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)

# 2019
## *Interim Report*

* For identification purpose only

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (the "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*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 2019 was approximately RMB7,212,000 (2018: RMB7,097,000).
- Loss attributable to owners of the Company (the "Shareholders") for the six months ended 30 June 2019 was approximately RMB3,549,000 (2018: RMB8,348,000).
- Loss per share (the "Shares") of the Company for the six months ended 30 June 2019 was approximately RMB0.41 cents (2018: approximately RMB0.97 cents).
- The Directors do not recommend the payment of any dividend for the six months ended 30 June 2019 (2018: 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 2019 (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** | |
|---|---|---|---|---|---|
| | Notes | **2019 RMB'000** | 2018 RMB'000 | **2019 RMB'000** | 2018 RMB'000 |
| **Revenue** | 3 | **7,212** | 7,097 | **–** | 7,097 |
| Cost of sales | | **(6,525)** | (6,745) | **–** | (6,745) |
| Gross profit | | **687** | 352 | **–** | 352 |
| Other revenue | 4 | **292** | 515 | **32** | 272 |
| Reversal of impairment loss on trade receivables | | **1,200** | 700 | **–** | 700 |
| Reversal of impairment loss on trade deposit | | **–** | 1,000 | **–** | – |
| Administrative and other operating expenses | | **(5,062)** | (10,092) | **(2,094)** | (457) |
| **Operating (loss)/profit** | | **(2,883)** | (7,525) | **(2,062)** | 867 |
| Finance costs | | **(123)** | (313) | **–** | (273) |
| (Loss)/profit before taxation | 5 | **(3,006)** | (7,838) | **(2,062)** | 594 |
| Income tax expense | 6 | **(120)** | – | **–** | – |
| (Loss)/profit after taxation | | **(3,126)** | (7,838) | **(2,062)** | 594 |
| Other comprehensive income | | **–** | – | **–** | – |
| **Total comprehensive (expense)/income for the period** | | **(3,126)** | (7,838) | **(2,062)** | 594 |
| **Total comprehensive (expense)/income attributable to:** | | | | | |
| Owners of the Company | | **(3,549)** | (8,348) | **(2,068)** | (5) |
| Non-controlling interests | | **423** | 510 | **6** | 599 |
| | | **(3,126)** | (7,838) | **(2,062)** | 594 |
| (Loss)/earnings per share – Basic and diluted (RMB) | 8 | **(0.41) cents** | (0.97) cents | **(0.24) cents** | 0.00 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **30 June 2019 (unaudited) RMB'000** | 31 December 2018 (audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 9 | **4,473** | 4,653 |
| Property, plant and equipment | 10 | **106** | 541 |
| Investment property | 11 | **69,800** | 69,800 |
| Goodwill | | **926** | – |
| | | **75,305** | 74,994 |
| **CURRENT ASSETS** | | | |
| Inventories | | **858** | – |
| Biological assets | | **24,705** | 24,705 |
| Trade and other receivables | 12 | **8,169** | 5,202 |
| Cash and bank deposits | | **2,223** | 6,413 |
| | | **35,955** | 36,320 |
| **LESS: CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | **(20,828)** | (18,520) |
| Contract liabilities | | **(2,747)** | (2,305) |
| Litigation liabilities | 14 | **(54,908)** | (54,908) |
| Amount due to a director | 15 | **(2,296)** | (2,339) |
| | | **(80,779)** | (78,072) |
| **NET CURRENT LIABILITIES** | | **(44,824)** | (41,752) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **30,481** | 33,242 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **(15,462)** | (15,343) |
| Long-term borrowings | | **(22,500)** | (22,500) |
| | | **(37,962)** | (37,843) |
| **NET LIABILITIES** | | **(7,481)** | (4,601) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 16 | **85,805** | 85,805 |
| Reserves | | **(87,493)** | (83,944) |
| Equity attributable to owners of the Company | | **(1,688)** | 1,861 |
| Non-controlling interests | | **(5,793)** | (6,462) |
| **CAPITAL DEFICIENCY** | | **(7,481)** | (4,601) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Others | Property revaluation reserve | Statutory revenue reserve | Accumulated losses | Sub-total | Non-controlling interest | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 |
| As at 1 January 2019 | **85,805** | **102,618** | **11,326** | **18,459** | **9,685** | **(226,032)** | **1,861** | **(6,462)** | **(4,601)** |
| Acquisition of subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **246** | **246** |
| Total comprehensive (expenses)/ income for the period | **-** | **-** | **-** | **-** | **-** | **(3,549)** | **(3,549)** | **423** | **(3,126)** |
| As at 30 June 2019 | **85,805** | **102,618** | **11,326** | **18,459** | **9,685** | **(229,581)** | **(1,688)** | **(5,793)** | **(7,481)** |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **Net cash (outflow)/inflow from operating activities** | **(2,653)** | 1,304 |
| **Net cash outflow from investing activities** | **(1,537)** | (174) |
| **(Decrease)/Increase in cash and cash equivalents** | **(4,190)** | 1,130 |
| **Cash and cash equivalents at beginning of period** | **6,413** | 919 |
| **Cash and cash equivalents at end of period Represented by Cash and Bank Balances** | **2,223** | 2,049 |

## NOTES

**1. General**

The Company is a joint stock limited liability company incorporated in the People's Republic of China (the "PRC") and its H shares are listed on the GEM of The Stock Exchange of Hong Kong Limited. The Company suspended its H shares trading on 27 September 2018.

