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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE YEAR 2019

BACKGROUND

Trading in the shares of Mingyuan Medicare Development Company Limited (the “Company”) has been suspended from trading on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1 April 2015 as the Company failed to publish its audited financial statements for the financial year ended 31 December 2014 and onwards.

After the special general meeting held on 10 September 2014, the Company failed to hold an annual general meeting (“AGM”) within the time limits prescribed by the Bermuda Companies Act 1981 (“BCA 1981”) and by Bye-law 67 of the Company’s New Bye-laws. The Chief Justice of Bermuda granted the relief to permit Greater Achieve Limited, a substantial shareholder of the Company, to convene the AGM itself. The AGM convened by Greater Achieve Limited was held on 20 May 2016. At that meeting, each of the directors was either retired or removed and the entire board of the Company was replaced, and Crowe Horwath (HK) CPA Limited was appointed as auditor of the Company in place of Deloitte Touche Tohmatsu (“Deloitte”).

The new members of the board of directors of the Company do not have access to a substantial part of the accounting books and records held by the Company prior to 20 May 2016. Prior to the appointments of the new directors, the Company’s hard drives had been removed as a result of which its computer records were no longer accessible, and its banking records had been removed. Substantial part of the accounting records of the Company and its subsidiaries, in particular 上海數康生物科技有限公司 Shanghai HealthDigit Company Limited (“Shanghai HealthDigit”) and 上海銘源數康生物芯片有限公司 SHMY HealthDigit Biochip Company Limited* (“SHMY Biochip”) is no longer accessible.

** For identification purpose only*

The board of directors of the Company (the “Board”) herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months period ended 30 June 2019, together with the comparative figures for the corresponding period of year 2018, based on the books and records made available to them. Members of the Board make no representation as to the completeness of the information contained in this Announcement.

Business Review

As at the date of this Announcement, the Board is still in the process of getting back the control over the Group’s two key subsidiaries, Shanghai HealthDigit and SHMY Biochip, and is unable to access to their books and records. As a result, the balances relating to these two subsidiaries brought forward from 31 December 2013 were derecognized and the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 (“Derecognition”). Derecognition results in loss of HK\$804.5 million for the financial year 2014. After the Derecognition of the above subsidiaries, the Group only maintained Health Care Division which sells HPV DNA testing kits to female patients at hospital nationwide. The division recorded total sales for the first half year of HK\$31.19 million (2018: HK\$32.35 million).

Purchase, Sale or Redemption of the Company’s Listed Securities

Based on the information and/or documents available, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the relevant period.

Litigations and Contingent Liabilities

Based on the available information, the Board noted that the Group and its joint venture were involved in the following litigations and the other litigations subsequent to 30 June 2019. Given the loss of books and records, the Board’s inability to take over the control of the Shanghai HealthDigit, SHMY Biochip and their subsidiaries (“Shanghai Subsidiaries”), the inability of gaining access to the books and records of the Shanghai Subsidiaries and the inability to obtain the necessary relevant information or documents from the former management, the Board believes that it is not practical, if not impossible, to ascertain the accuracy or completeness of the disclosure of the litigations and contingent liabilities during the reporting period and those as disclosed under events after the reporting period. The Board was also unable to assess the potential financial impact of the litigations and contingent liabilities, if any, on these unaudited consolidated results of the Group.

- a) On 18 October 2013, 天津紅鬃馬科技發展有限公司 (“天津紅鬃馬”) negotiated bills to 天津天極投資諮詢有限公司 (“天津天極”). The bills were further negotiated to 天津市響緣典當有限公司 (“響緣典當”) by 天津天極 on 5 January 2014. 響緣典當 presented the bills to a bank. However, the bank informed 響緣典當 that the issuer namely SHMY Biochip had insufficient fund in the bank account to honour the bills. The bills were issued by SHMY Biochip and guaranteed by the Company. 響緣典當 returned the bills to 天津天極. In February 2016, 天津天極 claimed against 天津紅鬃馬 and SHMY Biochip for RMB30,000,000. 天津天極 also claimed against the Company as guarantor of the bills. A court hearing was conducted in Tianjin, the PRC. According to the judgement made by the Tianjin Second Intermediate People’s Court in September 2016, the Tianjin Second Intermediate People’s Court considered that the claim should be made by 響緣典當 instead of 天津天極.

In November 2016, 天津天極 made an appeal claiming that 天津天極 made use of the bills for purchasing of goods from 響緣典當. As the bills were dishonoured, 天津天極 returned the goods to 響緣典當 and therefore 天津天極 obtained the legal right to claim against SHMY Biochip, 天津紅鬃馬 and the Company. SHMY Biochip claimed that the hearing should be in Shanghai instead of in Tianjin. According to the judgement made by the Tianjin Second Intermediate People Court in February 2017, the case was passed to the Tianjin First Intermediate People’s Court for hearing. On 25 October 2017, the Tianjin First Intermediate People’s Court accepted the case. However, 天津天極 did not pay the court fee within 7 days. On 1 December 2017, the Tianjin First Intermediate People’s Court made a judgment and considered that 天津天極 had withdrawn the legal action.

- b) On 26 September 2013, an individual in the PRC (“Mr. Kwok”) granted a credit facility of RMB30,000,000 to 天津紅鬃馬 for a period of two years. Mr. Zhao Chao (“Mr. Zhao”) was the person designated to receive the loan provided by Mr. Kwok. From 24 August 2012 to 20 February 2014, Mr. Kwok made loans totaling RMB26,600,000 to Mr. Zhao under the credit facility. Mr. Yao Yuan, Mr. Iu Chung, Mr. Zhao and 上海銘源實業 were guarantors of the loans. 天津紅鬃馬 failed to make loan repayments to Mr. Kwok. As such, Mr. Kwok took legal actions against 天津紅鬃馬, Mr. Zhao, Mr. Yao Yuan, Mr. Iu Chung and 上海銘源實業. According to the judgement made by the Tianjin First Intermediate People’s Court made in 2016, (i) 天津紅鬃馬 should repay the loan of RMB26,600,000 and loan interest of RMB20,168,000 to Mr. Kwok, (ii) Mr. Yao Yuan, Mr Iu Chung, Mr. Zhao and 上海銘源實業 were jointly held liable for the liabilities under the guarantees, and (iii) 天津紅鬃馬, Mr. Yao Yuan, Mr. Iu Chung, Mr. Zhao and 上海銘源實業 should pay the litigation costs.

Mr. Yao Yuan and 上海銘源實業 made an appeal to the Tianjin Higher People’s Court in October 2017. The appeal was rejected by the Tianjin Higher People’s Court in December 2017.

