source materials and management's rationale relating to significant accounting estimates and judgments have to be attached to the financial records and properly filed to support their accounting treatments.

Actions and Remedial Measures

The Company has confirmed that it will enrol its directors and employees for relevant external training seminars at its expense.

The Company has registered an official email address specifically for whistleblowing purposes. Only the chairman of the Audit Committee, Mr. Chen Youfang, who is responsible for the whistleblowing of the Group, has access rights to this email account.

The Company has confirmed that it will enrol its directors and employees for relevant external training seminars at its expense.

The Company has confirmed that its documentation of significant accounting estimates and judgments will include more detailed analysis, references and source materials in the coming financial years.

Major Recommendations

- (d) The Company should require personnel at managerial positions to take mandatory vacation leave for a prescribed time period and assign appropriate personnel to follow their work in their absence, so that irregularities at that position could be detected or identified directly.

- (e) In addition to regular internal review of the Group's internal control system conducted by the Audit Committee, the Company should strengthen the effort on identifying potential internal control irregularities within the Group by appointing an external expert to perform regular independent internal control reviews. The independent internal control expert should be directly accountable to the Board.

Actions and Remedial Measures

The Company has confirmed that it will require personnel at managerial positions to take mandatory vacation leave for a prescribed time period and will assign appropriate personnel to follow their work in their absence in the coming financial years.

The Company will perform independent internal control reviews in the coming financial years to improve the internal control system of the Group.

(4) Assessment of the Board and the Audit Committee

Having carefully reviewed the key findings and recommendations made by NCN Risk, and the actions and remedial measures carried out by the Company, the Board and the Audit Committee of the Company are of the view that (i) the scope and findings of the internal control review carried out by NCN Risk are adequate, and that (ii) on the basis that the Company carries out and completes the actions and remedial measures set out above, the reporting procedures and internal control system of the Company are sufficient for the Company to meet its obligations under the GEM Listing Rules.

Trading in the shares of the Company has been suspended with effect from 9am on 27 September 2018 and will remain suspended until further notice.

By Order of the Board
Baytacare Pharmaceutical Co., Ltd.*
Executive Director
Cui Bingyan

Beijing, People's Republic of China, 11 January 2019

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing Securities on GEM of The Stock Exchange of Hong Kong Limited 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, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the website of GEM at www.hkgem.com for at least 7 days from the date of the publication and the Company's website at www.baytacare.com from the date of this announcement.

* *for identification purposes only*