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Sinopharm Tech Holdings Limited

國藥科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

CHARACTERISTICS OF GEM (“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 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of Sinopharm Tech Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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.*

RESULTS

The board of Directors of the Company (the “**Board**”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the three months and six months ended 31 December 2019 (the “**Period 2019**”), together with the selected comparative unaudited figures for the corresponding period in 2018 (the “**Period 2018**”), are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 31 December 2019

		(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2019	2018	2019	2018
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	36,831	6,934	87,380	12,375
Costs of sales and services		<u>(27,772)</u>	<u>(2,557)</u>	<u>(64,668)</u>	<u>(4,456)</u>
Gross profit		9,059	4,377	22,712	7,919
Other income/(expenses)	3	(152)	216	491	260
Selling and distribution expenses		(2,863)	—	(4,455)	—
Administrative and operating expenses		<u>(15,647)</u>	<u>(8,597)</u>	<u>(28,638)</u>	<u>(23,508)</u>
Operating loss		(9,603)	(4,004)	(9,890)	(15,329)
Finance costs	4	<u>(3,673)</u>	<u>(2,856)</u>	<u>(7,231)</u>	<u>(5,671)</u>
Loss before tax	5	(13,276)	(6,860)	(17,121)	(21,000)
Income tax (expense)/credit	6	<u>(342)</u>	<u>394</u>	<u>(1,149)</u>	<u>972</u>
Loss for the period		<u>(13,618)</u>	<u>(6,466)</u>	<u>(18,270)</u>	<u>(20,028)</u>
Loss for the period attributable to:					
Equity holders of the Company		(13,105)	(6,119)	(17,235)	(18,906)
Non-controlling interests		<u>(513)</u>	<u>(347)</u>	<u>(1,035)</u>	<u>(1,122)</u>
		<u>(13,618)</u>	<u>(6,466)</u>	<u>(18,270)</u>	<u>(20,028)</u>

	<i>Notes</i>	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2019	2018	2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive loss for the period, net of tax:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of financial statements of overseas operations		<u>1,185</u>	<u>(13)</u>	<u>44</u>	<u>(218)</u>
Total comprehensive loss for the period		<u>(12,433)</u>	<u>(6,479)</u>	<u>(18,226)</u>	<u>(20,246)</u>
Total comprehensive loss for the period attributable to:					
Equity holders of the Company		(11,940)	(6,129)	(17,202)	(19,001)
Non-controlling interests		<u>(494)</u>	<u>(350)</u>	<u>(1,024)</u>	<u>(1,245)</u>
		<u>(12,434)</u>	<u>(6,479)</u>	<u>(18,226)</u>	<u>(20,246)</u>
Loss per share attributable to equity holders of the Company	<i>8</i>				
Basic		<u>(HK0.32 cents)</u>	<u>(HK0.19 cents)</u>	<u>(HK0.42 cents)</u>	<u>(HK0.57 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		(Unaudited) 31 December 2019 <i>Notes</i> <i>HK\$'000</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,661	1,571
Goodwill		177,554	177,554
Intangible assets		4,956	8,253
Interests in joint ventures		—	—
		<u>184,171</u>	<u>187,378</u>
Current assets			
Inventories		158	160
Trade and other receivables and prepayments	9	36,854	34,484
Bank balances and cash		6,709	6,646
		<u>43,721</u>	<u>41,290</u>
Current liabilities			
Trade payables, accruals and other payables	10	52,665	52,203
Amount due to directors		37,465	47,649
Obligation under finance leases			
— current portion		180	150
Convertible bonds	11	92,096	89,345
Other loans		19,500	—
Derivative financial liabilities	11	10	10
Deferred tax liabilities		1,232	—
Tax liabilities		1,990	19
		<u>205,138</u>	<u>189,376</u>
Net current liabilities		<u>(161,417)</u>	<u>(148,086)</u>
Total assets less current liabilities		<u>22,754</u>	<u>39,292</u>

	(Unaudited) 31 December 2019 <i>Notes</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
Non-current liabilities		
Obligation under finance leases	375	—
Deferred tax liabilities	—	2,053
	<u>375</u>	<u>2,053</u>
Net assets	<u>22,379</u>	<u>37,239</u>
Capital and reserves		
Share capital	51,360	51,360
Reserves	<u>(27,460)</u>	<u>(13,624)</u>
Equity attributable to equity holders of the Company	23,900	37,736
Non-controlling interests	<u>(1,521)</u>	<u>(497)</u>
Total equity	<u>22,379</u>	<u>37,239</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with Hong Kong Accounting Standards (“**HKAS**”) 34 “**Interim Financial Reporting**” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

Except as described below, the principal accounting policies and methods of computation used in the preparation of the unaudited interim consolidated financial statements for the six months ended 31 December 2019 are consistent with the financial statements of the Group for the year ended 30 June 2019.