- c) On 6 September 2013, an individual in the PRC (“Ms. 耿玉順”) entered into a loan agreement with 天津紅鬃馬 pursuant to which Ms. 耿玉順 granted a loan of RMB4,000,000 to 天津紅鬃馬 for a period of six months. Mr. Zhao, 上海銘源實業, 天津創華投資諮詢有限公司 and 天津康盟醫療投資有限公司 were guarantors of the loans. 天津紅鬃馬 failed to make loan repayments to Ms. 耿玉順. As such, Ms. 耿玉順 took legal actions against 天津紅鬃馬, Mr. Zhao, 上海銘源實業, 天津創華投資諮詢有限公司 and 天津康盟醫療投資有限公司.

According to the judgement made by the Tianjin People’s Court made in December 2014, (i) 天津紅鬃馬 should repay the loan of RMB4,000,000 and loan interest of RMB370,000 to Ms. 耿玉順, (ii) 天津紅鬃馬 should pay the legal costs, and (iii) Mr. Zhao, 上海銘源實業, 天津創華投資諮詢有限公司 and 天津康盟醫療投資有限公司 were jointly held liable for the liabilities under the guarantees and the legal costs.

- d) On 18 September 2014, a writ of summons was issued by Mr. Chien Hoe Yong (“Mr. Chien”), an ex-director, as the plaintiff against the Company as the defendant under the High Court Action No. 1837 of 2014 for the payment of HK\$3,866,000 for director’s fee, housing allowance, reimbursement of expenses and RMB30,000,000 for special bonus and interest totalling HK\$41,347,000. The Company’s legal representative signed a consent summons with Mr. Chien’s solicitors on 25 October 2016 to the effect that the action be dismissed with no order as to costs. On 27 October 2016, the Court ordered that the action was dismissed with no order as to costs.
- e) According to the judgement made by the Shanghai Huangpu People’s Court in March 2015, 天津紅鬃馬 was ordered to pay RMB800,000 and related interest to 上海新培晶醫學檢驗所有限公司 for testing services provide by 上海新培晶醫學檢驗所有限公司 in previous years.
- f) On 3 November 2015, Mr. Lam Ping Cheung filed a claim against the Company and Mr. Yao Yuan for defamation (HCA 2560/2015). Mr. Lam Ping Cheung claimed that the defamatory statement contained in the announcement made by the Company dated 30 October 2015 had caused irreparable and irrecoverable damage to his character and good reputation. The announcement was made before the appointments of the Board.

Up to the date of approval of these unaudited interim condensed consolidated financial statements, there were no further development on this case.

- g) By an originating summons issued on 14 June 2016 by Guangwei Worldwide Limited as the plaintiff against the Company and the directors of the Company whom were appointed on 20 May 2016 as defendants under High Court Miscellaneous Proceedings No. 1480 of 2016. Guangwei sought, inter alia, a declaration that the annual general meeting of the Company convened on 20 May 2016 and the resolutions passed in the annual general meeting were invalid and not binding on the Company and that the Company be restrained from acting upon the resolutions passed at the annual general meeting. On 16 June 2016, the Company and the directors took out a summons to strike out the original summons on the grounds, among others, that it disclosed no reasonable cause of action (the “Strike-Out Application”). On 22 May 2017, the Court ordered, inter alia, that the Strike-Out Application be allowed and the originating summons be struck off.
- h) Based on the limited information obtained, the Board noted that 天津農墾銘信嘉小額貸款有限公司 made a claim against SHMY Biochip, 上海銘源實業, 天津康盟醫療投資有限公司, 梵高科(天津)國際貿易有限公司 and Mr. Zhao in relation to a debt dispute. The parties reached a settlement agreement in a mediation which was confirmed by the Tianjin Higher People’s Court on 20 July 2016. However, SHMY Biochip, 上海銘源實業, 天津康盟醫療投資有限公司, 梵高科(天津)國際貿易有限公司 and Mr. Zhao did not perform according to the settlement agreement and 天津農墾銘信嘉小額貸款有限公司 applied to the Tianjin Second Intermediate People’s Court to enforce the execution of the settlement agreement. However, according to the judgement made by the Tianjin Second Intermediate People’s Court on 27 November 2017, no further properties of SHMY Biochip were available for enforcement and there were no assets owned by other respondents that could be enforced. If there were any assets discovered in the future that could be available for the enforcement, 天津農墾銘信嘉小額貸款有限公司 could apply for the enforcement again.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case and estimate the financial effect on these unaudited interim condensed consolidated financial statements.

- i) Based on the limited information obtained, the Board noted that SHMY Biochip, 天津紅鬃馬 and 上海銘源投資管理有限公司 were defendants in a legal case with 富海隆投資諮詢服務有限公司 relating to a debt transfer agreement of RMB117,025,000. SHMY Biochip and 上海銘源投資管理有限公司 made an appeal claiming that the court hearing should be in Shanghai instead of Tianjin. The appeal was rejected by the Tianjin Higher People's Court in June 2016. 上海銘源投資管理有限公司 made further appeal to Supreme People's Court. However, the further appeal was also rejected by the Supreme People's Court in December 2016.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case and estimate the financial effect on these unaudited interim condensed consolidated financial statements.

- j) Based on the limited information obtained, the Board noted that SHMY Biochip was one of the respondents in a legal case relating to a debt dispute with 盛大融信(天津)實業發展有限公司. Pursuant to a judgement made by Tianjin Second Intermediate People's Court on 8 August 2016, the bank accounts balance of RMB149,500,000 or equivalent value of other assets owned by SHMY Biochip, Mr. Iu Chung, 上海銘源實業, Shanghai HealthDigit, 天津康盟醫療投資有限公司 and 牟清 should be frozen.

In the absence of relevant supporting documents, the Board was unable to provide details of this legal case.

- k) According to the judgement made by Huzhou Wuxing District People's Court on 25 December 2015, the bank account balance of RMB4,956,715 or equivalent amount of property owned by 天津市福萊特科技發展有限公司 be frozen for 湖州數康生物科技 有限公司 in relation to a dispute on a sale and purchase contract. In the absence of relevant supporting documents, the Board was unable to provide further details of the case.

- l) On 19 December 2016, the Company and its 2 indirectly wholly owned subsidiaries (the “Plaintiffs”) commenced an action (HCA3339 of 2016) against the Company’s predecessor auditors, Deloitte Touche Tohmatsu (“DTT”), claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiffs arising out of DTT’s failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiffs and/or other subsidiaries of the Company.

On 29 September 2017, an indirectly wholly owned subsidiary commenced an action (HCA 2282 of 2017) against the Company’s predecessor auditors, DTT, claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiff arising out of DTT’s failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiff and its subsidiaries.

On 6 July 2018, Master J. Wong of the High Court ordered, inter alia, that HCA 3339 of 2016 and HCA 2282 of 2017 be consolidated and thereafter be carried on as one action (the “Consolidated Action”) with HCA3339 of 2016 being the lead action.