The principal activities of the Group are development, manufacture, sale of medicines and investment holdings in the PRC.

The condensed consolidated financial statements are presented in Renminbi, which is the same as the functional currency of the Group.

**2. 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 Hong Kong Companies Ordinance and 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 2019 are the same as those in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

***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 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 16 | Leases |

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.

### 3. Revenue and Segment information

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

**Six months ended 30 June 2019 (unaudited)**

| | Medicine business RMB'000 | Chinese herbs business RMB'000 | Trading business RMB'000 | Big data business RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| Reportable revenue from external customers | **–** | **–** | **–** | **7,212** | **7,212** |
| Reportable segment results | **(389)** | **(126)** | **1,759** | **(2,136)** | **(892)** |
| Unallocated corporate other income | | | | | **–** |
| Unallocated corporate expense | | | | | **(2,114)** |
| Loss before taxation | | | | | **(3,006)** |
| Income tax expense | | | | | **(120)** |
| Loss for the period | | | | | **(3,126)** |

**Six months ended 30 June 2018 (unaudited)**

| | Medicine business RMB'000 | Chinese herbs business RMB'000 | 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 taxation | | | | | (7,838) |
| Income tax expense | | | | | – |
| Loss for the period | | | | | (7,838) |

**As at 30 June 2019 (unaudited)**

| | Medicine business RMB'000 | Chinese herbs business RMB'000 | Trading business RMB'000 | Big data business RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Reportable segment assets | **73,195** | **29,806** | **(1,161)** | **6,994** | **108,834** |
| Unallocated corporate assets | | | | | **2,426** |
| | | | | | **111,260** |
| **LIABILITIES** | | | | | |
| Reportable segment liabilities | **44,419** | **1,061** | **13,311** | **2,406** | **61,197** |
| Unallocated corporate liabilities | | | | | **57,544** |
| | | | | | **118,741** |

**As at 30 June 2018 (unaudited)**

| | Medicine business RMB'000 | Chinese herbs business RMB'000 | 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 |

**Revenue from contract with customers within the scope of HKFRS 15**

| | Six months ended 30 June | | Three months ended 30 June | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Sales of goods | **7,212** | 7,097 | **–** | 7,097 |

Timing of revenue recognition:

| | Six months ended 30 June | | Three months ended 30 June | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| At a point in time | **7,212** | 7,097 | **–** | 7,097 |

## 4. Other revenue

| | Six months ended 30 June | | Three months ended 30 June | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Rental income | **253** | 506 | **–** | 253 |
| Sundry income | **37** | 8 | **30** | 19 |
| Bank interest received | **2** | 1 | **2** | – |
| | **292** | 515 | **32** | 272 |

**5. (Loss)/profit before taxation**

(Loss)/profit before taxation is stated after charging the following items:

| | Six months ended 30 June | | Three months ended 30 June | |
|---|---|---|---|---|
| | **2019** **RMB'000** **(unaudited)** | 2018 RMB'000 (unaudited) | **2019** **RMB'000** **(unaudited)** | 2018 RMB'000 (unaudited) |
| Depreciation of property, plant and equipment | **435** | 431 | **431** | 215 |
| Amortization of intangible assets | **180** | 352 | **67** | 176 |
| | **615** | 783 | **498** | 391 |

**6. 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 have no taxable profits for the relevant periods.

**7. Dividends**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: nil).

**8. (Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for a relevant period is based on unaudited (loss)/profit attributable to owners of the Company which is the same as unaudited total comprehensive (expense)/income 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 2019 are 858,054,240 and 858,054,240 respectively (2018: 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 periods.

## 9. Intangible assets

| | **As at 30 June 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Net book value, at the beginning of period | **4,653** | 6,606 |
| Amortisation | **(180)** | (470) |
| Impairment loss | **–** | (1,483) |
| Net book value, at the end of period | **4,473** | 4,653 |

## 10. Property, plant and equipment

| | **As at 30 June 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Net book value, at the beginning of period | **541** | 1,732 |
| Additions | **–** | 987 |
| Disposal | **–** | (1,865) |
| Depreciation | **(435)** | (313) |
| Net book value, at the end of period | **106** | 541 |

## 11. Investment properties

| | **As at 30 June 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Net book value, at the beginning of period | **69,800** | 69,699 |
| Gain arising from change in fair value | **–** | 101 |
| Net book value, at the end of period | **69,800** | 69,800 |

As a result of the Jiaohe litigation (Note 14), the Group's investment properties have been seized by the relevant court in the PRC. The seizure restricts the usage of investment properties for transfer. For details of the case, please refer to the announcement of the Company dated 26 March 2019.