The Group has adopted all of the new and revised standards, amendments and interpretations which are relevant to its operations and effective for the accounting period beginning on 1 July 2019. The adoption of these new and revised standards, amendments and interpretation does not have significant impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods.

The Group has not early applied any new and revised HKFRSs that have been issued but are not yet effective.

2. SEGMENT INFORMATION

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

Six months ended 31 December 2019 (Unaudited)

	Lottery- related services HK\$'000	Internet plus Solution services HK\$'000	Supply chain services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	<u>1,201</u>	<u>15,345</u>	<u>70,834</u>	<u>—</u>	<u>87,380</u>
Segment results	<u>(4,472)</u>	<u>10,013</u>	<u>632</u>	<u>(8)</u>	<u>6,165</u>
Unallocated income					261
Unallocated expenses					(15,719)
Finance costs					<u>(7,828)</u>
Loss before tax					(17,121)
Income tax expense					<u>(1,149)</u>
Loss for the period					<u>(18,270)</u>
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation and amortization	<u>194</u>	<u>3,309</u>	<u>—</u>	<u>8</u>	<u>3,511</u>

Six months ended 31 December 2018 (Unaudited)

	Lottery- related services <i>HK\$'000</i>	Solution services <i>HK\$'000</i>	Internet plus Supply chain services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	<u>10,450</u>	<u>1,567</u>	<u>—</u>	<u>358</u>	<u>12,375</u>
Segment results	<u>(10,458)</u>	<u>236</u>	<u>—</u>	<u>(338)</u>	<u>(10,560)</u>
Unallocated income					224
Unallocated expenses					(4,993)
Finance costs					<u>(5,671)</u>
Loss before tax					(21,000)
Income tax credit					<u>972</u>
Loss for the period					<u>(20,028)</u>
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation and amortization	<u>661</u>	<u>28</u>	<u>—</u>	<u>80</u>	<u>769</u>

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

As at 31 December 2019 (Unaudited)

	Lottery- related services <i>HK\$'000</i>	Internet plus Solution services <i>HK\$'000</i>	Supply chain services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets					
Segment assets	22,010	115,505	75,747	100	213,362
Unallocated assets					<u>14,530</u>
Total assets					<u><u>227,892</u></u>
Liabilities					
Segment liabilities	1,486	40,309	20,523	45	62,363
Unallocated liabilities					<u>143,150</u>
Total liabilities					<u><u>205,513</u></u>

As at 30 June 2019 (Audited)

	Lottery- related services <i>HK\$'000</i>	Internet plus Solution services <i>HK\$'000</i>	Supply chain services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets					
Segment assets	27,132	58,916	128,584	112	214,744
Unallocated assets					<u>13,924</u>
Total assets					<u><u>228,668</u></u>
Liabilities					
Segment liabilities	2,133	40,363	2,176	46	44,718
Unallocated liabilities					<u>146,711</u>
Total liabilities					<u><u>191,429</u></u>

3. REVENUE AND OTHER INCOME/(EXPENSES)

The principal activities of the Group are provision of (i) lottery-related services, (ii) internet plus services (solution and supply chain) and (iii) others (including catering services and consulting services).

Revenue represents income from the following services rendered by the Group, net of returns, discounts allowed or sales taxes:

	(Unaudited)	
	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Revenue		
Lottery-related services	1,201	10,450
Internet plus services (solution)	15,345	1,567
Internet plus services (supply chain)	70,834	—
Others	—	358
	87,380	12,375
Other income		
Interest income	2	1
Gain on disposal of subsidiaries	—	222
Government subsidies	463	—
Others	26	37
	491	260

4. FINANCE COSTS

	(Unaudited)	
	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Interest on:		
— Convertible bonds	6,335	5,666
— Other loans	894	—
— Finance lease payment	2	5
	7,231	5,671

5. LOSS BEFORE TAX

	(Unaudited)	
	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Loss before tax has been arrived at after charging/(crediting):		
Cost of services	1,282	4,456
Cost of inventories sold	63,386	—
Equity-settled share-based payments	3,366	—
Depreciation of property, plant and equipment	422	1,148
Amortization of intangible assets	3,297	4,685
Exchange gains, net	(21)	—
	<u> </u>	<u> </u>