As at the date of this Announcement, the Consolidated Action has not been determined.

- m) Based on the limited information obtained, the Board noted that 深圳市師股權投資有限公司 made a claim against SHMY Biochip and 上海銘源實業 in relation to a debt dispute. The Shanghai First Intermediate People’s Court accepted the claim by 深圳市師股權投資有限公司 on 1 December 2017. However, 深圳市師股權投資有限公司 did not pay the court fee within the time limit specified by the Shanghai First Intermediate People’s Court. Pursuant to a judgement made by Shanghai First Intermediate People’s Court on 5 March 2018, the claim was considered as withdrawn by 深圳市師股權投資有限公司.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case.

Corporate Governance Practices

Based on the information and documents available to the Board, the Company has applied the principles and complied with all code provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) during the period commencing from 1 January 2019 to 30 June 2019 (“Reporting Period”) except for the following deviations:–

Code Provisions

Comments by the Board

C 1.2

Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the company’s performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties

Due to the incomplete books and records, the management was unable to provide complete and accurate financial statements to the Board. However, the Company expected that regular financial updates will be provided once the management can ascertain the financial position of the Company based on the information and documents available to them.

Code Provisions

Comments by the Board

C 2.1 – 2.3

- | | |
|---|--|
| <p>2.1 The board should oversee the group’s risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the company’s and its subsidiaries’ risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.</p> <p>2.2 The board’s annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the company’s accounting, internal audit and financial reporting functions.</p> <p>2.3 The board’s annual review should, in particular, consider:</p> <ul style="list-style-type: none">(a) the changes, since the last annual review, in the nature and extent of significant risks, and the company’s ability to respond to changes in its business and the external environment;(b) the scope and quality of management’s ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;(c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the company and the effectiveness of risk management;(d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company’s financial performance or condition; and(e) the effectiveness of the company’s processes for financial reporting and Listing Rule compliance | <p>The Company does not have internal audit department to oversee the control procedures to perform the risk management functions. The Executive Directors are responsible for overseeing the internal control procedures. During the Reporting Period, the Independent Board Committee (“IBC”) has been formed and the IBC had engaged FTI Consulting (Hong Kong) Limited (“FTI Consulting”) to conduct internal control system review and to prepare a report on any significant internal control deficiencies.</p> <p>The report had been circulated to the Audit Committee for review and the recommended actions have been identified and taken into consideration by the Board for improvements. It has come to the attention to the Board that the risk management and systems of internal control were ineffective and insufficient in previous years and the Board has assumed the role to identify, evaluate and manage significant risks encountered by the Group on an ongoing basis. Shareholders may refer to the announcements dated 15 November 2018 and 11 February 2019 for details of the findings of the Internal Control Review and policies implemented in response by the management.</p> |
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C2.5

The company should have an internal audit function. The company without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report

Interim Results reviewed by the Audit Committee

The interim results have been reviewed by the Audit Committee.

Future Development

The Company has continued to carry on its principal business in manufacturing and trading of HPV chips and related equipment through Genetel Pharmaceuticals (Shenzhen) Company Limited in PRC.

Shareholders may refer to the announcements made by the Company on 10 August 2018, 6 November 2018, 11 February 2019, 2 May 2019, 8 July 2019 and 2 August 2019 respectively on the updates on trading suspension. The Company will make further announcements of any material development as and when appropriate.

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

Hong Kong, 30 August 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.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | | Unaudited | |
|---|-------|--------------------------|----------|
| | | Six months ended 30 June | |
| | | 2019 | 2018 |
| | Notes | HK\$'000 | HK\$'000 |
| Revenue | 4 | 31,191 | 32,350 |
| Cost of sales | | (7,235) | (7,905) |
| Gross profit | | 23,956 | 24,445 |
| Other income | | 751 | 116 |
| Other losses | | – | – |
| Selling and distribution expenses | | (2,123) | (3,527) |
| Administrative expenses | | (21,522) | (22,986) |
| Other expenses | | (1,424) | (1,586) |
| Impairment loss on trade receivables | | – | (238) |
| Finance costs | | (1,803) | (672) |
| Loss before taxation | | (2,165) | (4,448) |
| Income tax expense | 7 | (1,038) | (867) |
| Loss for the period | 8 | (3,203) | (5,315) |
| Other comprehensive income/(expense) | | | |
| Exchange differences arising on translation of foreign subsidiaries, an associate and a joint venture (that may be reclassified subsequently to profit or loss) | | 104 | (527) |
| Total comprehensive loss for the period | | (3,099) | (5,842) |

| | | Unaudited | |
|--------------------------------------|----------|---------------------------------|---------------------------------|
| | | Six months ended 30 June | |
| | | 2019 | 2018 |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (3,203) | (5,315) |
| | | <u><u> </u></u> | <u><u> </u></u> |
| Total comprehensive loss for the | | | |
| period attributable to: | | | |
| Owners of the Company | | (3,099) | (5,842) |
| | | <u><u> </u></u> | <u><u> </u></u> |
| Loss per share | | | |
| Basic and diluted | <i>9</i> | (0.07) HK cents | (0.12) HK cents |
| | | <u><u> </u></u> | <u><u> </u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | 30 June 2019 | 31 December 2018 |
|--|--------------------------------|------------------------------|
| <i>Notes</i> | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (Audited) |
| Non-Current Assets | | |
| Property, plant and equipment | 3,575 | 4,297 |
| Right-of-use assets | 22,422 | – |
| Other intangible assets | 624 | 626 |
| | <u>26,621</u> | <u>4,923</u> |
| Current Assets | | |
| Inventories | 5,300 | 3,629 |
| Trade and other receivables, deposits and prepayments | 26,443 | 22,734 |
| Bank balances and cash | 29,496 | 30,572 |
| | <u>61,239</u> | <u>56,935</u> |
| Current Liabilities | | |
| Trade and other payables | 44,492 | 40,854 |
| Lease liabilities | 1,854 | – |
| Amount due to a related company | 7,045 | 6,563 |
| Amount due to ex-directors | 3,223 | 3,223 |
| Amounts due to shareholders | 1,463 | 1,463 |
| Income Tax payable | 927 | 2,963 |
| | <u>59,004</u> | <u>55,066</u> |
| Net Current Assets | <u>2,235</u> | <u>1,869</u> |
| Total Assets less Current Liabilities | <u><u>28,856</u></u> | <u><u>6,792</u></u> |
| Non-Current Liabilities | | |
| Other borrowings | 28,584 | 24,433 |
| Loan from a director | 3,666 | 3,548 |
| Loan from a related company | 6,468 | 6,229 |
| Lease liabilities | 20,825 | – |
| Deferred tax liabilities | 3,727 | 3,897 |
| | <u>(34,414)</u> | <u>(31,315)</u> |
| Net Liabilities | <u>(34,414)</u> | <u>(31,315)</u> |
| Capital and Reserves | | |
| Share capital | 219,195 | 219,195 |
| Reserves | (253,609) | (250,510) |
| Deficit attributable to owners of the Company | <u><u>(34,414)</u></u> | <u><u>(31,315)</u></u> |