## 12. Trade and other receivables

| | **As at 30 June 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Trade receivables | **786** | 16 |
| Prepayment and other receivables | **7,383** | 5,186 |
| | **8,169** | 5,202 |

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 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| 0–30 days | **–** | – |
| 31–60 days | **–** | – |
| 61–90 days | **–** | – |
| 91–180 days | **–** | – |
| 181–365 days | **–** | – |
| over 365 days | **17,478** | 17,908 |
| Total trade receivables | **17,478** | 17,908 |
| Less: Allowance for doubtful debts | **(16,692)** | (17,892) |
| | **786** | 16 |

## 13. Trade and other payables

| | As at 30 June 2019 RMB'000 (unaudited) | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Trade payables | **6,636** | 5,206 |
| Payables for PRC statutory contribution | **629** | 590 |
| Other tax payables | **1,487** | 319 |
| Other payables and accruals | **12,076** | 12,405 |
| | **20,828** | 18,520 |

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

| | As at 30 June 2019 RMB'000 (unaudited) | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| 0 to 1 month | **–** | – |
| 2 to 6 months | **1,430** | – |
| 7 to 12 months | **–** | – |
| Over 1 year | **5,206** | 5,206 |
| | **6,636** | 5,206 |

## 14. Litigation liabilities

| | As at 30 June 2019 RMB'000 (unaudited) | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Provisions made for | | |
| – Jiaohe litigation (Note a) | **16,738** | 16,738 |
| – Haigang litigation (Note b) | **38,170** | 38,170 |
| | **54,908** | 54,908 |

Notes:

(a) On 17 May 2007, the Company provided guarantee to Jiaohe City Finance Bureau of the Jilin Province (the "Lender") in respect of loan amount of RMB20,000,000 for 3 years lent to a company controlled by an ex-shareholder of the Company (the "Borrower"). As the Borrower was unable to repay the outstanding loan and interest ("Outstanding Liabilities"), the Lender had taken legal action against the Company for the repayment of the Outstanding Liabilities. Pursuant to the court order and court mediation issued by the relevant courts in the PRC on 5 December 2013 and on 21 April 2014 respectively, the Company agreed with the Lender to repay the Outstanding Liabilities on or before 31 December 2015 in accordance with the agreed repayment schedule. The Company had paid RMB10,000,000 to the Lender during the year 2015 and thereafter no further payment on the balance of the Outstanding Liabilities. Accordingly, the Lender made application to the court to demand the Company to perform the outstanding repayment obligation on 13 June 2017. Pursuant to the court order issued on 27 April 2018, the Company was ordered to pay to the Lender for outstanding loan amount of RMB10,000,000, outstanding loan interest (according to the loan interest rate as stipulated by Jilin bank since the date of borrowing and legal expenses of RMB87,400 within 10 days ("Litigation Liabilities"). On 9 May 2018, the court seized the investment properties of the Company upon its failure to perform the repayment obligation.

In response to the litigation, the Company has sought legal advice regarding the defense. During the course of investigation, the management of the Company found that the Group's books and records had not recorded any information about the financial guarantee and the repayment of RMB10,000,000 to the Lender. Furthermore, the former management of the Company had not disclosed to the current management concerning the financial guarantee and related litigation. In response to this issue raised by the Board to the former management of the Company, an entity controlled by a member of former management provided a guarantee to the Lender to bear all the Litigation Liabilities of the Company. Based on this guarantee, the Company's legal advisor opined that the Group is not liable for the litigation. Due to the uncertainty as to whether the Company can discharge the litigation liabilities, the Group made provision for the litigation liabilities of approximately RMB16,738,000 in the consolidated financial statements for the year ended 31 December 2018.

(b) On 27 December 2016, the Company entered into a loan agreement with an independent third party ("Lender") to borrow RMB45,000,000 ("Loan") which was repayable on 11 January 2017. The Loan was guaranteed by Mr. Wang Shaoyan (Mr. Wang), the ex-chairman and ex-director of the Company, and the father of Mr. Wang and bore default penalty if the Company was unable to repay the Loan on 11 January 2017. On 12 January 2017, the Company repaid RMB19,500,000 and thereafter no further repayment made on the remainder of the Loan balance. On 17 May 2018, the Lender made application to the relevant court in the PRC to demand the Company to repay the remainder of the Loan balance and default penalty. Pursuant to the court order on 17 August 2018, the Company was ordered to pay to the Lender the Loan balance of RMB25,500,000, default penalty (at the daily rate of 0.065% on RMB25,500,000) and legal expenses of RMB710,833 ("Litigation Liabilities") within 7 days.

Due to Mr. Wang had not informed the management of the Company about the Loan, the Board had not aware of this incident until the Lender filed a complaint to The Stock Exchange of Hong Kong Limited on 16 April 2018. In response to this incident, the Company conducted investigation and found that the Loan principal of RMB45,000,000 and its repayment of RMB19,500,000 was deposited to and repaid by an entity controlled by the father of Mr. Wang. These transactions had not been recorded in the Group's books and records. The Company has sought legal advice on the litigation regarding the defense. Based on the facts and circumstances available to the Company, the legal advisor opined that due to the illegal act of Mr. Wang, Mr. Wang and his father are responsible for the Litigation Liabilities and they have sufficient assets to settle the Litigation Liabilities, therefore, the Group is not liable for the litigation. Due to the uncertainty as to whether the Company can discharge the litigation liabilities, the Group made provision for the litigation liabilities of approximately RMB38,170,000 in the consolidated financial statements for the year ended 31 December 2018.

