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MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 0233)

UPDATE ON TRADING SUSPENSION

This announcement is made by Mingyuan Medicare Development Company Limited (the “**Company**”) pursuant to Rules 13.09(2) and 13.24A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the provisions of inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements (i) the announcement of the Company dated 15 July 2015 in relation to the conditions for resumption of trading in the Shares imposed by the Stock Exchange (the “**Resumption Conditions**”); (ii) the announcements of the Company dated 10 August 2018 and 6 November 2018 in relation to updates on trading suspension; and (iii) announcement of the Company dated 15 November 2018 on Internal Control Review.

PROGRESS IN FULFILLING THE RESUMPTION CONDITIONS

Responses to the recommendations made in the Internal Control Review Report

In response to the key findings and recommendations set out in the Internal Control Review Report (the “**Report**”), the Company and Genetel Pharmaceuticals (Shenzhen) Company Limited (“**GPSZ**”) has resolved to adopt various measures to strengthen the internal control procedures of both the Company and GPSZ. The major recommendations and the responses by both the Company and GPSZ are summarized in the table below:

** For identification purpose only*

| Sales and Receipt Cycle | |
|---|---|
| Sales through distributors | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| <p>An updated policy should be made on the following areas to ensure that:—</p> | |
| <p>1 details of sales cycle procedures and determination of pricing be included;</p> | <p>1 The sales policy which provides determination of pricing and sales cycle procedures has been updated and become effective on 1 December 2018.</p> |
| <p>2 all delivery notes are signed by customers upon receipt of goods and delivery records should be kept for 5 years;</p> | <p>2 Receipt of goods and delivery records are printed out and will be kept for 5 years.</p> |
| <p>3 sales should be recognized based on the amounts paid by the distributors under the sale agreements entered into between GPSZ and the distributors;</p> | <p>3 Rectification measures were made and sales are now in line with the terms of the sale agreements since 1 January 2018.</p> |
| <p>4 sales should be recognized when goods have been delivered;</p> | <p>4 Goods delivery record will be maintained and sales of delivered goods will be recorded in the appropriate period.</p> |
| <p>5 requests from distributors for the issuance of invoices to end customers should be documented;</p> | <p>5 A new policy which requires written requests for issuance of invoices has been implemented since 1 December 2018.</p> |
| <p>6 insurance policy should be put in place to cover the product liability;</p> | <p>6 Given the products of the Company required to be kept in thermostatic environment with no interruption of electricity supply, so far no insurance companies approached by GPSZ agree to provide coverage for such products. GPSZ will further check with insurance companies if a limited scope insurance can be provided.</p> |

| Sales and Receipt Cycle | |
|---|--|
| Sales through distributors | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| 7 a register in relation to sales and payments should be prepared and updated on time. | 7 Relevant policy implemented with retrospective effect from 1 January 2018. |
| Direct Sales | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| <p>An updated policy should be made on the following areas to ensure that:—</p> <p>1 details of sales cycle procedures be included;</p> <p>2 goods with correct expiry date are delivered to the customers pursuant to orders;</p> <p>3 all delivery notes are signed by end customers upon receipt of goods and delivery records should be kept for 5 years;</p> <p>4 sales should be recognized when goods have been delivered;</p> <p>5 credit control of accounts receivable be put in place.</p> | <p>1 The sales policy which provides determination of pricing and sales cycle procedures has been updated with retrospective effect from 1 December 2018.</p> <p>2 Rectification measures have been made and all goods are labeled with expiry date.</p> <p>3 Receipt of goods and delivery records are printed out and will be kept for 5 years.</p> <p>4 Goods delivery record will be maintained and sales of delivered goods will be recorded in the appropriate period.</p> <p>5 Credit control policy has been implemented since 1 January 2019.</p> |

| Purchase and Inventory Cycle | |
|---|--|
| In relation to GPSZ | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| <p>An updated policy should be made to ensure that:—</p> <p>1 delivery notes from the supplier are properly filed and details be matched with inspection certificate;</p> <p>2 connected parties transactions be disclosed; and</p> <p>3 upgraded electronics system be implemented and inventory records maintained by warehouse and finance department be updated simultaneously.</p> | <p>1 Relevant policy implemented with retrospective effect from 1 January 2018.</p> <p>2 Names of connected parties have been made available to all employees and all employees are required to inform the manager in charge of the connected parties transactions.</p> <p>3 Synchronization of inventory records between system in warehouse and finance department has been completed with retrospective effect from April 2018.</p> |
| In relation to Company | |
| Policy recommended in the FTI Report | Response by the Company: |
| <p>Policy for payments procedure should be made.</p> | <ul style="list-style-type: none"> • All payments are subject to the approval of the financial controller and the company secretary/the chairman. |

| Fixed Assets Cycle | |
|--|--|
| In relation to GPSZ | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| Insurance policy to cover the fixed assets should be made. | <ul style="list-style-type: none"> GPSZ had enquired insurance companies and understood that insurance can only be provided under the condition that the factory cuts off its power after working hours. GPSZ found it impossible to comply with such requirement as the pharmaceutical products need to be stored in fridge all the time. GPSZ will further check with insurance companies if a limited scope insurance can be provided. |

| Payroll Cycle | |
|---|--|
| In relation to GPSZ | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| Individual payroll receipt should be prepared for each of the staff member. | <ul style="list-style-type: none"> Individual payroll receipt has been prepared since September 2018. |