SELECTED NOTES TO THE FINANCIAL STATEMENTS

For the six months period ended 30 June 2019

2. BASIS OF PRESENTATION

a) Suspension of trading in shares of the Company

At the request of the Company, trading in the shares of the Company has been suspended since 1 April 2015 as the Company was unable to publish annual results for the year ended 31 December 2014 by 31 March 2015. In addition, the Securities and Futures Commission (“SFC”) has directed the Stock Exchange to suspend all dealings in the shares of the Company commencing from 23 October 2017 under Rule 8(1) of the Securities and Futures (Stock Market Listing) Rules (“SMLR”).

The Company received a letter dated 4 October 2017 from the SFC which set out the SFC’s concern about the Company’s annual results announcement and annual report for the year ended 31 December 2013 and the interim results and interim report for the six months ended 30 June 2014 and that certain bank statements and bank transfer documents provided by the Company contained materially false, incomplete or misleading information. The SFC suggested that the bank statements and bank transfer documents provided by the Company were forged. The Company has still to assess the impact of the SFC’s direction under Rule 8(1) of SMLR and will seek legal advice accordingly.

b) Comparative information

The comparative figures disclosed in these unaudited interim condensed consolidated financial statements are partially based on the audited consolidated financial statements for the year ended 31 December 2018 and for the years ended 31 December 2017, 2016, 2015 and 2014. The predecessor auditor expressed an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2013. However, in view of (i) the findings of SFC as set out in note 2(a) above, (ii) the issues as set out in notes 2(d), 2(e) and 2(f) below relating to the consolidated financial statements of the Group for the previous years and (iii) incomplete books and records, board of directors of the Company since 20 May 2016 (the “Board”) was of the view that the comparative figures shown in these unaudited interim condensed consolidated financial statements may contain errors and omissions and may not be reliable. The comparative financial information has not been adjusted or reclassified on a basis consistent with that of the current period and therefore may not be comparable and any adjustments to the opening balances as at 1 January 2014, 2015, 2016, 2017, 2018 and 2019 would have a significant consequential effect on the financial performance of the Group for the six months’ period ended 30 June 2019 and/or the financial position of the Group and the Company as at 30 June 2019.

c) Going concern

During the period ended 30 June 2019, the Group incurred a loss of HK\$3,203,000 (first half of 2018: HK\$5,315,000) and cash outflows of HK\$4,196,000 from operating activities and net liabilities of HK\$34,414,000 as at 30 June 2019. Based on management accounts, the Group was still operating at a loss up to the date of approval of these unaudited interim condensed consolidated financial statements.

The major loan liabilities of the Group as at 30 June 2019 included loans and loan interests payable to Mr. Lam Ping Cheung and Lam & Co, of HK\$10,134,000 and loans and interests payable to Eastern Wealth Development Limited (“Eastern Wealth”) of HK\$27,488,000. Mr. Lam Ping Cheung is the sole equity partner and also the managing partner of Lam & Co, a firm of solicitors in Hong Kong.

In preparing these unaudited interim condensed consolidated financial statements, the Board has given careful consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profit and positive cash flows from operations in the immediate and longer term. The ability of the Group to operate as a going concern is dependent upon the availability of the credit facilities provided by Mr. Lam Ping Cheung, a substantial shareholder of the Company and being the Chairman and director of the Company and Eastern Wealth and the future business performance of the Group. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the Board considered that it is appropriate to adopt the going concern basis in preparing these unaudited interim condensed consolidated financial statements.

The Board is satisfied that the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the foreseeable future after taking into consideration of the following:

i) Loan facilities from Mr. Lam Ping Cheung and Lam & Co

On 12 September 2016, the Company and Mr. Lam Ping Cheung entered into a loan agreement pursuant to which Mr. Lam agreed to make available to the Company a credit facility of HK\$5,000,000 for two years for the ordinary course of business of the Group. The loan bears interest at 8% per annum which shall not be payable unless and until the maturity of the loan.

On 18 May 2018, the Company and Mr. Lam Ping Cheung entered into a supplemental agreement pursuant to which the term of the loan agreement shall be extended for 2 years to 11 September 2020.

As at 30 June 2019, the outstanding loan and accrued interests amounted to HK\$2,992,000 and HK\$674,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK\$2,008,000.

On 18 May 2018, the Company entered into a loan agreement with Lam & Co., for a loan facility of HK\$40,000,000 for use in the ordinary course of business of the Group. The loan bears interest at 8% per annum. Interest on loan shall not be payable unless and until the maturity of the loan under the loan agreement.

All outstanding principal and accrued interest under the loan agreement shall be repayable by the Company within 3 months upon written demand by Lam & Co. However, Lam & Co undertakes not to demand repayment of all outstanding principal and accrued interest under the loan agreement within 5 years from the date of the loan agreement.

As at 30 June 2019, the outstanding loan and accrued interests amounted to HK\$6,000,000 and HK\$468,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK\$34,000,000.

ii) *Loan facilities from Eastern Wealth*

On 27 September 2016, the Company and Eastern Wealth entered into a loan agreement pursuant to which Eastern Wealth made available to the Company a credit facility of HK\$30,000,000 (the first loan agreement). The loan bears interest at 10% per annum and shall not be payable unless and until the maturity of the loan under the terms of the first loan agreement. The credit facility was for a period of three years from the date of the first loan agreement.

On 18 May 2018, the Company and Eastern Wealth entered into a supplemental agreement to extend the term of the loan to 26 September 2020 and Eastern Wealth undertakes not to demand for repayment of the loan and accrued interest by two more years to 26 September 2020.

As at 30 June 2019, the outstanding loan and accrued interests amounted to HK\$15,000,000 and HK\$3,003,000 respectively. The remaining loan facility available for future use under the first loan agreement amounted to HK\$15,000,000.

On 23 August 2018, the Company and Eastern Wealth entered into another loan agreement pursuant to which Eastern Wealth made available to the Company a new credit facility of HK\$9,000,000 (the second loan agreement). The loan bears interest at 10% per annum and shall not be payable unless and until the maturity of the loan under the terms of the second loan agreement. The credit facility was for a period of three years from the date of the second loan agreement.