6. INCOME TAX (EXPENSE)/CREDIT

The amount of income tax (expense)/credit to the consolidated statement of profit or loss and other comprehensive income represents:

	(Unaudited)	
	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Current year		
— Hong Kong profits tax	(1,971)	—
Under provision in the prior periods		
— Hong Kong profits tax	—	(158)
Deferred tax credit	822	1,130
	<u> </u>	<u> </u>
Income tax (expense)/credit for the period	<u>(1,149)</u>	<u>972</u>

For the six months ended 31 December 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5% (three months and six months ended 31 December 2018: Nil).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

7. DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

Loss

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to the equity holders of the Company	<u>(13,105)</u>	<u>(6,119)</u>	<u>(17,235)</u>	<u>(18,906)</u>

Number of shares

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2019	2018	2019	2018
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>4,108,855</u>	<u>3,290,855</u>	<u>4,108,855</u>	<u>3,290,855</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>4,108,855</u>	<u>3,290,855</u>	<u>4,108,855</u>	<u>3,290,855</u>

For the three months and six months ended 31 December 2019, outstanding share options and convertible bonds of the Company are anti-dilutive (Three months and six months ended 31 December 2018: anti-dilutive) since their exercise or conversion would result in a decrease in loss per share (Three months and six months ended 31 December 2018: decrease in loss per share).

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	(Unaudited) 31 December 2019 <i>HK\$'000</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
Trade receivables	80,384	88,183
Other receivables and prepayments	<u>36,868</u>	<u>42,781</u>
	117,252	130,964
Less: Allowances for doubtful receivables	<u>(80,398)</u>	<u>(96,480)</u>
	<u><u>36,854</u></u>	<u><u>34,484</u></u>

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 180 days of issuance.

The following is an aged analysis of trade receivables at the end of the reporting period:

	(Unaudited) 31 December 2019 <i>HK\$'000</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
0 to 30 days	7,368	16,270
31 to 60 days	9,447	1,073
61 to 180 days	93	2,752
181 to 365 days	—	—
Over 1 year	<u>63,476</u>	<u>68,088</u>
	<u><u>80,384</u></u>	<u><u>88,183</u></u>

10. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	(Unaudited) 31 December 2019 <i>HK\$'000</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
Trade payables	467	2,966
Accruals and other payables	<u>52,198</u>	<u>49,237</u>
	<u>52,665</u>	<u>52,203</u>

An aged analysis of the Group's trade payables at the end of the reporting period, based on the date of goods and services received, is as follows:

	(Unaudited) 31 December 2019 <i>HK\$'000</i>	(Audited) 30 June 2019 <i>HK\$'000</i>
0–30 days	400	2,898
31–120 days	—	—
121–180 days	—	—
181–365 days	—	—
Over 1 year	<u>67</u>	<u>68</u>
	<u>467</u>	<u>2,966</u>

11. CONVERTIBLE BONDS

	(Unaudited) 31 December 2019 HK\$000	(Audited) 30 June 2019 HK\$000
Convertible bonds:		
— Liability component	92,096	89,345
— Derivative conversion option component	<u>10</u>	<u>10</u>
Classified under current liabilities:		
— Convertible bonds	92,096	89,345
— Derivative financial liabilities	<u>10</u>	<u>10</u>

On 17 January 2014, the Company issued the 2% Bonds due on 17 January 2017 with a principal amount of HK\$89,625,000, which is interest bearing at a rate of 2% per annum, as a general working capital and repayment of borrowings. The Bonds are convertible into ordinary shares of the Company with a conversion price of HK\$2.39 per share. As a result of the share subdivision implemented on 17 December 2014, the number of the shares to be issued upon full conversion of the 2% Bonds was adjusted to 150,000,000 shares at the conversion price of HK\$0.598 per share.

The Bonds contain liability and equity components. The effective interest rate of the liability component is 13.89% per annum. The equity component is presented under the equity heading of “convertible bonds reserve”.

The fair value of the liability component of the Bonds at the issue date was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

On 18 January 2017, the Company entered into an amendment agreement with the bondholder to amend certain terms and conditions of 2% Bonds. The conversion price shall be the same to HK\$0.359 per share and it can be converted into for the maximum of 249,651,810 shares. The maturity date shall be extended to 17 July 2017 and a further six months extension to 17 January 2018 upon a written consent from the bondholder. The interest rate shall be 8% per annum and paid semi-annually from the date of the amendment agreement.

