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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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

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 consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the three months ended 30 September 2021 (the “**Period 2021**”), together with the comparative unaudited figures for the corresponding period in 2020 (the “**Period 2020**”), are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Three months ended	
		30 September	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	1,679	46,054
Costs of sales and services		<u>(1,317)</u>	<u>(33,335)</u>
Gross profit		362	12,719
Other income and gains		8,770	1,465
Selling and distribution expenses		(164)	(4,531)
Administrative and operating expenses		(13,772)	(11,250)
Share of profits of associates		<u>62</u>	<u>1,766</u>
Operating (loss)/profit		(4,742)	169
Finance costs		<u>(4,632)</u>	<u>(4,664)</u>
Loss before tax	3	(9,374)	(4,495)
Income tax expense	4	<u>—</u>	<u>(127)</u>
Loss for the period		<u>(9,374)</u>	<u>(4,622)</u>
Loss for the period attributable to:			
Equity holders of the Company		(9,395)	(4,635)
Non-controlling interests		<u>21</u>	<u>13</u>
		<u>(9,374)</u>	<u>(4,622)</u>

		(Unaudited)	
		Three months ended	
		30 September	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
Other comprehensive (loss)/income 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>(238)</u>	<u>1,087</u>
Total comprehensive loss for the period		<u>(9,612)</u>	<u>(3,535)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(9,633)	(3,612)
Non-controlling interests		<u>21</u>	<u>77</u>
		<u>(9,612)</u>	<u>(3,535)</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Loss per share attributable to equity holders of the Company			
Basic	<i>5</i>	(0.21)	(0.11)
Diluted		<u>N/A</u>	<u>N/A</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 September 2021

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of GEM Listing Rules.

Except as described below, the accounting policies and methods of computation used in the unaudited consolidated financial results for the three months ended 30 September 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2021.

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 2021. 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. REVENUE

The principal activities of the Group are provision of (i) lottery-related services, (ii) internet plus services (solution and supply chain), (iii) manufacturing and distribution of personal protective equipment and (iv) others services.

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

	(Unaudited)	
	Three months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Point in time		
Internet plus services (supply chain)		
— Trading of goods	—	17,094
Manufacturing and distribution of personal protective equipment	<u>1,255</u>	<u>28,137</u>
	<u>1,255</u>	<u>45,231</u>
Over time		
Lottery-related services	<u>424</u>	<u>823</u>
Total	<u><u>1,679</u></u>	<u><u>46,054</u></u>

3. LOSS BEFORE TAX

Loss before tax has been arrived at after charging/(crediting):

	(Unaudited)	
	Three months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Cost of services	64	463
Cost of inventories sold	1,253	32,872
Depreciation of property, plant and equipment	257	397
Depreciation of right-of-use assets	240	80
Amortisation of intangible assets	—	5
Gain on disposal of subsidiaries	(8,680)	—
Exchange (gain)/losses, net	(3)	79
Interest on convertible bonds	<u>4,050</u>	<u>4,112</u>

4. INCOME TAX EXPENSE

For the three months ended 30 September 2021, 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% (Period 2020: Nil).

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

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

The calculation of the 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	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Loss for the period attributable to the equity holders of the Company	<u>(9,395)</u>	<u>(4,635)</u>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>4,403,983</u>	<u>4,289,725</u>

For the three months ended 30 September 2021, outstanding share options and convertible bonds of the Company have been anti-dilutive (three months ended 30 September 2020: anti-dilutive) since their exercise or conversion would result in a decrease in loss per share (three months ended 30 September 2020: decrease in loss per share).