As at 30 June 2019, the outstanding loan and accrued interests amounted to HK\$9,000,000 and HK\$485,000 respectively. There was no remaining loan facility available for future use under the second loan agreement.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group and the above measures, the Board considered that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these unaudited interim condensed consolidated financial statements on a going concern.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these unaudited interim condensed consolidated financial statements.

d) Unresolved Matter identified by the predecessor auditor

During the audit in respect of the financial year ended 31 December 2014, Deloitte Touche Tohmatsu, the predecessor auditor (the “Predecessor Auditor”) of the Company visited a bank in the PRC to confirm a bank account balance of RMB420,245,000 (equivalent to approximately HK\$525,044,000). However, the Predecessor Auditor was told by the bank staff that the bank account belonged to an individual instead of the Company’s subsidiary SHMY HealthDigit Biochip Company Limited (“SHMY Biochip”) and the bank account was opened in a branch elsewhere (the “Unresolved Matter”). The findings call into question the validity of the bank account with a balance totalling RMB420,245,000 as at 31 December 2014 and the underlying transactions. The Predecessor Auditor reported the Unresolved Matter to the then board of directors and audit committee and recommended that an independent forensic investigation be undertaken to address the Unresolved Matter. On 6 October 2015, an independent board committee (the “IBC”) comprising two of the then independent non-executive directors of the Company was established to conduct an investigation on the Unresolved Matter. However, no independent forensic investigation was conducted. On 21 December 2015, the Predecessor Auditor resigned with the reason that the Company failed to undertake an independent forensic investigation in respect of the Unresolved Matter. The then management was replaced by the Board on 20 May 2016. After the change of directors on 20 May 2016 as stated in note 2(e) to these unaudited interim condensed consolidated financial statements, a new IBC was formed. On 3 June 2016 Control Risks Pacific Limited (the “Independent Forensic Investigator”) was engaged to conduct a forensic investigation on the Unresolved Matter.

The Independent Forensic Investigator has confirmed that the bank confirmation produced by the then management to the Predecessor Auditor of the Company was forged and that SHMY Biochip did not and does not hold the bank account. Up to the date of approval of these unaudited interim condensed consolidated financial statements, the Unresolved Matter remains outstanding as the Company was unable to gain access to the accounting and banking records of SHMY Biochip and thus, the Independent Forensic Investigator was unable to conduct further investigations.

The Board noted that the bank balances of RMB420,245,000 included an amount of RMB396,000,000 which was allegedly recovered from an unrelated entity in the PRC. The details are set out in note 2(f)(iii).

e) Matters subsequent to the change in directors on 20 May 2016

As at 19 May 2016, the Company has 7 directors (the “ex-directors”) with Mr. Yao Yuan as the Chairman of the board. Pursuant to the resolution passed at the annual general meeting of the Company held on 20 May 2016, Mr. Yao Yuan and Mr. Yu Ti Jun were removed as executive director and non-executive director respectively and the remaining one executive and four independent non-executive directors were retired from the board of the Company and 7 new directors were appointed.

Since 20 May 2016, the Board began to take over the control of the Company and its subsidiaries from the ex-directors. As at the date of approval of these unaudited condensed consolidated financial statements, the Board has already taken over the control of the Company and its subsidiaries, with the following exceptions:

i) *上海銘源數康生物芯片有限公司 SHMY HealthDigit Biochip Company Limited (“SHMY Biochip”) and its subsidiary*

On 12 August 2016, HD Global Limited removed the former directors and legal representative of SHMY Biochip and appointed new directors and a legal representative by way of a shareholder’s resolution. However, the Board is still unable to gain access to the premises of SHMY Biochip. In early November 2016, the Company issued civil claims against Mr. Yao Yuan, being the registered legal representative of SHMY Biochip for the return of the company seals and business licenses of SHMY Biochip. The Company lost the lawsuit and the appeal against such judgement was unsuccessful. The Company under the advice of its PRC lawyer, reported loss of the company seals and business licenses and to apply for the issuance of new company seals and business licenses of SHMY. Although the Group was able to obtain agreement from Mr. Yao Yuan to cooperate to change the legal representative of Genetel Shenzhen from Mr. Yao Yuan to a person nominated by the Board in May 2018, the Board was unable to obtain the signature from Mr. Yao Yuan to change the legal representative of SHMY Biochip. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People’s Government in the Hong Kong Special Administrative Region (the “Liaison Office”) to seek the Liaison Office’s assistance

in re-gaining control of SHMY Biochip. From March 2018 to October 2018, officers of the Shanghai Administration for Industry and Commerce (“SHAIC”) had several meetings with the Company’s PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of SHMY Biochip had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as lost properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Yao Yuan for the recovery of the business licenses and company seals. As at the date of approval of these unaudited condensed consolidated financial statements, Mr. Yao Yuan remained the registered legal representative of SHMY Biochip. In these circumstances, the Board was unable to take control over the management and operations of SHMY Biochip and its subsidiary.

ii) *上海數康生物科技有限公司 Shanghai HealthDigit Co., Ltd (“Shanghai HealthDigit”) and its subsidiaries*

On 12 August 2016, HD Global Limited removed the former directors and legal representative of Shanghai HealthDigit and appointed new directors and a legal representative by way of a shareholder’s resolution. However, the Board is still unable to gain access to the premises of Shanghai HealthDigit.

In early November 2016, the Company issued civil claims against Mr. Iu Chung (“Mr. Iu”), being the registered legal representative of Shanghai HealthDigit for the return of the company seals and business licenses of Shanghai HealthDigit. The Shanghai Xu Hui People’s Court ruled in favour of Shanghai HealthDigit and Mr. Iu was ordered to surrender the company seals and the business licenses within 10 days from the date when the judgment took effect (that was, 8 March 2018). The Company was later informed by its lawyer in the PRC that Mr. Iu filed an appeal in respect of the judgment made by the Shanghai Xu Hui People’s Court. On 30 August 2018, the appeal was successful and the appeal court revoked the judgment made by the lower court. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People’s Government in the Hong Kong Special Administrative Region to seek the Liaison Office’s assistance in re-gaining control of Shanghai HealthDigit. From March 2018 to October 2018, officers of SHAIC had several meetings with the Company’s PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some

staff members of Shanghai HealthDigit had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as lost properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Iu Chung for the recovery of the business licenses and company seals. As at the date of approval of these unaudited condensed consolidated financial statements, Mr. Iu Chung remained the registered legal representative of Shanghai HealthDigit. In these circumstances, the Board was unable to take control over the management and operations of Shanghai HealthDigit.

Given the above circumstances, the Board was unable to take control over the management and operation of SHMY Biochip and Shanghai HealthDigit and their subsidiaries (together the “Shanghai Subsidiaries”) nor direct the relevant activities of the Shanghai Subsidiaries which significantly affected the Shanghai Subsidiaries’ return and could not gain access to the premises, assets and the accounting books and records of the Shanghai Subsidiaries. The Board considered that the control over the Shanghai Subsidiaries was lost.