| Bank and Cash Payment Cycle | |
|--|--|
| In relation to GPSZ for payment requisitions and petty cash | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| <ul style="list-style-type: none"> Policy should be made and weekly position report be prepared to ensure the liquidity is monitored. | <ul style="list-style-type: none"> Bank balance position can be ascertained through online banking system. Finance manager has regularly monitored the bank balance position. Accounts department provides reconciliation between the petty cash in hand and the bank accounts. |
| <ul style="list-style-type: none"> Segregation of duties among the work performed by the finance manager. | <ul style="list-style-type: none"> All payments are now subject to the approval of both the general manager and the finance manager. |

| Bank and Cash Payment Cycle | |
|---|---|
| In relation to Company | |
| Policy recommended in the FTI Report | Response by the Company: |
| Policy should be made to strengthen the internal control of petty cash cycle. | <ul style="list-style-type: none"> Usage of petty cash are properly recorded after the current management had taken control since 20 May 2016. |

| Chop and Seals Management Cycle | |
|---|--|
| In relation to GPSZ | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| Updated written policy and registration records for all chops should be prepared, and chop register be approved by the general manager. | <ul style="list-style-type: none"> GPSZ will prepare a written policy in relation to the usage of the three chops. Currently, the Company chop is kept by the Operation Director while the Finance Chop and the Invoice Chop are kept by the Finance Manager. All usage of chops are subject to the approval by the keepers and are recorded. |

| Financial Reporting Cycle | |
|--|--|
| In relation to GPSZ | |
| Policy recommended in the FTI Report | Response by GPSZ: |
| No material deficiency has been identified. Written policy in relation to financial reporting is still recommended. | <ul style="list-style-type: none"> GPSZ is in the course of preparing a written policy in relation to financial reporting. |
| In relation to Company | |
| Policy recommended in the FTI Report | Response by the Company |
| <ul style="list-style-type: none"> Financial statements should be compiled and announced timely. The books and records should be kept by the management company. | <ul style="list-style-type: none"> The management of the Company is working closely with the auditors and is expected to release the outstanding financial statements in the first half of the year 2019. The books and records for the period after 20 May 2016 are now kept in the registered office of the Company. |

| Rules and Regulations Compliance Cycle | |
|---|--|
| In relation to Company | |
| Policy recommended in the FTI Report | Response by the Company |
| <ul style="list-style-type: none"> • To publish the outstanding annual reports and interim reports as soon as possible. • Complete records of board meetings should be kept by the Company in Hong Kong. • Establish policies and procedures for the Company's financial reporting and internal control systems to meet its Listing Rules obligations. | <ul style="list-style-type: none"> • The management of the Company is working closely with the auditors and is expected to release the outstanding financial statements in the first half of the year 2019. • Records of board meetings for the period after 20 May 2016 are kept in the registered office of the Company. • The Company has been taking active steps in fulfilling its Listing Rules obligations concerning financial reporting and internal control system including but not limited to, (i) appointing Gram Capital Limited as the independent compliance adviser for consultation in compliance with the Listing Rules for two years, from 18 October 2016 to 2018, (ii) working closely with auditors to publish the outstanding financial statements, (iii) implementing policies to address the deficiencies of the internal control systems identified by the FTI Consulting and (iv) preparing procedures manual for the financial reporting and internal control systems. |
| <ul style="list-style-type: none"> • Internal audit department be established. | <ul style="list-style-type: none"> • Instead of establishing an internal audit department, the Company considers it be more appropriate to engage professional firm to conduct internal audit for the Group at appropriate time. |

| Rules and Regulations Compliance Cycle | |
|---|---|
| In relation to Company | |
| Policy recommended in the FTI Report | Response by the Company |
| <ul style="list-style-type: none"> • Analysis and independent appraisal of the adequacy and effectiveness of risk management and internal control systems should be carried out on an ongoing basis. The review should be conducted at least annually and be reported to shareholders in the corporate governance report. • Establish policies and procedures for complying with the inside information disclosure requirement. | <ul style="list-style-type: none"> • The Board considered the review made by FTI Consulting adequate at this stage and will regularly revisit the need for a follow-up review. • Guidelines on the Disclosure of Inside Information had been circulated to the officers of the Company. The Company is in the course of preparing the policies and procedures for complying with the Inside information disclosure requirement. |

Having regard to the above measures taken by the Company and GPSZ, the Board considers that the resumption condition which requires the Company to demonstrate that it has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations has been fulfilled.

BUSINESS UPDATE

As at the date of this announcement, GPSZ has been carrying on its business as usual. In relation to the business operated/controlled by the two Shanghai subsidiaries, Shanghai HealthDigit and SHMY Biochip, the Board is unable to provide information on their operation given that the Company is still in the process of restoring its control over these two subsidiaries.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange will remain suspended until further notice.

By Order of the Board
Mingyuan Medicare Development Company Limited
LAM Ping Cheung
Chairman

Hong Kong, 11 February 2019

As at the date of this announcement, the Board comprises (i) Mr. Lam Ping Cheung and Mr. Hui Yip Wing as executive Directors and (ii) Ms. Chan Mee Sze, Mr. Lam Suk Ping, Ms. Fan Stephanie Winnie and Mr. Cheung Chi Ming as independent non-executive Directors.