6. MOVEMENT OF RESERVES

For the three months ended 30 September 2021

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital	Share option reserve	Translation reserve	Convertible bonds reserve	Special reserve	Capital reserve	Accumulated losses	Total	Non-controlling interests	Total
			redemption reserve									
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2021 (audited)	55,050	2,675,328	1,484	11,290	7,968	4,507	(1)	10,184	(2,904,690)	(138,880)	(1,676)	(140,556)
Loss for the period	—	—	—	—	—	—	—	—	(9,395)	(9,395)	21	(9,374)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	(238)	—	—	—	—	(238)	—	(238)
Total comprehensive (loss)/income for the period	—	—	—	—	(238)	—	—	—	(9,395)	(9,633)	21	(9,612)
Recognition of equity-settled share-based payments	—	—	—	2,235	—	—	—	—	—	2,235	—	2,235
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	1,343	1,343
At 30 September 2021 (unaudited)	55,050	2,675,328	1,484	13,525	7,730	4,507	(1)	10,184	(2,914,085)	(146,278)	(312)	(146,590)

For the three months ended 30 September 2020

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital	Share option reserve	Translation reserve	Convertible bonds reserve	Special reserve	Capital reserve	Accumulated losses	Total	Non-controlling interests	Total
			redemption reserve									
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2020 (audited)	53,621	2,644,794	1,484	8,265	8,194	5,950	(1)	10,184	(2,805,571)	(73,080)	(305)	(73,385)
Loss for the period	—	—	—	—	—	—	—	—	(4,635)	(4,635)	13	(4,622)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	1,023	—	—	—	—	1,023	64	1,087
Total comprehensive (loss)/income for the period	—	—	—	—	1,023	—	—	—	(4,635)	(3,612)	77	(3,535)
Recognition of equity-settled share-based payments	—	—	—	1,407	—	—	—	—	—	1,407	—	1,407
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	—	1,470	1,470
At 30 September 2020 (unaudited)	53,621	2,644,794	1,484	9,672	9,217	5,950	(1)	10,184	(2,810,206)	(75,285)	1,242	(74,043)

7. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS

The unaudited condensed consolidated first quarterly financial statements were approved and authorised for issue by the Board on 11 November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For Period 2021, the Group recorded an unaudited consolidated revenue of HK\$1.7 million, decreased by 96% compared to HK\$46.1 million for Period 2020. The gross profit ratio decreased to about 22% as compared with 28% for Period 2020. For Period 2021, the Group recorded a net loss attributable to equity holders of HK\$9.4 million, which increased 102% from HK\$4.6 million for Period 2020. Selling and distribution expenses and administrative expenses in Period 2021 amounted to HK\$13.9 million, which decreased 12% as compared to HK\$15.8 million in Period 2020. Finance costs for Period 2021 decreased 1% to HK\$4.6 million as compared to HK\$4.7 million for Period 2020 relating to decrease in imputed finance costs on convertible bonds.

Business Review

The Group has been focusing on the development of its anti-counterfeiting business in recent years. Since identifying the business direction and obtaining the rights of use on the relevant anti-counterfeiting patents, the Group has been actively exploring the market while attempting to optimize and stabilize its business model, and gradually entered into commercial contracts with corporate users. During the period under review, the anti-counterfeiting business began to fully roll out in the market and entered the implementation stage, where production and delivery have been actively arranged.

On 4 July 2021, Shenzhen Guoke Anti-counterfeiting Technology Company Limited* (深圳國科防偽科技有限公司) (“**Guoke Anti-counterfeiting**”), a direct wholly-owned subsidiary of the Company, and Shenzhen Ficus Technology Holdings Ltd. (深圳細葉榕科技控股有限公司) (“**Ficus**”), the holder of patented technologies, entered into a licensing and master service agreement in relation to the provision of total solutions by Ficus to Guoke Anti-counterfeiting. The total solutions included obtaining the rights of use on anti-counterfeiting patents owned by Ficus, as well as supportive services for the application of Guoke innovative anti-counterfeiting products (“**Guoke Innovative Anti-counterfeiting Products**”), including product design, production arrangement, material procurement, quality control and customization service of the devices. The Group is in the process of accelerating the expansion in anti-counterfeiting market, and the entering into the licensing and master service agreement allows the Group to obtain proper authorization on legally using the anti-counterfeiting total solutions and device. With the necessary approval and business support for commencing the respective business, resources could be more focused on smooth marketing efforts.