In the absence of relevant books and records of the Shanghai Subsidiaries, the Board has no information to consolidate the financial statements of the Shanghai Subsidiaries into these unaudited condensed consolidated financial statements and the financial statements of the Shanghai Subsidiaries were derecognised from these unaudited interim condensed consolidated financial statements.

The Board of the Company acknowledged that it is the responsibility of the directors to prepare these unaudited interim condensed consolidated financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). However, prior to the appointment of the Board, the Company’s hard drives in the Hong Kong office had been removed and its banking documents taken away, as a result of which its computer records including details of all bank transactions were no longer accessible. A substantial part of the accounting and computer records of the Company and its subsidiaries, which was contained in the hard drives, is also no longer accessible. The Company reported the matter to the Hong Kong Police.

As a result, these unaudited interim condensed consolidated financial statements for the 6 months' period ended 30 June 2019 have been prepared on the basis that the financial performance and financial position of the Shanghai Subsidiaries were not consolidated into these unaudited interim condensed consolidated financial statements. The balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Group for the 6 months' period ended 30 June 2019 and net assets of the Group as at 30 June 2019.

Due to the limited financial information available and as most of the former key accounting personnel of the Group had left, the Board was unable to obtain sufficient documentary information to satisfy itself regarding the validity and completeness of the Group's books and records and the appropriateness of the treatment of various balances as included in these unaudited interim condensed consolidated financial statements for the 6 months' period ended 30 June 2019.

As these unaudited interim condensed consolidated financial statements have been prepared based on incomplete books and records, the Board is unable to represent that proper accounting books and records have been maintained for the 6 months' period ended 30 June 2019 and for the years ended 31 December 2014, 2015, 2016, 2017 and 2018, or whether all transactions entered into by the Group during these periods have been properly reflected in these unaudited interim condensed consolidated financial statements. The Board is also unable to represent as to the completeness, existence and accuracy of information contained in and the disclosures of these unaudited Interim condensed consolidated financial statements in accordance with the HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

Genetel Pharmaceuticals (Shenzhen) Company Limited ("Genetel Shenzhen") adopted "Accounting Standards for Business Enterprises" for the preparation of its financial statements. Although the Standards were in line with "The Accounting Law of the People's Republic of China," and were accepted by The Ministry of Finance, they were not in total compliance with the disclosure requirements of the HKFRSs. As certain records had not been kept by Genetel Shenzhen, the existing directors could not locate all the necessary documents and information to compile the financial statements in accordance with the HKFRSs.

f) Irregularities identified by the Board

Since the Board took over the control of the Group, the Board identified the following questionable transactions in previous years.

i) Shanghai Yuanqi Acquisition and loss of 70% equity interest in Shanghai Yuanqi

On 5 August 2011, the Company announced the acquisition of 70% equity interest in a company, 上海源奇生物醫藥科技有限公司 (Shanghai Yuanqi Bio-Pharmaceutical Company Limited) (“Shanghai Yuanqi”) in the PRC by a wholly-owned subsidiary, SHMY Biochip for a consideration of RMB354,000,000, of which RMB225,000,000 was to be paid in cash and the remaining balance of RMB129,000,000 to be satisfied by the issue of 326,871,967 new shares of the Company at HK\$0.478 per share as consideration shares (the “Acquisition Announcement”).

In the Acquisition Announcement, the 70% equity interest of Shanghai Yuanqi was alleged to have been sold by Mr. Yan Rong Rong (“Yan”) as to 51% and Madam Xiong Hui (“Xiong”) as to 19% to SHMY Biochip.

On 18 May 2015, Xiong commenced a civil complaint at the People’s Court of Feng Xian District, City of Shanghai, the PRC. The civil complaint of Xiong and a search of the documents kept at the Administration of Industry and Commerce revealed that:

- (a) A different Equity Transfer Agreement to what the Company announced was entered into on the same day of 5 August 2011 between SHMY Biochip, Yan and Xiong whereat the total consideration for the 70% equity interest of Shanghai Yuanqi was agreed at RMB354,000,000 represented by the issuance of 896,997,491 shares of the Company of which 243,470,711 shares were to be issued to Xiong to satisfy the payment for her 19% equity interest in Shanghai Yuanqi. No cash was required to be paid by SHMY Biochip to either Yan or Xiong. Mr. Iu Chung, the brother of the then chairman of the board Mr. Yao Yuan, was the legal representative of SHMY Biochip.
- (b) By an agreement dated 18 March 2014 between SHMY Biochip and Xiong whereat it was agreed that SHMY Biochip would pay Xiong RMB60 million to settle the unpaid consideration shares of her 19% interest before 30 August 2014.
- (c) On the same day of 18 March 2014, a Debt Convert-to-Shares Agreement was entered into between SHMY Biochip and Xiong whereat SHMY Biochip acknowledged the debt of RMB60 million owed to Xiong and agreed to transfer all the 70% equity interest in Shanghai Yuanqi to Xiong if the debt was not paid.

- (d) SHMY Biochip did not pay the debt to Xiong and Xiong commenced the civil complaint to enforce her alleged right under the Debt Convert-to-Shares Agreement. In the statement of civil complaint dated 18 May 2015 issued by Xiong, it was stated that SHMY Biochip only gave Xiong a confirmation of entitlement to 88,722,391 shares in the Company on 21 December 2011 (as opposed to the actual delivery of the shares). The balance of 154,748,320 shares had never been issued to Xiong.

According to the records in the Administration of Industry and Commerce, the 70% equity interest in Shanghai Yuanqi owned by SHMY Biochip was transferred to Xiong by agreement between SHMY Biochip and Xiong on 18 February 2016. As a result, the Group lost its 70% equity interest in Shanghai Yuanqi.

Findings by the Board

Shortly before the acquisition, Yan's 51% interest in Shanghai Yuanqi was acquired from a person called Mr. Zhu Cong Zhen (朱從真) ("Zhu") for RMB1.02 million on 21 June 2011. When Yan sold his 51% interest, the Company (allegedly) paid cash RMB163,928,571 and 238,149,576 consideration shares of the Company at HK\$0.478 per share. The Equity Transfer Agreement produced by Xiong, to which Yan was a party stated that no cash payment was to be paid to Yan.

At all material times, Zhu and Xiong were directors of Shanghai Yuanqi.

The then management of the Company had not disclosed to the shareholders the relationship of Zhu and Xiong and that Yan only acquired the 51% equity interest from Zhu, less than 2 months ago at the price of RMB1.02 million.

