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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 2020**

References are made to the supplemental announcement (the “**Previous Supplemental Announcement**”) of China Regenerative Medicine International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 5 August 2020 in relation to annual results announcement (the “**2019 Annual Results Announcement**”) and the annual report (the “**2019 Annual Report**”) for the year ended 31 December 2019, the announcement dated 31 March 2021 in relation to the annual results for the year ended 31 December 2020 (the “**2020 Annual Results Announcement**”) and the annual report of the Group for the year ended 31 December 2020 (the “**2020 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the Previous Supplemental Announcement, the 2020 Annual Results Announcement and the 2020 Annual Report.

In addition to the information provided in the 2020 Annual Results Announcement and the 2020 Annual Report, the Board would like to provide (i) further information in relation to the disclaimer of opinion (the “**2020 Audit Modification**”) issued by the auditor of the Company, McM (HK) CPA Limited (the “**Auditor**”), in relation to the 2020 Annual Results Announcement and the 2020 Annual Report, and (ii) updates on previous action plans to address the disclaimer of opinion on the 2019 Annual Results Announcement and the 2019 Annual Report (the “**2019 Audit Modification**”).

DETAILS OF THE 2020 AUDIT MODIFICATION AND MANAGEMENT'S VIEW

As set out in the 2020 Annual Report, given the conditions as detailed in note 3(b) to the financial statements in the 2020 Annual Report (“**Note 3(b)**”), the Auditor considered that the Group might have financial uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern, which is dependent on the Group’s ability to achieve the outcomes as set out in Note 3(b).

In view of such circumstances, the Board and 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. On the assumption of successful and continued implementation of the measures as mentioned in Note 3(b), and taking into account the Group’s cash flow projections which covers a period up to 31 March 2022 (the “**Cash Flow Forecast**”), the Management are satisfied that it is appropriate to prepare the Group’s consolidated financial statements on a going concern basis.

The Company will continue to implement measures aimed at improving the working capital and cash flow position of the Group as detailed in the action plan 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 31 March 2022.

ACTION PLAN OF THE GROUP TO ADDRESS THE 2020 AUDIT MODIFICATION AND IMPACT OF THE 2020 AUDIT MODIFICATION ON THE COMPANY’S FINANCIAL POSITION

With a view to removing the 2020 Audit Modification, the Company has taken and/or intends to continue to implement the measures as detailed in Note 3(b) and additional measures, including but not limited to:

- (a) continued implementation of various cost control measures to tighten the costs of operations and various business strategies to enhance the Group’s revenue;

- (b) disposal of the “cell products and services” and “cosmetics products and services” segments which had continued to exhibit significant losses and drainage of the Group’s financial resources in order to reduce the liabilities level of the Group, by entering into the following agreements in March 2021:
- i. an agreement between the Company and an independent third party for the sale and purchase of the entire issued share capital of and the sale loan due by Biocell Technology Limited, an indirect wholly-owned subsidiary of the Company for a total consideration of HK\$101;
 - ii. an agreement between the Company and an independent third party for the sale and purchase of the entire issued share capital of and the sale loan due by Obagi Medical Products Group Limited, an indirect wholly-owned subsidiary of the Company for a total consideration of HK\$1,000,000;
 - iii. an agreement between the Company and an independent third party for the sale and purchase of the entire issued share capital of and the sale loan due by Passion Stream Limited and Frame Sharp Limited, both indirect wholly-owned subsidiaries of the Company for a total consideration of HK\$11,000,000; and
- (c) continued efforts to pursue debt and further tightening of credit control measures (having made significant progress in collecting the receivables which were outstanding as at 31 December 2020, with approximately 50% of such outstanding receivables collected by the end of April 2021);
- (d) continued efforts to identify opportunities for debt or capital financing;
- (e) further expansion of the Group’s PRC and Hong Kong businesses, including cross-border market opportunities; and
- (f) continued pursuit of business strategy of cooperating with PRC companies which will complement the Group’s resources and strengths to improve the Company’s service level in the PRC (in particular, the Company entered into a non-legally binding memorandum of understanding with Jinxin Holdings Co, Ltd* (金新控股集團) in relation to a possible joint development of a healthcare industrial park in the PRC in March 2021, the potential impact of which to the Group’s financial performance and liquidity and cash flows position is still under evaluation by the Group).

* *for identification purposes only*

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.