As of previous financial year, the Group has signed commercial contracts with corporate users from three industries including tea leaves, natural food and cosmetics e-commerce platform. During the period under review, the Group signed a commercial contract with a corporate user from a newly applicable industry, Qinghai Qinghai-Tibet Bees Thoroughbred Plant (“**Qinghai-Tibet Bees**”), regarding the provision of Guoke Innovative Anti-counterfeiting Products, for all lines of products of Qinghai-Tibet Bees. To date, industries of the corporate users that Guoke Anti-counterfeiting has entered into commercial contracts with, have expanded from tea leaves, natural food and cosmetics e-commerce platform to health food industry. During the period under review, the number of contracted Guoke Innovative Anti-counterfeiting Products of the Group amounted to approximately 17 million per year on average, and the market development was progressing well. The geographical coverage of the contracted corporate users included Gansu, Zhejiang and Qinghai altogether three provinces.

During the period under review, in view of the contracting with various corporates in the commercial application of Guoke Innovative Anti-counterfeiting Products as well as the increasing number of potential corporate users and expanding business scale, the Board considered that it was essential to further edge up the efforts on the development of the anti-counterfeiting business. On 30 August 2021, the Group has completed the issuance of convertible bonds with a total principal amount of HK\$50,000,000, and the proceeds of which would be used for, among other things, meeting the demand from existing and potential orders, and ensuring the sufficiency of working capital for production and manufacturing. Part of the proceeds from the issuance of the convertible bonds would also be used to enhance our sales capability nationwide and expand our marketing network. By utilizing the driving force from marketing and promotion, the Group would expand the scope of exposure of Guoke Innovative Anti-counterfeiting Products.

Guoke Innovative Anti-counterfeiting Products with patented technologies have four main features, namely, “anti-counterfeiting”, “credibility”, “marketing” and “social responsibility” while using the complete chain of anti-counterfeiting system together with anti-counterfeiting packaging and online anti-counterfeiting information verification platform as the core. Guoke Innovative Anti-counterfeiting Products can perform with various functions and properties depending on different application scenarios, redefining the traditional anti-counterfeiting technology and attracting consumers to actively participate in the authentication of products. Through the “Trio Code” (三碼合一) entrance, consumers could easily enter the online anti-counterfeiting information verification platform, forming a closed loop of functions, such as authentication of products and interactive marketing, thus creating a unique way of marketing.

The Group's strategy to implement across industry and across region commercialization of anti-counterfeiting products is beginning to bear fruit. In view of the nature of replicable business model of Guoke Innovative Anti-counterfeiting Products, the Group is confident in continuing to apply and expand the coverage of Guoke Innovative Anti-counterfeiting Products into various consumer product markets. With rich experience in working with customers from various industries, the Group will summarize the characteristics of the needs of each industry and the pattern of the cooperation models, to lay a solid foundation for achieving across industry and across region goals in order to strengthen our position in the market.

During the period under review, the Group continued to offer lottery system maintenance service to customers.

The Group's "Internet Plus" business offers highly efficient and convenient solutions for different industries, such as internet marketing solutions which could make rapid adjustments to suit different application scenarios.

The performance of personal protection equipment business worsened as compared with the same period of last year, because the Group has completed the one-year procurement order of 48 million medical masks under the Local Mask Production Subsidy Scheme launched by the Hong Kong Special Administrative Region Government in the previous financial year. Apart from servicing the existing institutional and retail customers, the Group also continues to develop the market and explore new opportunities. The Group provides quality and up-to-standard medical mask products to the market, which generates a healthy cash flow.