**15. Amount due to a director**

The amount is unsecured, interest-free and repayable on demand.

**16. Share capital**

| | **As at 30 June 2019 (unaudited)** | | As at 31 December 2018 (audited) | |
|---|---|---|---|---|
| | **Number of shares '000** | **Amount RMB'000** | Number of shares '000 | Amount 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 |

**17. Capital commitment**

| | **As at 30 June 2019 RMB'000 (unaudited)** | As at 31 December 2018 RMB'000 (audited) |
|---|---|---|
| Contracted but not provided for | | |
| – Acquisition of software | **520** | 520 |

**18. Acquisition of subsidiaries**

On 31 May 2019, the Company entered into a sale and purchase agreement (the "Agreement") with Taofuan Holdings Co., Ltd.* (陶福安控股有限公司) (the "Vendor") relating to acquisition of Hubei Taofuan Electronics Commerce Co., Ltd.* (湖北陶福安電子商務有限公司) (the "Target") pursuant to which the Company conditionally agreed to acquire 70% equity interest in the Target (the "Sale Shares") at an aggregate consideration of RMB1,500,000 (the "Acquisition"). The acquisition was completed on 21 June 2019, which is also the acquisition date for accounting purpose. The total consideration would be settled by cash, of which RMB500,000 was settled on 21 June 2019, RMB500,000 shall be payable in cash on or prior to 30 September 2019, and the remaining balance of RMB500,000 shall be payable in cash on or prior to 31 December 2019.

The Target is a limited liability company incorporated under the laws of the PRC and is engaged in the business of the planting, primary processing and trade of Chinese herbs, as well as the production and sales of important decoction pieces. The directors of the Company believes that the Acquisition will provide business and revenue growth opportunities for the Group through the business activities of the Target.

The Group has elected to measure the non-controlling interests in the Target at the non-controlling interest's proportionate share of fair values of the Target's identifiable net assets. The fair value of the Group's share of the Target's identifiable assets acquired and liabilities and contingent liabilities assumed could only be determined on a provisional basis pending completion of the fair value appraisal process. The Group is still in the process of identifying and valuing intangible assets of the Target that can be recognised separately from goodwill.

The fair value of the identifiable assets acquired and liabilities assumed of the acquiree as at the date of acquisition were as follows:

| | RMB'000 |
|---|---|
| **Net assets acquired (determined on a provisional basis):** | |
| Inventories | 859 |
| Trade and other receivables | 2,111 |
| Cash and bank balances | 48 |
| Trade and other payables | (2,198) |
| Total identifiable net assets | 820 |
| Non-controlling interests | (246) |
| Net identifiable net assets | 574 |
| **Consideration:** | |
| Cash consideration transferred | 500 |
| Consideration payable | 1,000 |
| Total consideration | 1,500 |
| Provisional goodwill arising on acquisition | 926 |
| **Net cash outflow arising on acquisition:** | |
| Cash consideration transferred | 500 |
| Cash and cash equivalents acquired | (48) |
| Net cash outflow on acquisition | 452 |

## BUSINESS REVIEW AND PROSPECTS

### Business review

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*

After thorough study and consideration of the Feasibility Study Report and the potential markets and costs of different Chinese herbs, the Company considered that in addition to ginseng, the plantation and harvesting of Sehisandra (五味子) would also be one of the key products of the Company under this segment. Sehisandrais a precious Chinese herb and considered as one of the 50 fundamental herbs which have multi-functions and wide application for health-related issue. Sehisandra can harvest and ready for sales one year after the plantation and can harvest over a period of 10 years while the third to fourth year after the plantation would be their rich harvesting period. According to market search of the Company, the Sehisandra is in strong demand and its market price has been on an upward trend, increased from RMB50/kg in 2015 to RMB150/kg to 2018.

The Company has already employed two experienced plantation personnel who both have over 15 years of experience in the plantation of Sehisandra and have deep understanding in the local market for Sehisandra. The Company is currently working on the preparation work for the plantation of and has been liaising with the potential suppliers of the sapling of Sehisandra and potential customers of Sehisandra so as to formulate our plantation plan. The Company has entered into a sales contract with 尚志市北方中藥材種植專業合作社 (the "Co-Op") on 28 July 2018 for a term of five years and three months, pursuant to which the Co-op would purchase 20,000 kg to 30,000 kg of Sinshandra each year from the Company at the prevailing market price. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, each of Co-Op and its ultimate beneficial owners is independent of the Company and its connected persons. The Company has already received a deposit of RMB100,000 from the Co-Op pursuant to the sales contract. The Company intends to procure Sehisandra locally to satisfy the obligation under the sales contract for the years ended 31 December 2018 and 2019 and expects to sell the harvested self-planting Sehisandra beginning from 2020.

