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China Regenerative Medicine International Limited

中國再生醫學國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8158)

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO
THE ANNUAL RESULTS ANNOUNCEMENT AND
THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

References are made to the announcement of China Regenerative Medicine International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 June 2020 in relation to the annual results for the year ended 31 December 2019 (the “**2019 Annual Results Announcement**”) and the annual report of the Group for the year ended 31 December 2019 (the “**2019 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2019 Annual Results Announcement and the 2019 Annual Report.

In addition to the information provided in the 2019 Annual Results Announcement and the 2019 Annual Report, the Board would like to provide further information to the Corporate Governance Report therein in relation to the disclaimer of opinion (the “**Audit Modification**”) issued by the auditors of the Company, BDO Limited (the “**Auditor**”), in relation to the consolidated financial statements of the Group for the year ended 31 December 2019 pursuant to Code Provision C.1.3 of Appendix 15 to the GEM Listing Rules.

DETAILS OF THE AUDIT MODIFICATION AND MANAGEMENT'S VIEW ON THE AUDIT MODIFICATION

As set out in the 2019 Annual Results Announcement, given the conditions as detailed in note 3(b) to the consolidated financial statements for the year ended 31 December 2019 (“**Note 3(b)**”) therein, the Auditor considered that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern, which is dependent on the ongoing availability of financing to the Group, including (i) the ability of Mr. Xiong Qiangen (“**Mr. Xiong**”), who is the purchaser of the Group’s investment (the “**Investment**”) in ZhongHua Finance Acquisition Fund I, L.P., a Cayman Islands exempted limited partnership (the “**Fund**”) as disclosed in the Company’s announcement dated 21 February 2020 and circular dated 20 April 2020, to settle the remaining consideration of HK\$85.4 million (the “**Remaining Consideration**”) as scheduled; (ii) the financial ability of the beneficial controlling party of the Company’s substantial shareholder, All Favour Holdings Limited (the “**Beneficial Controlling Party**”) to provide continuing and sufficient financial support (the “**Financial Support**”) to the Group to meet its operating needs and financial obligations.

Each of Mr. Xiong and the Beneficial Controlling Party has provided information of certain assets owned/controlled by each of them respectively to the Auditor. However, they declined to provide further information/documents requested by the Auditor out of privacy concerns and their unwillingness to spend costs for legal and financial due diligence as well as for the valuation of the relevant assets. The Auditor was of the view that no sufficient documentary evidence to support (i) Mr. Xiong has sufficient financial capacity to fully settle the Remaining Consideration as scheduled and (ii) the Beneficial Controlling Party is capable to provide the financial support to the Group. Accordingly, they were unable to satisfy themselves regarding the Group’s ability to continue as a going concern and to conclude on the appropriateness of preparing the consolidated financial statements on a going concern basis.

In view of such circumstances, the management of the Group (the “**Management**”) had assessed the Group’s liquidity, performance and available sources of financing at the material time in assessing the Group’s ability to continue as a going concern. The Management has also taken and will continue to implement the measures as mentioned in Note 3(b) to mitigate the Group’s liquidity pressure and improve the conditions of cash flow. As disclosed in the circular of the Company dated 20 April 2020 in relation to the disposal of the Investment, the Board had reviewed the financial background of Mr. Xiong in assessing his financial capability. He had been a business associate to the Group since 2017 when both he and the Group were interested and invested in the Fund. Mr. Xiong had also provided loan facilities to the Group in 2019. Based on Mr. Xiong’s business relation with the Company in the past few years, the Board was of the view that Mr. Xiong will settle the Remaining Consideration as

scheduled and based on a letter of support (“**Letter of Support**”) signed by the Beneficial Controlling Party which confirms its intention to provide sufficient financial resources to the Company when so required by the Company and the continuous financial support provided by the Beneficial Controlling Party in the past, the Board was of the view that the Beneficial Controlling Party will be able to provide sufficient financial support as and when required by the Group. On the assumption of successful and continued implementation of the measures as mentioned in Note 3(b) (including the financial support from the Beneficial Controlling Party), and taking into account the Group’s cash flow projections which covers a period up to 30 June 2021 (the “**Cash Flow Forecast**”), the Management and the Board are satisfied that it is appropriate to prepare the Group’s consolidated financial statements on a going concern basis.

The Board understands that the major concern of the Auditor in arriving its view towards the Audit Modification is the Company’s failure in providing documentary evidence which in the Auditor’s opinion is satisfactory to them to support that (i) Mr. Xiong has sufficient financial capacity to fully settle the Remaining Consideration as scheduled and (ii) the Beneficial Controlling Party is capable to provide the financial support to the Group. As sated above, in view of (i) Mr. Xiong’s business relation with the Company in past few years; (ii) the continuous financial support of the Beneficial Controlling Party in the past years; and (iii) the Letter of Support signed by the Beneficial Controlling Party, the Board was of the view that Group has the ability to continue as a going concern. Furthermore, the Company will continue to implement measures aiming at improving the working capital and cash flows position of the Group as detailed in the proposed actions to be taken below. Taking into account the expected results of the above and the additional proposed actions to be taken, the Board believes that the Group will have sufficient working capital to meet its operating and financing needs as and when they fall due for a period up to 30 June 2021.