On 18 January 2018, the Company entered into a second amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2018 and a further six months extension to 17 January 2019 upon a written consent from the bondholder. Interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

On 17 January 2019, the Company entered into a third amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2019 and a further six months extension to 17 January 2020 upon a written consent from the bondholder. Interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 Shares shall be allotted and issued to Integrated Asset upon conversion of the CBs in full and thereafter the shareholding of Integrated Asset will be increased to approximately 17.65% of the existing issued share capital of the Company and approximately 16.59% of the enlarged issued share capital of the Company. The adjusted conversion price is HK\$0.34 per conversion share subject to further adjustment.

On 7 February 2020, the Company entered into the fourth amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2020 and a further six months extension to 17 January 2021 upon a written consent from the bondholder. Interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarized as follows:

- | | |
|--------------------------------|-----------------|
| (a) Principal amount: | HK\$89,625,000 |
| (b) Coupon rate: | 8% per annum |
| (c) Maturity date: | 17 January 2020 |
| (d) Adjusted conversion price: | HK\$0.34 |
| (e) Risk-free rate: | 1.404% |
| (f) Expected volatility: | 93.37% |
| (g) Expected dividend yield: | 0% |

12. EVENTS AFTER THE REPORTING PERIOD

Proposed Issue of Unlisted Warrants under Specific Mandate

On 3 January 2020 (after trading hours), the Company and Mr. Yim Hin Keung (the “Subscriber”) entered into the warrant subscription agreement (the “**Warrant Subscription Agreement**”), under which the Company conditionally agreed to issue to the Subscriber the warrants (the “**Warrant(s)**”) conferring the rights to subscribe for a maximum number of 200,000,000 warrant Shares (the “**Warrant Shares**”). The issue of the Warrants and the Warrant Shares are subject to the approval of the independent shareholders at the extraordinary general meeting of the Company to be held on 17 February 2020.

The Board considers that the completion of the subscription of the Warrants pursuant to the Warrant Subscription Agreement (the “**Warrant Issuance**”) represents good opportunities to raise funds for the Group as the Warrants are not interest-bearing and the Warrant Issuance will not increase the Company’s financial pressure as the financing is achieved through equity financing but not debt financing. Further, it does not have any immediate dilution effect on the shareholding of the existing Shareholders. In addition to the proceeds that will be raised upon completion of the Warrant Issuance, further capital of HK\$70 million will be raised upon the full exercise of the subscription rights attaching to the Warrants by the holder(s) thereof during the exercise period. The aggregate of warrant price (the “**Warrant Price**”) and warrant exercise price of HK\$0.39 represents premiums to the market price of the Shares which has not resulted in unfair dilution of the existing Shareholders’ interest.

As the Warrants are transferrable to persons who are not connected persons of the Company, the Shareholder base may be broadened even there is only one Subscriber for the Warrant Issuance. Therefore, the Board considers that the issue of Warrants provides opportunities for the Group to broaden and strengthen the shareholder and capital base of the Company.

The aggregate nominal value of the 200,000,000 Warrant Shares is HK\$2,500,000. The net Warrant Price, after deduction of relevant expenses, is approximately HK\$0.039 per Warrant. The closing price per Share as quoted on the Stock Exchange on 3 January 2020, being the date of the Warrant Subscription Agreement was HK\$0.246. The net proceeds of approximately HK\$77.8 million from issue of the Warrants and exercise of the subscription rights attaching to the Warrants are expected to be used for general working capital, repayment of debts and future investment of the Group as and when opportunities arise but no specific investment targets have been identified yet.

For details, please refer to the Company's announcement dated 3 January 2020 and the Company's circular 31 January 2020.

Proposed amendments to the terms of the Convertible Bonds

On 7 February 2020, the Company entered into the fourth amendment agreement with the bondholder, pursuant to which both parties agreed to amend the terms of the Convertible Bonds maturing on 17 January 2020, where the maturity date shall be extended for six months from 17 January 2020 to 17 July 2020 with a further six months extension upon a prior written consent from the bondholder.

The fourth amendment agreement, the Proposed Amendments and transactions contemplated thereunder are subject to the approval by the independent Shareholders of the Company at the extraordinary general meeting to be held by the Company, and the Stock Exchange approving the Proposed Amendments and the listing of conversion shares arising from the Convertible Bonds on the Stock Exchange.

For details, please refer to the Company's announcement dated 7 February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The principal activities of the Group are the provision of (i) lottery-related services; (ii) Internet Plus services (solutions and supply chain); and (iii) other services.