In respect of the sales of Ginseng, 安圖縣東北虎新興特產有限公司, a wholly-owned subsidiary of the Company, has entered into supply contract with the Co-Op on 6 August 2018, pursuant to which the Co-Op would purchase the ginseng planted in the Forest Land from the Group at a price taking into account the quality of ginseng and the prevailing market price, for a term of three years. The Company has already received a deposit of RMB100,000 from the Co-Op.

### B. *Medicines Business*

There is strong correlation between the original medicine business of the Group and the distribution business under the Agency Agreement and Framework Agreement, with Zhuhai Guangyuan Co., Ltd.* (珠海廣緣醫藥有限公司) ("Zhuhai Guangyuan"). The Group is originally a Chinese medicine manufacturer based in Jilin Province with extensive sales and distribution network covering various districts in Jilin Province, including Changchun, Jilin, Siping, Yanji and Jiutai, etc.. Although the Group has made a commercial decision to scale down its original manufacturing of Chinese medicine business in view of the high research and development costs and 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, it still maintains good and close relationship with the downstream customers including Zhuhai Guangyuan, pharmacy stores and hospitals to distribute Chinese medicines or other relating products in Jilin Province.

Zhuhai Guangyuan does possess extensive distribution network with nationwide chain stores but given their existing network is principally focused in Southern China and they do not maintain an extensive network in Jilin Province, they entered into the Agency Agreement with the Company so that the Product can be marketed in Jilin Province in a more cost-effective way.

It is the intention between the Company and Zhuhai Guangyuan that the distribution of the Product would serve as a starting point for future and more extended cooperation between them. Should the distribution of the Product by the Group in Jilin Province be proved to be successful, Zhuhai Guangyuan would consider to engage the Company to act as the authorized Zhuhai Guangyuan for its other medicines or medical products, Moreover, the Company can also take this opportunity to demonstrate its distribution capability in Jilin Province to other medical Zhuhai Guangyuans or manufacturers that is interested in marketing or distributing their products in Jilin Province. As such, the Company expects to generate more revenue and profit from this business segment after the transformation from the role of a manufacturer to Zhuhai Guangyuan.

### C. *Medicines Purchasing Management/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, Purchasing Management/Trading Business through the JV Company and Beijing Shangzheng Technology's established trading channels and other long established trading channels.

On 26 June 2019, the Company and its new customer, Haozhou Huayu Herbal Medicine Co., limited (亳州華宇中藥飲片有限公司) entered into an acquisition agreement for Chinese herbs for a total transactional monetary amount of RMB38,500,000.

### *D. Big Data Business*

Among the seven software products development commissioned by the company, the Beidou Satellite Intelligent Terminal Control and Management System Software (the "Software"), which is compatible with a wide range of mobile devices, including smartphones, tablets, smart watches and student cards, and is designed for both iOS and Android operating system and comprises location-based service related functions including global positioning system providing precise global location and velocity data, location security assistance services (early warning, rescue, alarm, etc.) as well as remote control of connection device functions, has been completed in August 2018 and delivered to the Group.

Reference is made to the voluntary announcement of the Company dated 17 August 2018 in respect of the entering of (1) Strategic Cooperation Agreement; (2) Technical Development Service Agreement; (3) Sale and Purchase Agreement and (4)Proposed Procurement Cooperation Agreement. (the "Agreements") Pursuant to the Agreements, pursuant to which the Group begin to commercialize the Software through providing the Software to install to the smart phones procured from independent third parties and on-sold them to the purchaser.

The agreement for the sale and purchase of mobile devices entered into by Baytacare Trading Co., Ltd.* (北斗嘉貿易有限公司) ("Baytacare Trading") on 13 October 2018, a wholly-owned subsidiary of the Company, with a new customer, Ulefone Technology (HK) Co., Limited. The total transactional monetary amount under the sale and purchase agreement is USD1,071,000, and as of 20 December 2018, Baytacare Trading has received a deposit of USD321,300. As of 25 March 2019, the monetary amount (unaudited) received by Baytacare Trading under the sale and purchase agreement is USD1,071,000 (inclusive of the abovementioned deposit of USD321,300). All the transactions under the sale and purchase agreement have been completed.

Baytacare Trading entered into an agreement for the sale and purchase of mobile devices with its customer, Ulefone Technology (HK) Co., Limited for a total transactional monetary amount of USD2,000,000 on 19 June 2019, and as of 30 June 2019, Baytacare Trading has received initial funds of USD385,000.

During the Period under Review, compared with the corresponding period in 2018, the turnover was approximately RMB7,212,000 (2018: approximately RMB7,097,000), representing an increase approximately 1.62%, mainly due to the stable development of the Group's business. The general, administrative and other operating expenses amounted to approximately RMB5,062,000 (2018: approximately RMB10,092,000), representing a decrease approximately 49.84%, mainly due to the streamlining of the staff structure, the decrease in the rental cost of the business premises and the strengthening of cost control. Finance costs is approximately RMB123,000 (2018: approximately RMB313,000). The total comprehensive expense attributable to owners of the Company was approximately RMB3,549,000 (2018: approximately RMB8,348,000).