ACTION PLAN OF THE GROUP TO ADDRESS THE AUDIT MODIFICATION AND IMPACT OF THE AUDIT MODIFICATION ON THE COMPANY'S FINANCIAL POSITION

Details of the action plan of the Group to address the Audit Modification

In order to address the uncertainties which may cast doubt regarding the Group's ability to continue as a going concern, and with a view to removing the Audit Modification, the Company has taken and intends to continue to implement the measures as mentioned in Note 3(d) and additional measures, including but not limited to:

(a) Obtaining a shareholder's loan of approximately HK\$60 million from the Beneficial Controlling Party:

- The Company has prepared a cash flow projection on amount of cash requested for a period up to 30 June 2021 on the basis that the Beneficial Controlling Party will provide financing for not less than HK\$60 million to the Group during the projection. The Beneficial Controlling Party has confirmed that it intended to provide sufficient financial resources to the Company so as to enable the Company both to meet its liabilities as they fall due and to carry on its business without a significant curtailment of operations.

(b) Obtaining available cash by way of funding raising activities and disposal of financial assets:

- On 2 March 2020, the Company entered into the placing agreement with joint placing agents to procure not less than six places to subscribe for up to 500 million ordinary shares of the Company at the placing price of HK\$0.20 per share. The placing was approved by the shareholders on 15 April 2020 and completed on 15 May 2020. The net proceeds from the placing of HK\$98 million was received in cash on 15 May 2020. Details of the placing are included in the Company's circular dated 27 March 2020.
- The Group has entered into two agreements with Mr. Xiong in January and February 2020 respectively to dispose of the Investment to Mr. Xiong in the total consideration of US\$38.7 million (equivalent to approximately HK\$301.86 million). The Company will closely communicate with Mr. Xiong to ensure the Remaining Consideration will be settled by Mr. Xiong in September 2020 and December 2020 as scheduled.

- The Company will also consider alternative means of fund raising which may or may not involve issuance of shares or convertible bonds of the Company and/or the realization of assets, financial assets or otherwise.

(c) *Other measures to improve the Group's operational performance and financial position:*

- As disclosed in note 37(b) to the consolidated financial statements for the year ended 31 December 2019, a deposit in the amount of HK\$46,512,000 has been paid by the Group for a proposed acquisition which is refundable if the proposed acquisition does not proceed. In June 2020, the proposed acquisition was cancelled and the deposit has been and will be returned to the Group by stages with last portion thereof be returned by December 2020.
- The Company has made its best effort to improve the Group's operational performance and to extend the Group's sale network in the PRC, especially in the cell, healthcare products and services segment and has improved the revenue of this segment. As disclosed in the interim report of the Company dated 31 July 2020, the performance of the healthcare products and services segment has substantially improved and generated operating profit and improved the liquidity of the Group. The extended sale network is expected to improve the profitability of the business of the Group for the years coming.
- The Company will continue to implement measures aiming at improving the working capital and cash flows of the Group, including close monitoring of general administrative expenses and operating costs and soliciting more potential customers. The Company may also consider disposing of non-profit making businesses in order to reduce the operation costs and improve the working capital.

The Group will make effort to implement the measures to improve the Group's operational performance and financial position. The Board will continuously evaluate the business environment, the existing business portfolio and income streams of the Group and improve the profitability of the Group.

Impact of the Audit Modification on the Company's financial position

As set out in the 2019 Annual Results Announcement, should the use of the going concern basis in preparation of the consolidated financial statements be considered to be inappropriate, adjustments would have to be made to write down the Group's assets to their net realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities. The effect of these adjustments have not been reflected in the consolidated financial statements.

Removal of the Audit Modification

Based on the discussion with the Auditor, it is considered that the proposed actions mentioned above, if successful, could improve the Group's liquidity and therefore could help to address the Audit Modification (i.e. scope limitation relating to the going concern basis of preparing the consolidated financial statements). As the Management's assessment of the Group's ability to continue as a going concern for the purposes of preparing the Group's consolidated financial statements for the year ending 31 December 2020 has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, the Auditor is unable to ascertain at this moment whether the Audit Modification can be removed in the next financial year purely based on the Company's action plan above.

AUDIT COMMITTEE'S VIEW ON THE AUDIT MODIFICATION

The audit committee of the Company (the "**Audit Committee**") had critically reviewed the Audit Modification, the Cash Flow Forecast and also the Management's position and action plan of the Group to address the Audit Modification. The Audit Committee also had discussions with the Auditor, by which it understood that the main cause of the Audit Modification is, as mentioned, the failure of the Company to provide documentary evidence to the Auditor's satisfaction to support that (i) Mr. Xiong has sufficient financial capacity to fully settle the Remaining Consideration as scheduled and (ii) the Beneficial Controlling Party is capable to provide the financial support to the Group. In light of the above, the Audit Committee concurs with the Management's view with respect to the Audit Modification, the Group's ability to continue as a going concern and the actions or measures to be implemented by the Group. The Audit Committee is also of the view that the Management should continue its efforts in implementing the actions and measures set out in the action plan with the intention of mitigating the Group's liquidity pressure and removing the Audit Modification.

By Order of the Board

China Regenerative Medicine International Limited

Wang Chuang

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 5 August 2020

As at the date of this announcement, the executive Directors are Mr. Wang Chuang (Chairman and Chief Executive Officer) and Mr. Qiu Bin; the non-executive Directors are Mr. Wu Weiliang and Mr. Tsang Ho Yin; and the independent non-executive Directors are Dr. Fang Jun, Ms. Huo Chunyu and Ms. Yang Ying.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, 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 Listed Company Information” page of the GEM website at www.hkgem.com for at least seven days from the date of the publication and will be published on the website of the Company at www.crimi.hk.