For the Period 2019, the Group recorded unaudited consolidated revenue of HK\$87.4 million, increased by 606% against the Period 2018 of HK\$12.4 million. The gross profit ratio decreased to about 26% as compared with 64% for the Period 2018. Revenue increased and gross profit ratio decreased as the Company invested in the new business of internet plus services of supply chain, the gross profit of which is lower than the lottery-related services and internet plus services recorded for the Period 2018. For the Period 2019, the Group recorded a net loss attributable to the equity holders of HK\$17.2 million, which decreased by 9% from HK\$18.9 million for Period 2018. Loss attributable to equity holders was HK\$13.1 million from the second quarter of the Period 2019, which increased by 114% from HK\$6.1 million for the Period 2018. Selling and distribution expenses and administrative expenses in the Period 2019 amounted to HK\$32.9 million, which increased by 40% as compared to HK\$23.5 million in the Period 2018.

BUSINESS REVIEW

During the period under review, based on the launched businesses in health, public security, government affairs, leasing, lottery and others, the Group's business focused on the promotion and expansion of the integration between "Internet Plus" and two major areas of traditional businesses, namely "Internet Plus Lottery" and "Internet Plus Health". The Group has expanded its presence in "Internet Plus" business through cooperation intents arrived with various advantageous enterprises. These business actions have effectively enriched and improved the network of the Group's business deployment, while further reinforced and strengthened the strategic relationship and cooperation with business partners.

"Internet Plus Lottery"

During the period under review, the Group fully mobilized resources and business networks accumulated via operation in the lottery industry for over a decade, and made new attempts in the development of the integration of technology and lottery. Shenzhen Sheng-Gang Technology Co., Ltd. ("**SG Technology**"), a wholly-owned subsidiary of the Company, signed a strategic cooperation framework agreement with Beijing Cai-Yan Technology Co., Ltd. ("**CY Technology**") in November 2019. Both parties are committed to scientifically combine the technology of anti-counterfeit packaging devices with lottery elements, while researching and developing customized technological solutions to realize the integrated functions of the anti-counterfeit information verification platform based on blockchain technology, while research and development for technology, application and

commercial income generation can be achieved in a virtuous cycle. Currently, the coverage of anti-counterfeit and tracing industry in the domestic market is low, with the coverage of traceability products far below the level of developed countries. Albeit the emergence of various anti-counterfeit technologies in the domestic market in recent years, there are still flaws and loopholes in the existing technologies. This status quo provides an entry point for this strategic cooperation, which is expected to make up for the shortcomings of the existing technology solutions.

The Group's business follows the national policy trend of accelerating the establishment of the national anti-counterfeit and tracing system, and also keeps up with the prevailing trend to increase commercial vitality and new benefits for the Group's traditional lottery business with the support of technology. As the start-up project in the anti-counterfeit field of the Group's "Internet Plus Lottery" deployment, this strategic cooperation will lay the resource foundation for the technology and lottery industry on the multi-dimensional integration of anti-counterfeit technology and lottery elements in the future.

"Internet Plus Service"

During the period under review, based on the strategic cooperation memorandum signed with Lee Fong Supermarket Co., Ltd ("**Lee Fong Supermarket**") in November 2019, the Group aims to integrate its rich experience in smart supply chain management and precise interactive marketing technology with Lee Fong Supermarket's extensive offline operation experience and comprehensive Macau store network for operation cooperation, realizing the target by upgrading and transforming the online and offline smart stores, as well as stores under shop-in-shop and management models. The Group is mainly responsible for "Internet Plus" technologies and the establishment of technology platform to ensure that offline smart retail physical stores are successfully upgraded, transformed and begin operation. In addition, the Group does not only serve as a stable and reliable product supply channel for Lee Fong Supermarket, but also provides data analysis services for product sales, whereas Lee Fong Supermarket is responsible for providing physical stores for upgrade and transformation and the preparations before the operation of smart retail physical stores.

As the online-to-offline model is one of the major trends in the current "Internet Plus" industry, the strategic cooperation between the Group and Lee Fong Supermarket further demonstrates the Group's continuous advancement in the upstream and downstream industry chains in the "Internet Plus" field. Before that, the Group has established a stable supply relationship with various upstream suppliers, including the renowned Hong Kong Lung Fung Group. For downstream partners, after the establishment of a cooperative relationship with the online Internet giant, JD.com International Limited, the Group's supply chain is even more strengthened through realizing the functions complement to online e-commerce platform and offline smart retail physical stores in the new cooperation with Lee Fong Supermarket.