**Prospects**

With the slow growth of the pharmaceutical industry, continuous introduction of various new medical regulations and the gradual implementation of the "two-invoices system" policy, the environment of China's pharmaceutical market has experienced significant change. The Board will focus on existing business growth and also will continue to explore and evaluate new businesses and investment opportunities which could be of good potential and/or long-term benefit to the Group and the shareholders of the Company (the "Shareholders").

(a) the cultivation of the Chinese Herbs requires time, the Company will harvest existing matured underground wild ginsengs grown on the Forest Land for sale if the market price is considered favourable to the Company;

(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;

(c) established purchasing management/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; and

(d) the Company is also in negotiation with companies in the electricity industry and education industry regarding the application and sales of the Software. The Company will commercialize other six developed software products.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, the Company had total assets of approximately RMB111,260,000 which were financed by current liabilities of approximately RMB80,779,000, deferred tax liabilities of approximately RMB15,462,000 and long-term borrowings of approximately RMB22,500,000.

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 2019, the Company had cash and bank balances of approximately RMB2,223,000 and are denominated in Renminbi and U.S. dollar.

As at 30 June 2019, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 45%. 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 94%.

Save as disclosed above, as at 30 June 2019, the Company did not have any committed borrowing facilities.

## LONG-TERM BORROWINGS

As at 30 June 2019, the long-term borrowings with carrying amount of RMB22,500,000 (31 December 2018: 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.

As at 30 June 2019, the Group's gearing ratio (defined as long-term borrowings, short-term borrowing, and bank overdrafts divided by total Shareholders' equity) as at that date was not applicable as the Group had a net deficiency in capital (31 December 2018: N/A).

## TREASURY POLICIES

The Group adopts a conservative approach towards treasury policies. In selling its products, the Group may require new customers to make advance payment equivalent to approximately 45% of their purchases. The general credit terms in relation to the accounts receivable of the Group is 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 2019, total heads of staff was 10 (31 December 2018: 11), payroll costs of the Group for the six months ended 30 June 2019 amounted to approximately RMB979,000 (31 December 2018: RMB3,428,000). 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 HELD

The Group did not have any significant investment as at 30 June 2019.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2019, save as disclosed below, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

On 31 May 2019, the Company entered into a sale and purchase agreement with Taofuan Holdings Co., Ltd.* (陶福安控股有限公司) (the "Vendor") relating to the acquisition of Hubei Taofuan Electronics Commerce Co., Ltd.* (湖北陶福安電子商務有限公司) (the "Target") pursuant to which the Company conditionally agreed to acquire 70% equity interest in the Target at an aggregate consideration of RMB1.5 million (the "Acquisition"). The acquisition were completed on 21 June 2019 and a goodwill of approximately RMB926,000 arose from the Acquisition (see Note 18). Details of the Acquisition are set out in the Company's announcement dated 31 May 2019.

## CHARGES ON ASSETS

As at 30 June 2019, 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 2019, the Directors consider the impact from foreign exchange exposure of the Group is minimal. As at the date of this report, the Group has no hedging policy with respect to the foreign exchange exposure.

## LEGAL ACTIONS

The Company instituted legal actions in mainland China against Mr. Wang Shaoyan (a former executive director of the Company and chairman of the Board, who had been removed as the chairman of the Board) for entering into various agreements on behalf of the Company without due authorisation of the Board, and failure to carry out his duties as a director of the Company and to protect the interest of the Group. On 21 August 2018, Mr. Wang Shaoyan was arrested by the PRC Public Security Bureau for suspected misappropriation of funds. On 26 September 2018, Beijing Municipal Chaoyang District People's Procuratorate (北京市朝陽區人民檢察院) issued an approval for arrest of Mr. Wang Shaoyan for suspected misappropriation of funds in accordance with the Criminal Procedure Law of the People's Republic of China (中華人民共和國刑事訴訟法). The public security authority also included Mr. Wang Yan, the father of Wang Shaoyan, in the scope of investigation.

In relation to the civil loan dispute lawsuit between the Company and Beijing Haigang Investment Development Co., Ltd.* (北京海港投資發展有限公司) ("Harbour Company"), the Company has on 12 October 2018 received the judgment of Beijing Chaoyang District People's Court. The court ruled that the Company is to repay the principal loan amount of RMB25,500,000, related expenses and legal fees; and that WangYan and Wang Shaoyan are to be jointly liable for the above liabilities of the Company. The court has seized a real estate and related assets under Wang Shaoyan's name. The Harbour Company has applied to the People's Court of Chaoyang District of Beijing ("Beijing Court of China") for enforcement of the loan case, and the Harbour Company has applied to the Beijing Court of China on 29 December 2018 for suspension of enforcement against the Company, and for enforcement against the assets of Wang Yan and Wang Shaoyan only. The real estate assets of Wang Shaoyan and the company shares held by Wang Shaoyan and Wang Yan are being further dealt with by the Beijing Court of China.

Upon the inquiry of the Chinese lawyer of the Company to the Beijing Court of China in March 2019, the Beijing Court of China has not named the Company as the person subject to enforcement.