Guoke Innovative Anti-counterfeiting Products is a Corporate Social Responsibility ("CSR") enabling product. The Group, through Guoke Innovative Anti-counterfeiting Products, is providing its customers with the tools to achieve a greater level of CSR. The very nature of Guoke Innovative Anti-counterfeiting Products embeds the elements of consumer protection as well as contributing to the social welfare and sports development while consumer protection and welfare funding contribution are two of the most important elements in any CSR matrix. By leveraging the capabilities of the Guoke Innovative Anti-counterfeiting Products regarding brand protection and brand endorsement, it is expected to support the sustainable development of the brand, achieve prosperous of the industries and its high-quality development and promote rural vitalization. By using Guoke Innovative Anti-counterfeiting Products, the corporate users will be able to achieve CSR in an effective way. The wide and extensive reach of Guoke Innovative Anti-counterfeiting Products in consumer products will take CSR to a new level of achievement. The Group will also be able to achieve and enhance the Group's participation in CSR through supplying Guoke Innovative Anti-counterfeiting Products.

Future Outlook

The Group is fully committed to expanding its anti-counterfeiting business. With success in initial marketing, the Group has successfully established an extensive corporate customer base. As at the date of this announcement, Guoke Innovative Anti-counterfeiting Products covers seven industries, including tea leaves, natural food and cosmetics e-commerce platform, health food, beer, fruit distribution and health supplements, while continues to further capture the market share of existing industries. The geographical coverage of the contracted users included Gansu, Zhejiang, Qinghai, Shanghai and Yunnan altogether five provinces. For the period after review, the number of contracted Guoke Innovative Anti-counterfeiting Products of the Group has increased from approximately 17 million per year on average as in the period under review to more than 20 million per year on average as at the date of this announcement. Meanwhile, the management will actively arrange the delivery of Guoke Innovative Anti-counterfeiting Products. In view of the product recognition of Guoke Innovative Anti-counterfeiting Products being gradually accumulated in various industries, the management believes that the market potential for this product is very huge, and shall make significant contributions to the Group's revenue in near term while bringing hope for the Group's future development.

After the period under review, through the management's effort in developing the market, there was rebound in the demand for personal protective equipment products. The management will continue their efforts in further exploring and developing the market.

Dividend

The Board does not recommend the payment of dividend for the three months ended 30 September 2021 (three months ended 30 September 2020: Nil).

GENERAL INFORMATION

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

During the three months ended 30 September 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares.

Competing Interests

As at 30 September 2021, 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 three months ended 30 September 2021, except for the following deviations which are summarized below:

Code Provision A.2.1

The chairperson of the Company is responsible for overseeing the functions of the Board and formulating the overall strategies and policies of the Company. The chief executive officer of the Company is responsible for the day-to-day management of the business of the Group, implementing major strategies, making day-to-day decisions and the overall coordination of business operations. For the three months ended 30 September 2021, the roles of the chairperson and chief executive officer have not been separate and have not been exercised by different individuals. The responsibilities of both roles are same as mentioned above. The Board considers that vesting the roles of chairperson and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the chief executive officer when necessary.

Code provision A.4.1

The non-executive Directors of the Company (the “**NED(s)**”) and the independent non-executive Directors of the Company (the “**INED(s)**”) were not appointed for specific terms but are subject to retirement by rotation and re-election at the 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 NEDs and INEDs have given the rights to the Shareholders to consider and approve the continuation of the NEDs’ and INEDs’ offices.

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

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 the 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 during the three months ended 30 September 2021.

Audit Committee

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises three INEDs, namely, Mr. LAU Fai Lawrence, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred. Mr. LAU has been appointed as 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 three months ended 30 September 2021 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
Chairperson

Hong Kong, 11 November 2021

As at the date of this announcement, the Board comprises Mr. CHAN Ting, Mr. LIAO Zhe and Mr. CHEUK Ka Chun Kevin as executive Directors, Madam CHEUNG Kwai Lan and Dr. CHENG Yanjie as non-executive Directors, and 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 Listed Company Information” 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.