Entering into Sale and Purchase Agreement

During the period under review, a wholly-owned subsidiary of the Company, as purchaser, entered into a Sale and Purchase Agreement with the Vendors on 12 December 2019. The Vendors (as defined below) conditionally agreed to sell and the Purchaser conditionally agreed to purchase the shares representing 40% of the equity interests in Ever Development Holdings Limited (the “**Target Company**”), and the Target Company owns 100% of the equity interests in Kenford Medical Group Co., Ltd (“**Kenford**”). The Purchaser agreed to allot and issue 180,869,565 Consideration Shares to the Vendors at an issue price of HK\$0.23 per share as the acquisition consideration (the “**Consideration Share(s)**”).

The Sale and Purchase Agreement contains profit guarantee provisions, pursuant to which, the Vendors have guaranteed to the Purchaser that (i) the audited net profit after tax of each year ending 31 December 2020 and 31 December 2021 shall not be less than HK\$13,000,000; or (ii) the total audited net profit after tax for the two years ending 31 December 2021 shall be not less than, in aggregate, HK\$26,000,000 (the “**Profit Guarantee**”).

The Vendors undertake to the Company that within three months from the date of the allotment and issue of the Consideration Shares to the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement, the Vendors shall not sell, dispose of (including creating encumbrance thereon) or agree to sell or dispose of any Consideration Share. The Consideration Shares shall be kept by the Purchaser and shall be released to the Vendors upon expiry of the lock-up period. Up to the date of this announcement, the condition precedents for completion of the Acquisition have not been fully fulfilled. Therefore, the transactions contemplated under the Sales and Purchase Agreement may or may not proceed.

Kenford is a business partner of the Group, and had signed a strategic cooperation agreement with Beijing Guorun Jiuhe Health Technology Co., Ltd and the Group in 2019 to jointly develop a comprehensive body constitution health solution using traditional Chinese medicine in the Guangdong-Hong Kong-Macao Greater Bay Area (“**TCM Body Constitution Health Solution**”). The Group formed a strategic alliance with the offline medical industry through this acquisition and obtain investment return opportunities at the same time. Moreover, physical medical platform is a blank area not yet covered by the Group’s business system, thus the acquisition is of strategic significance for the Group to establish a long-term, stable and close relationship with the Target Company and offline medical clinics. In the future, the Group will, based on its investment in the Target Company, gradually advance in the in-depth deployment in the “Internet Plus Health” sector.

BUSINESS OUTLOOK

The Group will continue to deepen and improve the solution that combines anti-counterfeit technology with lottery after initiating technology cooperation with CY Technology. For the Group, this strategic cooperation is not only a new attempt made by the lottery business in the field of anti-counterfeit, but also provides a new perspective for cooperation opportunities and profit margins on our planning of a complete anti-counterfeit business deployment in the future. The Group's next step in the anti-counterfeit solution field is to innovatively use the analogous thinking mode to explore unique anti-counterfeit technologies with commercial value and diversified offline products application in the future.

The Group has also steadily moved forward in the expansion of "Internet Plus Services" and is seeking the right time to incorporate more cooperation opportunities with upstream and downstream industry chains with the Group's smart supply chain management system. By establishing strategic cooperation with reputable brands and well-recognized domestic and foreign suppliers, the Group secures authentic upstream supply sources and channels and thus enhanced popularity and awareness in the PRC market. Meanwhile, with the online and offline development of downstream distributors with multiple regions and channels, the Group gains a foothold on the national market. It is anticipated that multi-channel distribution helps the Group to expand its market share in the respective products industry. The Group will continue to make good use of the "Internet Plus" platform and technology, in addition to continue to play a good role as a coordinator and promoter in the industry chain of product sales. While introducing more and better products to serve the market and consumers, the Group will also enjoy a recurring stream of extensive revenue.

DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: Nil).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2019, total equity amounted to HK\$22.4 million (total equity as at 30 June 2019: HK\$37.2 million). Current assets amounted to HK\$43.7 million (30 June 2019: HK\$41.3 million), mainly comprising of trade and other receivables and prepayments, bank balances and cash. Current liabilities amount to HK\$205.1 million (30 June 2019: HK\$189.4 million), mainly comprising of convertible bonds, other loans, trade payables, accruals and other payables, and tax liabilities.

The Group's bank balances and cash amounted to HK\$6.7 million (30 June 2019: HK\$6.6 million).

As at 31 December 2019, the gearing ratio of the Group was 49% (30 June 2019: 39%) on the basis of the Group's total interest-bearing borrowings divided by total assets.