UPDATES ON THE GROUP'S ACTION PLAN TO ADDRESS THE 2019 AUDIT MODIFICATION

In addition to the Group's action plan to address the 2020 Audit Modification, the Board also wishes to provide the Shareholders and potential investors with the following updates on the Group's action plan to address the 2019 Audit Modification which was disclosed in the Previous Supplemental Announcement:

(a) *Obtaining a shareholder's loan of not less than HK\$60 million from All Favour Holdings Limited ("All Favour"):*

- Having actively reviewed the potential obligations and liabilities of the Group and believing that the key to sustain the Company's growth and existence is to improve its overall performance and cost effectiveness, the Directors were minded to minimize the Group's debt level and therefore did not request for further financing from All Favour during the year ended 31 December 2020;
- As disclosed in Note 36 (a) to the financial statements in the 2020 Annual Report, as a result of the review of the financial position by the Directors, and after negotiation and assessment of the Company's position, the Company and All Favour agreed that the amount due to All Favour of HK\$100 million in nominal amount ("**Shareholder's Loan**") shall be settled in full by the Company issuing convertible bonds in the principal amount of HK\$95 million representing a discount of 5% to the nominal amount of the Shareholder's Loan and upon the issue of such convertible bonds the liability of the Company under the Shareholder's Loan in the amount of HK\$100 million shall be settled and discharged absolutely. Such discount is meant to compensate the Company for the early settlement of the Shareholder's Loan.

(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 placees 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 share placing of HK\$98 million was received in cash on 15 May 2020. Details of the placing are disclosed in the Company's circular dated 27 March 2020.

As stated in Note 32 to the financial statements in the 2020 Annual Report, on 30 September 2020, the Company allotted and issued an aggregate of 170,000,000 shares to the nominees with principal amount of HK\$34,000,000 at the issue price of HK\$0.20 per share; and on 19 October 2020, the Company allotted and issued an aggregate of 230,000,000 shares to the nominees with principal amount of HK\$46,000,000 at the issue price of HK\$0.20 per share.

- The Group has entered into two agreements with Mr. Xiong Qiangen (“**Mr. Xiong**”) in January and February 2020 respectively to dispose of the Group's investment in the ZhongHua Finance Acquisition Fund I, L.P. Fund to Mr. Xiong in a total consideration of US\$38.7 million (equivalent to approximately HK\$301.86 million). All the consideration under the above-mentioned agreements was scheduled to be settled by 30 December 2020. As of 31 December 2020, Mr. Xiong was indebted to the Group of approximately HK\$82.05 million, the Group has taken actions to recover HK\$60.00 million by the end of April 2021. The Directors expect that Mr. Xiong will settle the remaining outstanding balance of approximately HK\$22.05 million by the end of June 2021.
- The Company will consider alternative means of fund raising which may or may not involve issuance of shares of the Company 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 36(b) to the financial statements in the 2020 Annual Report the Company has reclaimed the deposit of HK\$46,512,000 which was previously paid for a subsequently cancelled proposed acquisition during the year ended 31 December 2020.
- During the year ended 31 December 2020, the Group continued to evaluate the various business segments of the Group with an aim to streamline its business for the purpose of increasing its overall performance and cost-effectiveness, as well as to improve its overall performance in light of its going concern. The Group has evaluated and compared each business segment and decided to dispose of the “dermatology and others”, “ophthalmology products” and “stomatology products and others” segments in order to focus its resources for the development of the remaining business segments.
- 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 healthcare products and services segment. As a result, the performance of the healthcare products and services segment since the second quarter of 2020 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 Group will continue to make effort to implement 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 in order to improve the profitability of the Group.
- The Company will continue to implement measures aiming at improving the working capital and cash flows of the Group, including taking various cost control measures to tighten general and administrative expenses and operating costs and soliciting more potential customers.

Impact of the Group's action plan to address the 2019 Audit Modification

The Directors are of the view that, despite the steps taken by the Company to address the 2019 Audit Modification, a disclaimer of opinion was issued by the Group's Auditor for the year ended 31 December 2020 for the following reasons:

(a) Loss arising from segments other than the healthcare products and services segment

Through the efforts mainly in the healthcare products and services segment by the Group, the Group recorded a revenue of approximately HK\$185.3 million for the year ended 31 December 2020, representing an increase of approximately 8.6 times from last year (2019: HK\$19.4 million as restated). Gross profit increased by approximately 8.8 times to approximately HK\$45.0 million from last year (2019: HK\$4.6 million as restated). However, the financial results for 2020 were adversely affected by the loss arising from "discontinued operations" of approximately HK\$149.12 million, segment loss of "cell products and services" segment of approximately HK\$69.31 million; and segment loss of "cosmetics products and services" segment of approximately HK\$65.92 million.

(b) Impact of COVID-19

The prolonged impact of COVID-19 has slowed down the development and growth in the healthcare products and services segment, particularly in Hong Kong, which adversely impacted the results of the Group.

REMOVAL OF THE DISCLAIMER OF OPINION

Based on the discussion with the Auditor, it is considered that the continued and proposed actions, if successful, could improve the Group's liquidity and therefore could help to address the disclaimer of opinion ("**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 2021 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. The Group will also engage the Auditor to review the quarterly and interim results for 2021 and the appropriateness of using going concern as a basis of preparation will be assessed by the Auditor.

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 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, 11 May 2021

As at the date of this announcement, the executive Director is Mr. Wang Chuang (Chairman and Chief Executive Officer); the non-executive Directors is 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.crmi.hk.