In relation to the agreement for the acquisition of school buses entered into by the Company, Beijing Shan Shi Media Technology Limited* (北京山石傳媒科技有限公司) ("Beijing Shan Shi") and Zhonghe Beidou Information Technology Limited* (中和北斗信息技術股份有限公司), as Beijing Shan Shi has not delivered the school buses in accordance with the provisions of the agreement, this has constituted a breach of the agreement. The Company has formally engaged a lawyer to sue Beijing Shan Shi, to pursue its legal liabilities.

For details, please refer to the announcements of the Company dated 26 April 2018, 27 April 2018, 30 April 2018, 9 July 2018, 14 September 2018, 26 September 2018, 21 December 2018 and 26 March 2019.

On 29 March 2018, Mr. Wang Shaoyan made five unauthorised transfers of an aggregate amount of RMB6,000,000 from the Company to Beijing Shengshi Yansen Technology Limited * (北京盛世岩森科技有限公司) ("Beijing Shengshi"). On 30 March 2018, Beijing Shengshi returned RMB350,000 to the Company. However, despite repeated demands by the Company and legal letters sent by the Chinese lawyer of the Company to Beijing Shengshi, Beijing Shengshi has refused to repay the outstanding amount of RMB5,650,000. The Company has instructed its Chinese lawyer to commence legal action in the PRC against Beijing Shengshi for the recovery of the outstanding amount of RMB5,650,000.

## LEGAL CASES

### Seizure of the Company's property in Jilin City

Upon inquiry at the Jiaohe People's Court of Jilin Province ("Jiaohe Court of China") in February 2019, the Company found that the property in Jilin City under the Company's name ("Jilin City Property of the Company") has been seized by Jiaohe Court of China.

According to the Company's inquiries so far, the background of the above case is as follows:

The case stemmed from that Jilin Gao Ke Mushroom Industry Development Co., Ltd. (吉林省高科食用菌產業有限公司) ("Gao Ke"), an affiliate of the original shareholder and the original de facto controller of the Company ("original shareholder of the Company") borrowed from Jiaohe State-owned Assets Management Co., Ltd. (蛟河市國有資產經營公司) ("State-owned Assets Company"), and the borrowing was guaranteed by the Company. Gao Ke still owes the State-owned Assets Company 10 million yuan in principal and related interest. On 13 June 2017, the State-owned Assets Company applied to the Jiaohe Court of China for enforcement on the basis of the (2014) JZMSZZ No. 37 Paper Of Civil Mediation issued on 21 April 2014. The Jiaohe Court of China seized the Company's Jilin City Property of the Company accordingly.

The debt was not disclosed when the original shareholder of the Company transferred its shares in the Company to the current shareholder of the Company in 2016. According to the agreement for the transfer of the shares of the Company at that time, the debt should be borne by the original shareholder of the Company.

On 9 August 2018, Jilin Shangpin Blueberry Enzyme Biotechnology Co., Ltd. (吉林尚品藍莓酵素生物科技有限責任公司) ("Technology Company"), an affiliate of the original shareholder of the Company, issued a Representation to the State-owned Assets Company and a Letter of Commitment to the Company, representing that the debts and corresponding liabilities should be borne by the Technology Company and ensuring that the case would not cause any negative impact on the normal operation and market credibility of the Company.

Jiaohe Court of China has not previously served any relevant papers on the case on the Company. At present, the Company is further following up on the case, and seeking to lift the seizure of Jilin City Property of the Company.

The above-mentioned seizure of Jilin City Property of the Company only restricts the usage of the Property for transfer purposes. Therefore, the above-mentioned seizure does not have any significant impact on the Company's business operation, financial situation and solvency.

For details, please refer to the announcement of the Company dated 26 March 2019.

## CONTINGENT LIABILITIES

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

## UPDATE ON LISTING STATUS

The Company has received a letter dated 14 September 2018, that the Stock Exchange has decided to suspend trading in the shares of the Company under Rule 9.04 of the GEM Listing Rules and proceed with cancellation of the Company's listing under Rule 9.14 of the GEM Listing Rules (the "Decision"). Under Rule 4.06(1) of the GEM Listing Rules, the Company has the right to have the Decision referred to the GEM Listing Committee for review on or before 26 September 2018. The Company did not lodge a request for the Decision to be referred to the GEM Listing Committee of the Stock Exchange pursuant to Chapter 4 of the GEM Listing Rules for review. Based on the above, at the request of the Company, trading in the shares of the Company were suspended with effect from 9:00 a.m. on 27 September 2018.

The Company received a letter from the Stock Exchange dated 4 October 2018, in which the Stock Exchange set out the following resumption guidance for the Company:

- Demonstrate its compliance with Rule 17.26 of the GEM Listing Rules.

On 3 April 2019, the Company received another letter from the Stock Exchange, pursuant to which the Stock Exchange set out the following additional resumption guidance:

- publish all outstanding financial results and address any audit modifications.

In the same letter dated 3 April 2019, the Stock Exchange indicated that the Stock Exchange may modify the resumption conditions/guidance that have been given and/or give further guidance if the situation changes.