SHARE CAPITAL

As at 31 December 2019, the total number of issued shares of the Company was 4,108,855,068 ordinary shares of HK\$0.0125 each (the “**Shares(s)**”).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Termination of the Previous Agreement in relation to the Acquisition of 25% of the Equity Interests in the Target Company and Discloseable Transaction in relation to the Acquisition of 40% of the Equity Interests in the Target Company involving Issue of the Consideration Shares under General Mandate

The Termination

On 12 December 2019 (after trading hours), Ms. Choi Man Yun, Marian (“**Ms. Choi**”), Ms. Kong Lai Ying (“**Ms. Kong**”), Mr. Lau Chi Wing James (“**Mr. Lau**”) and Mr. Cheung Wan Yu (“**Mr. Cheung**”) (collectively the “**Vendors**”) and China Vanguard Corporate Management Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, entered into a deed of termination (the “**Deed of Termination**”), pursuant to which they have mutually agreed that with effect from the date of the Deed of Termination, the sale and purchase agreement dated 5 June 2019 entered into between the Vendors and the Purchaser (the “**Previous Agreement**”) has been terminated, and the parties shall be released and discharged from their respective duties, responsibilities and obligations under the Previous Agreement.

The Acquisition

On 12 December 2019 (after trading hours), the Purchaser and the Vendors entered into a sale and purchase agreement (the “**Sale and Purchase Agreement**”), pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the sale shares in Ever Development Holdings Limited (the “**Target Company**”) (the “**Sale Shares**”), which represents 40% of the equity interests in the Target Company, for a consideration of HK\$41.6 million, which will be settled by the allotment and issue of 180,869,565 ordinary shares of HK\$0.0125 each in the share capital of the Company (the “**Consideration Share(s)**”) by the Company to the Vendors under the general mandate at the issue price of HK\$0.23 per Consideration Share (the “**Acquisition**”) within 30 trading days following the completion of the Acquisition which shall take place within 15 business days following the fulfilment of all the conditions precedent. The Vendors undertake to the Company that, within 3 months from the date of the allotment and issue of the Consideration Shares to the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement, the Vendors shall not sell, dispose of (including creating encumbrance thereon) or agree to sell or dispose of any Consideration Share. The Consideration Shares shall be kept in the custody of the Purchaser and shall be released to the Vendors upon expiry of the lock-up period.

Details for the above transaction were published in the Company's announcement dated 12 December 2019. Up to the date of this announcement, the condition precedents for completion of the Acquisition have not been fully fulfilled. Therefore, the transactions contemplated under the Sales and Purchase Agreement may or may not proceed.

Save as disclosed above, the Group did not make any significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures.

FOREIGN EXCHANGE EXPOSURE

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars ("HK\$"), Renminbi ("RMB") or United States dollars ("US\$"). The Group's major investment and financing strategies are to invest in domestic projects in the PRC by RMB, HK\$ and US\$ borrowings. As the exchange rate of RMB against HK\$ is relatively stable and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the period. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US\$ and HK\$ exchange rate movement.

EVENT AFTER THE REPORTING PERIOD

Proposed Issue of Unlisted Warrants under Specific Mandate

On 3 January 2020 (after trading hours), the Company and Mr. Yim Hin Keung (the "Subscriber") entered into the warrant subscription agreement (the "Warrant Subscription Agreement"), under which the Company conditionally agreed to issue to the Subscriber the warrants (the "Warrant(s)") conferring the rights to subscribe for a maximum number of 200,000,000 warrant Shares (the "Warrant Shares"). The issue of the Warrants and the Warrant Shares are subject to the approval of the independent shareholders at the extraordinary general meeting of the Company to be held on 17 February 2020.

The Board considers that the completion of the subscription of the Warrants pursuant to the Warrant Subscription Agreement (the "Warrant Issuance") represents good opportunities to raise funds for the Group as the Warrants are not interest-bearing and the Warrant Issuance will not increase the Company's financial pressure as the financing is achieved through equity financing but not debt financing. Further, it does not have any immediate dilution effect on the shareholding of the existing Shareholders. In addition to the proceeds that will be raised upon completion of the Warrant Issuance, further capital of HK\$70 million will be raised upon the full exercise of the subscription rights attaching to the Warrants by the holder(s) thereof during the exercise period. The aggregate of warrant price (the "Warrant Price") and warrant exercise price of HK\$0.39 represents premiums to the market price of the Shares which has not resulted in unfair dilution of the existing Shareholders' interest.