Further enquiry with the branch share registrar of the Company in Hong Kong has confirmed the issuance of a total of 238,149,576 shares of the Company to Yan and 88,722,391 shares to Xiong on 23 December 2011 as consideration shares pursuant to the terms of the acquisition as mentioned in the Acquisition Announcement.

The consideration shares issued to Yan exceeded 5% of the then total issued capital of the Company and Yan was required to disclose his interest to the Hong Kong Stock Exchange and the Company according to the SFO. But Yan had not done so. There is no evidence available to the existing directors that the consideration shares were actually delivered to Yan and Xiong, albeit they were issued in their names. Records show that Yan transferred all his 238,149,576 shares from January 2012 to May 2012 except 50,000,000 shares which are still in Yan's name. Xiong transferred all her 88,722,391 shares in May 2014.

The Board does not have information to confirm the actual payment of the cash consideration of RMB163,928,571 and RMB61,071,429 to Yan and Xiong respectively. In her civil complaint in the PRC court, Xiong claimed the agreement to sell her 19% equity interest was for consideration shares of the Company only and she had only received a confirmation as to her entitlement to 88,722,391 shares as opposed to the actual shares. The loss of Shanghai Yuanqi's interest had a significant impact on the net asset of the Company.

ii) *Disposal of Shanghai Weiyi Hospital Investment and Management Limited*

On 19 December 2011, the then company secretary Mr. Kenny Poon (“Mr. Poon”) announced on behalf of the board the disposal of the Group’s 51% interest in a PRC subsidiary namely, Shanghai Weiyi Hospital Investment and Management Limited (“Shanghai Weiyi”) by its wholly-owned subsidiary, Shanghai HealthDigit to a Madam Jiang Yi (蔣毅) (“Jiang”) for a consideration of RMB65,000,000 (the “Disposal Announcement”). On 4 January 2012, the Company announced the completion of the disposal.

At all material times, Mr. Yao was the chairman of board of the Company and his brother Mr. Iu was the legal representative of Shanghai HealthDigit.

On 25 April 2014, more than two years after the completion of the disposal, the Company announced that a loan agreement dated 20 December 2011 was entered into between Shanghai HealthDigit and Shanghai Weiyi whereby Shanghai HealthDigit agreed to lend to Shanghai Weiyi a loan of RMB85,240,000 for a term of two years ended on 19 December 2013 (the “Loan Announcement”). It was said in the Loan Announcement that Shanghai HealthDigit had subsequently recovered the loan from Shanghai Weiyi.

The Board located a judgment dated 30 July 2013 issued by the Shanghai City First Intermediate People’s Court, the PRC which has revealed different facts from those announced by the Company.

According to the judgement located, the action was brought by 上海銘源實業集團有限公司 Shanghai Mingyuan Enterprises Group Limited (“Shanghai Mingyuan”) as plaintiff against 道格特醫療科技(深圳)有限公司 Dao Ge Te Medical Technology (Shenzhen) Company Limited (“Dao Ge Te”) and 上海天壇普華醫院有限公司 Shanghai Tian Tan Pu Hwa Hospital Company Limited (“Tian Tan”) as defendants to enforce a share charge of all the Shanghai Weiyi shares (see below). According to the evidence produced by Shanghai Mingyuan at the trial, the following facts were presented:

- (a) By an agreement dated 9 August 2010 (“9 August 2010 agreement”) entered into between Jiang, Mr. Yang Xing (楊興) (“Yang”) and Mr. Tang Hon Ming (唐洪明) (“Tang”) as sellers (the “Sellers”) and Dao Ge Te and 亞太醫療集團有限公司 as purchasers (the “Purchasers”), the Sellers sold all their 100% shares in Shanghai Weiyi to the Purchasers for a consideration of RMB40 million in cash and RMB120 million worth of floating listed company’s shares. The Purchasers designated Dao Ge Te and Tian Tan as the registered owners as to 51% and 49% of the registered capital of Shanghai Weiyi respectively.
- (b) Shanghai Mingyuan is a company in PRC owned and controlled by Mr. Yao and Mr. Iu.
- (c) Pursuant to the agreement, cash consideration of RMB40,000,000 was paid on 7 December 2010 in Hong Kong currency HK\$46,790,000 by a cheque issued by a Hong Kong solicitors firm Messrs Angela Ho & Associates to Ming Yuan Holdings Limited, which was owned and controlled by Mr. Yao and Mr. Iu.
- (d) Completion of the sale took place on 21 December 2010. On 31 December 2010, Dao Ge Te and Tian Tan each executed a share charge on all 100% shares in Shanghai Weiyi in favour of Shanghai Mingyuan for their obligations to pay the balance of consideration of RMB120 million worth of floating listed shares.
- (e) The share charges were registered in January 2011 with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.
- (f) Jiang, Yang and Tang held the 100% shares in Shanghai Weiyi for Shanghai Mingyuan as nominee holders.
- (g) After the hearing of the action, Shanghai City First Intermediate People’s Court ordered the validity of the share charge which was later confirmed by the Shanghai City Higher People’s Court on appeal by the Purchasers in 2015.

The evidence Shanghai Mingyuan produced in the hearing of the action contradicted with what the Company announced on 6 July 2006 about the independence of the sellers, namely Tang and Yang from whom the Company acquired the 51% equity interest. All along, Tang and Yang were nominees of the 51% equity interest in Shanghai Weiyi for Shanghai Mingyuan, a company owned by Mr. Yao and Mr. Iu.

Further findings by the Board

Contrary to what the Disposal Announcement of the Company disclosed, on 8 November 2010, Shanghai HealthDigit transferred all its 51% equity interest in Shanghai Weiyi to Jiang at the price of RMB68,000,000 and the transfer agreement dated the same day of 8 November 2010 between Shanghai HealthDigit and Jiang was filed with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.

In fact, by 8 November 2010, the Shanghai HealthDigit had transferred the 51% equity interest in Shanghai Weiyi in favour of Jiang, for RMB68,000,000. Jiang was the nominee for Shanghai HealthDigit which in turn was owned by Mr. Yao and Mr. Iu. The cheque in the sum of HK\$46,790,000 issued by the Hong Kong solicitors firm Messrs Angela Ho & Associates as cash consideration paid by the Purchasers under the 9 August 2010 agreement was paid to Ming Yuan Holdings Limited, a British Virgin Islands company owned and controlled by Mr. Yao and Mr. Iu. Mr. Poon issued an acknowledgment of receipt of the payment on behalf of the Sellers. On the acknowledgement of receipt, Mr. Yao also signed for Shanghai Mingyuan.