The Company is taking appropriate steps to remedy the issues causing its trading suspension and will use its best endeavours to resume trading in its shares as soon as practicable.

The Board has recently established an independent board committee of board of directors of the Company ("IBC"), comprising all independent non-executive directors of the Company. Grant Thornton Advisory Services Limited has also been engaged by Li & Partners, the legal advisor representing the IBC, as the independent forensic investigators to conduct an investigation of various matters.

The Company earlier engaged NCN Risk Advisory Limited ("NCN Risk") to conduct a review of the internal control system of the Company. NCN Risk has completed the internal control report on 5 December 2018. Eternal Bright Consultants Limited has been engaged by the Company to follow up on the concerns raised by NCN Risk in the internal control report on 5 December 2018 and on whether the management of the Company has followed up and implemented remedial measures in relation thereof from 1 January 2019 to 30 June 2019.

For details, please refer to the announcements of the Company dated 26 September 2018, 10 October 2018, 21 December 2018, 9 April 2019 and 2 August 2019.

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

As at 30 June 2019, 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 2019, 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 2019, 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* (北京悦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 2019, 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 2019 and as at the date of this report, 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 Mr. Chen Youfang, Mr. Zhu Tianxiang and Ms. Zhao Xiaomei 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 2019 and was of the opinion that the preparation of the unaudited results for the six months ended 30 June 2019 complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

**Non-Compliances with Rules 5.05(1), 5.05(A), 5.28 and 5.34 of the GEM Listing Rules**

Immediately after the resignations of Mr. Gao Zhikai and Ms. Hui Lam Yam as independent non-executive directors of the Company with effect from 12 April 2019 and 15 April 2019 respectively:

(1) since the number of independent non-executive directors were less than three and represent less than one-third of the Board, the Company was not in compliance with Rules 5.05(1) and 5.05(A) of the GEM Listing Rules;

(2) since the number of members of the audit committee was less than three, the Company was not in compliance with Rule 5.28 of the GEM Listing Rules; and

(3) since the remuneration committee was not chaired by an independent non-executive director and did not comprise of a majority of independent non-executive directors, the Company is not in compliance with Rule 5.34 of the GEM Listing Rules.

With effect from the conclusion of the annual general meeting of the Company held on 30 June 2019 (the "AGM"):

(a) Ms. Zhao Xiaomei was appointed as an independent non-executive director of the Company, and was appointed as a member of each of the nomination committee and the audit committee;

(b) Mr. Zhu Tianxiang was appointed as an independent non-executive director of the Company, and was appointed as a member of each of the nomination committee and the audit committee, and the chairman of the remuneration committee;

(c) Mr. Shi Peng ceased to be a member of the remuneration committee; and

(d) Mr. Cao Yang was appointed as a member of the remuneration committee.

Immediately upon the taking effect of the above appointments, the Company has complied with Rules 5.05(1), 5.05(A), 5.28 and 5.34 of the GEM Listing Rules.

## CORPORATE GOVERNANCE CODE

Throughout the period under review, save as disclosed below, the Group has been fully compliant with all code provisions of the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules.

Due to the resignations of Mr. Gao Zhikai and Ms. Hui Lai Yam as independent non-executive directors on 12 April 2019 and 15 April 2018 respectively, the nomination committee did not comprise of a majority of independent non-executive Directors, the Company was not in compliance with code provision A.5.1 of the Corporate Governance Code. Immediately upon the appointment of independent non-executive directors. Mr. Zhu Tianxiang and Ms. Zhao Xiaomei, as members of the nomination committee with effect from the conclusion of the AGM, the Company has fulfilled code provision A.5.1 of the Corporate Governance Code.

## STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTIONS 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 transactions by Directors during the six months ended 30 June 2019.

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

For the six months ended 30 June 2019, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities.

## CHANGE OF DIRECTORS

For the six months ended 30 June 2019, there were the following changes in the directors and Supervisors of the Company:

1. Mr. Gao Zhikai has resigned as an independent non-executive director of the Company, with effect from 12 April 2019.

2. Ms. Hui Lai Yam has resigned as an independent non-executive director of the Company, with effect from 15 April 2019.

3. Mr. Zhu Tianxiang has been appointed as an independent non-executive director of the Company, with effect from 24 April 2019 until the date of the AGM, and thereafter with effect from the conclusion of the AGM.

4. Ms. Zheng Chunyan has been appointed as an executive director of the Company with effect from the conclusion of the AGM.

5. Ms. Zhao Xiaomei has been appointed as an independent non-executive director of the Company with effect from the conclusion of the AGM.

By Order of the Board
**Cui Bingyan**
*Executive Director*

Shenzhen, the PRC
12 August 2019

*As at the date of this report, the Company's executive directors are Cui Bingyan, Fang Yao, Guo Aiqun and Zheng Chunyan; the Company's non-executive directors are Shi Peng and Cao Yang and the Company's independent non-executive directors are Chen Youfang, Zhu Tianxiang and Zhao Xiaomei.*

* *for identification purposes only*