As the Warrants are transferrable to persons who are not connected persons of the Company, the Shareholder base may be broadened even there is only one Subscriber for the Warrant Issuance. Therefore, the Board considers that the issue of Warrants provides opportunities for the Group to broaden and strengthen the shareholder and capital base of the Company.

The aggregate nominal value of the 200,000,000 Warrant Shares is HK\$2,500,000. The net Warrant Price, after deduction of relevant expenses, is approximately HK\$0.039 per Warrant. The closing price per Share as quoted on the Stock Exchange on 3 January 2020, being the date of the Warrant Subscription Agreement was HK\$0.246. The net proceeds of approximately HK\$77.8 million from issue of the Warrants and exercise of the subscription rights attaching to the Warrants are expected to be used for general working capital, repayment of debts and future investment of the Group as and when opportunities arise but no specific investment targets have been identified yet.

For details, please refer to the Company's announcement dated 3 January 2020 and the Company's circular dated 31 January 2020.

Proposed amendments to the terms of the Convertible Bonds

On 7 February 2020, the Company entered into the fourth amendment agreement with the bondholder, pursuant to which both parties agreed to amend the terms of the Convertible Bonds maturing on 17 January 2020, where the maturity date shall be extended for six months from 17 January 2020 to 17 July 2020 with a further six months extension upon a prior written consent from the bondholder.

The fourth amendment agreement, the Proposed Amendments and transactions contemplated thereunder are subject to the approval by the independent Shareholders of the Company at the extraordinary general meeting to be held by the Company, and the Stock Exchange approving the Proposed Amendments and the listing of conversion shares arising from the Convertible Bonds on the Stock Exchange.

For details, please refer to the Company's announcement dated 7 February 2020.

GENERAL INFORMATION

CONNECTED TRANSACTION

On 7 February 2020, the Company and Integrated Asset, as the bondholder, entered into the fourth amendment agreement in respect of the proposed amendment of the CBs. As Integrated Asset is a substantial shareholder and a connected person of the Company as defined under Chapter 20 of the GEM Listing Rules, the proposed amendment as contemplated under the fourth amendment agreement constitutes a connected transaction of the Company pursuant to the GEM Listing Rules. The fourth amendment agreement, proposed amendments and transactions contemplated thereunder are subject to the approval by the independent shareholders of the Company at the extraordinary general meeting to be held by the Company, and the approval of the proposed amendments of the Stock Exchange and the listing of conversion shares arising from the CBs on the Stock Exchange.

For details, please refer to the Company's announcement dated 7 February 2020.

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

During the six months ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares.

COMPETING INTERESTS

As at 31 December 2019, none of the Directors, the substantial shareholders nor the controlling shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) have any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company (the “**Articles of Association**”) or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the applicable code provisions as set out in Appendix 15 to the GEM Listing Rules (the “**CG Code**”) during the six months ended 31 December 2019, except for the following deviation which is summarized below:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive Directors (the “**INED(s)**”) of the Company were not appointed under specific terms but are subject to retirement by rotation in annual general meetings of the Company at least once every three years in accordance with the Articles of Association. The Company does not consider that fixed terms on the Directors’ services are appropriate given that the Directors ought to be committed to representing the long term interests of the Shareholders. The retirement and re-election requirements of the INEDs have given the rights to the Shareholders to approve the continuation of the INEDs’ offices.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with GEM Listing Rules requirements when the Board considers appropriate.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct (the “**Code of Conduct**”) regarding Directors’ securities transaction in the Shares. Having made specific enquires, the Company has confirmed with all Directors that they have complied with the required standard as set out in the Code of Conduct throughout the period under review.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the GEM Listing Rules and the CG Code. The Audit Committee consisted of three INEDs, namely Mr. LAU Fai Lawrence, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred. Mr. LAU Fai Lawrence is the chairperson of the Audit Committee.

The primary duties of the Audit Committee are to review the Company’s annual report and accounts, interim report and quarterly reports and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company’s financial reporting, risk management and internal control systems.

The Group's unaudited results for the six months ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

By order of the Board
Sinopharm Tech Holdings Limited
國藥科技股份有限公司
CHAN Ting

Executive Director and Chief Executive Officer

Hong Kong, 13 February 2020

As at the date of this announcement, the Board comprises Madam CHEUNG Kwai Lan, Mr. CHAN Ting as Executive Directors, Mr. CHAN Tung Mei and Dr. CHENG Yanjie as Non-executive Directors, and Mr. LAU Fai Lawrence, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred as Independent Non-executive Directors.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the website of the Company at www.sinopharmtech.com.hk.