At the time of making the Disposal Announcement for the purported disposal of 51% equity interest in Shanghai Weiyi by Shanghai HealthDigit to Jiang, the Company had already transferred the 51% equity interest to Jiang on 8 November 2010, who subsequently transferred the same to the Dao Ge Te and Tian Tan on 21 December 2010. Mr. Poon acknowledged the receipt of the cash consideration paid by the Purchasers and the recipient of the cheque was a company owned by Mr. Yao and Mr. Iu.

As such, when the Disposal Announcement was made, Mr. Poon and Mr. Yao knew that the contents of the Disposal Announcement were not true.

The existing directors of the Company could not identify any evidence showing that the loan to Shanghai Weiyi in the sum of RMB85.24 million had been paid to Shanghai HealthDigit as announced by the then management in the Loan Announcement.

The purported sale of the 51% interest in Shanghai Weiyi on 19 December 2011 was a fraud, given the fact that the Company had already transferred such interest to Jiang on 8 November 2010.

iii) *Foreign Exchange Agreement*

During the year ended 31 December 2013, the Group deposited RMB396,000,000 (equivalent to approximately HK\$507,197,000) (the “Payment”) to a company incorporated in Beijing, the PRC namely 北京農龍投資管理有限公司 (Beijing Nong Long Investment Management Company Limited) (the “Beijing Company”) for certain treasury arrangement. The Payment was made pursuant to an agreement dated 23 December 2013 between the Beijing Company and SHMY Biochip pursuant to which the Beijing Company agreed to exchange the Payment into Hong Kong dollars in Hong Kong within three months, at an agreed exchange rate and subject to a service charge by the Beijing Company, and convert the Payment into Hong Kong dollars to the Company on or before 22 March 2014. If the Beijing Company was unable to effect the conversion, the Beijing Company would refund the Payment to SHMY Biochip within three working days. The amount is interest-free, unsecured and repayable on demand. The Beijing Company failed to deliver the Hong Kong currency in Hong Kong. It was said in the 2013 Annual Report that the ex-directors were still in the negotiation with the

Beijing Company in relation to the repayment of such amount. Despite the ex-directors were of the view that such amount could be recovered but since no agreement had been reached in relation to the date of repayment, the entire amount had been impaired during the year ended 31 December 2013.

On 9 June 2014, the Company announced that the full amount was recovered and the Group recognized the full amount recovered as “recovery of other receivable previously written off” in other gains in the unaudited interim financial statements for the six months ended 30 June 2014. Purportedly, the whole amount of RMB396,000,000 was recovered by SHMY Biochip in May and June 2014. However, the Board was unable to ascertain whether or not the Payment had been fully recovered as the Board was unable to gain access to the books and records of SHMY Biochip. Subsequently, a sum of RMB420,000,000 was withdrawn from a bank account but details of the transfer were unknown. The investigation concluded that it was highly unlikely that the bank account exists in the name of SHMY Biochip. As explained above, the financial performance of SHMY Biochip were derecognised in these unaudited interim condensed consolidated financial statements. Therefore, no other gains in respect of the allegedly recovery as recognized in these unaudited interim condensed consolidated financial statements for the 6 months’ period ended 30 June 2019.

The Payment had raised concern of the Listing Department of the Stock Exchange. On 28 June 2016, the Listing Committee conducted a hearing into the conduct of the Company and the relevant directors in respect of this transaction. The Listing Committee found that the Payment constituted financial assistance by the Company to the Beijing Company and it was a non-exempt transaction and subject to the requirements under Chapter 14 of the Listing Rules. Based on the size of the Payment, it constituted a major transaction subject to announcement requirements under Rule 14.34 and shareholder approval requirement under Rule 14.40 of the Listing Rules. The Company had not obtained shareholders’ approval before the Payment was made and only disclosed, with delay, on 31 March 2014. The Listing Committee concluded that the Company breached Rules 14.34 and 14.40 of the Listing Rules. The Company and six ex-directors were censured by the Stock Exchange on 28 September 2016.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA.

| | |
|-----------------------|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, if any.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits, if any, and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the short-term lease recognition exemption to leases previously classified as operating leases under HKAS 17.

On transition, the Group recognised right-of-use assets of HK\$23,195,000 at 1 January 2019. The application of HKFRS 16 has had no impact on the Group's retained profits at 1 January 2019.

4. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's only reportable and operating segment is the manufacture and trading of HPV detection products and related equipments. Since it is the only operating segment of the Group, no further analysis thereof is presented. The chief operating decision maker assesses the performance of the reportable segment based on the revenue and loss for the year of the Group as presented in the consolidated statement of profit or loss and the comprehensive income.

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HPV detection productions and related equipment | 31,191 | 32,350 |

Geographical information

All of the Group's revenue are derived from the operation in the PRC for the period ended 30 June 2019 and 2018 and over 99% of the Group's non-current assets are located in the PRC as at 30 June 2019 and 2018, therefore, no geographical information is presented.

Information about major customers

For the period ended 30 June 2019 and 2018, no single customer contributed 10% or more than 10% of the total revenue of the Group.

7. INCOME TAX EXPENSE

| | Unaudited | |
|---------------------------|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| PRC Enterprise Income Tax | 1,189 | 905 |
| Deferred tax | (151) | (38) |
| | <u>1,038</u> | <u>867</u> |

No provision for Hong Kong Profits Tax has been made since the group entities operating in Hong Kong had no assessable profit for both periods.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate for the PRC subsidiaries is 25%. During the period ended 30 June 2019, Genetal Shenzhen was qualified as High and New Technology Enterprise that was subject to a reduced preferential EIT rate of 15% according to the applicable EIT Law.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

8. LOSS FOR THE PERIOD

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss for the period has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 507 | 407 |
| Depreciation of right-of-use assets | 773 | – |
| Amortisation of other intangible assets (included in cost of sales) | – | 1,966 |
| Staff costs | | |
| – directors' remuneration | 1,020 | 1,064 |
| – other staff costs | 7,231 | 9,738 |
| – retirement benefits scheme contributions, excluding directors | 283 | 396 |
| Total staff costs | <u>8,534</u> | <u>11,198</u> |
| Auditors' remuneration | 450 | 450 |
| Cost of inventories recognised as expenses | 2,817 | 2,896 |
| Research and development expenditure | <u>1,424</u> | <u>1,586</u> |

9. LOSS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to the owners of the parent is based on the following data:

| | Unaudited | |
|--|---------------------------------|--------------------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss for the purpose of basic and diluted loss per share | | |
| Loss for the period attributable to the owners of the Company | (3,203) | (5,315) |
| | <u><u> </u></u> | <u><u> </u></u> |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 4,383,892,800 | 4,383,892,800 |
| | <u><u> </u></u> | <u><u> </u></u> |

There were no movements in the Company's issued share capital for the 6 months' period ended 30 June 2019.

For both period, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because the exercise price of those options is higher than the average market price of the Company's shares for both periods.