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SoftMedx Healthcare Limited

京玖醫療健康有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

2018 FINAL RESULTS

The board (“Board”) of directors of SoftMedx Healthcare Limited (the “Company”) hereby presents the audited consolidated final results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Continuing operations:			
Revenue	3	58,229	120,522
Cost of goods sold and services		(27,372)	(73,808)
Gross profit		30,857	46,714
Other income, gains and losses	5	8,874	10,541
Selling and distribution expenses		(5,773)	(15,615)
Administrative expenses		(77,722)	(113,873)
Loss on disposal of financial assets at fair value through profit or loss ("FVTPL")		294	(28,036)
Loss arising from change in fair value of financial assets at FVTPL		—	(189,046)
Impairment loss on other receivables		(1,631)	(2,994)
Impairment loss on intangible assets		—	(41)
Gain on disposal of subsidiaries		540	74,536
Gain on disposal of associates		—	25,558
Share of results of associates		(118)	2,852
Finance costs	6	(20,093)	(32,831)
Loss before taxation		(64,772)	(222,235)
Income tax credit (expense)	7	117	(510)
Loss for the year from continuing operations	8	(64,655)	(222,745)
Discontinued operation:			
Loss for the year from discontinued operation		—	(20,554)
Loss for the year		(64,655)	(243,299)

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Other comprehensive (expense) income for the year			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of equity instruments at fair value through other comprehensive income (“FVTOCI”)		(3,188)	8,031
Exchange differences on translating foreign operations		—	6,133
Other comprehensive (expense) income for the year, net of income tax		<u>(3,188)</u>	<u>14,164</u>
Total comprehensive expense for the year		<u>(67,843)</u>	<u>(229,135)</u>
(Loss) for the year attributable to Owners of the Company:			
Continuing operations		(66,078)	(208,040)
Discontinued operation		—	(20,554)
		<u>(66,078)</u>	<u>(228,594)</u>
Non-controlling interests:			
Continuing operations		1,423	(14,705)
Discontinued operation		—	—
		<u>1,423</u>	<u>(14,705)</u>
		<u>(64,655)</u>	<u>(243,299)</u>
Total comprehensive (expense) income attributable to Owners of the Company:			
Continuing operations		(69,266)	(193,876)
Discontinued operation		—	(20,554)
		<u>(69,266)</u>	<u>(214,430)</u>
Non-controlling interests:			
Continuing operations		1,423	(14,705)
Discontinued operation		—	—
		<u>1,423</u>	<u>(14,705)</u>
		<u>(67,843)</u>	<u>(229,135)</u>
Loss per share from continuing operation attributable to owners of the Company (HK cents)			
Basic and diluted	10	<u>(20.3)</u>	<u>(63.8)</u>
Loss per share from continuing operations and discontinued operation attributable to owners of the Company (HK cents)			
Basic and diluted		<u>(20.3)</u>	<u>(70.1)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		4,200	6,515
Goodwill		12,816	12,816
Investments in associates		—	85,342
Equity instruments at FVTOCI		94,559	93,323
Long-term prepayments and deposits		944	2,151
		<u>112,519</u>	<u>200,147</u>
Current assets			
Inventories		11,162	11,164
Trade receivables	11	3,364	1,936
Other receivables, prepayments and deposits		15,125	8,776
Tax recoverable		—	253
Financial assets at FVTPL		37,578	18,131
Bank balances and cash		11,429	36,207
		<u>78,658</u>	<u>76,467</u>
Assets classified as held for sale		—	34,713
		<u>78,658</u>	<u>111,180</u>
Current liabilities			
Trade and other payables	12	8,570	4,960
Other payables		53,046	36,275
Borrowings	13	123,109	200,322
		<u>184,725</u>	<u>241,557</u>
Net current liabilities		<u>(106,067)</u>	<u>(130,377)</u>
Total assets less current liabilities		<u>6,452</u>	<u>69,770</u>

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current liabilities			
Other payables		5,900	5,901
Borrowings	13	75,008	73,042
Bonds payable	14	19,345	19,112
Deferred tax liabilities		91	190
		<u>100,344</u>	<u>98,245</u>
Net liabilities		<u>(93,892)</u>	<u>(28,475)</u>
CAPITAL AND RESERVES			
Share capital	15	3,030,660	3,030,660
Reserves		<u>(3,104,308)</u>	<u>(3,036,554)</u>
Deficit attributable to the owners of the Company		(73,648)	(5,894)
Non-controlling interests		<u>(20,244)</u>	<u>(22,581)</u>
Total (deficit) equity		<u>(93,892)</u>	<u>(28,475)</u>

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated. These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and the Hong Kong Companies Ordinance. These consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Suspension of trading in shares of the Company

Reference is made to the Company’s announcements dated 27 November 2017 at the request of Securities and Futures Commission (“SFC”) under section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V) to suspend trading in shares of the Company on the Stock Exchange with effect from 27 November 2017.

Going concern

For the year ended 31 December 2018, the Group incurred a loss attributable to owners of the Company of HK\$66,078,000, and as at 31 December 2018, the Group recorded net current liabilities of HK\$106,067,000 and net liabilities of HK\$93,892,000 respectively. In assessing the appropriateness of the use of the going concern in the preparation of these consolidated financial statements, the Board has given careful consideration to the future liquidity and performance of the Group, the debt restructuring of the Group and its available sources of financing and prepared a cashflow forecast covering a period of 12 months from the date of approval for issue of these consolidated financial statements. The Board is of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the issue of these consolidated financial statements. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position and performance which include, but not limited to the following:

- (a) The Company has applied to the Court for the approval of the scheme of arrangement to be entered into between the Company and its creditors to convene a scheme meeting for the creditors to consider and approve the scheme of arrangement. After the scheme of arrangement is approved by the creditors, the sanctioning of the Court will be sought. The scheme of arrangement will become effective on the registration date of the Court Order granted by the Court. The Directors are confident that the Company will receive sufficient support for the scheme of arrangement in the creditors’ meeting. The Directors also assess that it is probable that the Court would approve the scheme of arrangement, considering the Group’s financial position shown on its most recent management accounts and letters of support received from the creditors of the Company up to the date of issue of these consolidated financial statements. On this basis, the Directors consider that the scheme of arrangement would be successful.

- (b) On 22 July 2022, the Company reached an agreement with a facility provider for the provision of a loan facility of HK\$8,000,000 to finance the operating costs of the Group (the “Loan Agreement”); and
- (c) The Group continues to develop its medical and well-being business to improve its cashflow from operations.

Given the above, the Directors are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of approval for issue of these consolidated financial statements. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. However, a material uncertainty exists related to the above conditions that may cast significant doubt about the Group’s ability to continue as a going concern.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HK(IFRIC)-Int 22 Amendments to HKFRS 2	Foreign Currency Transactions and Advance Consideration Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual improvement on HKFRSs 2015–2017 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹
Amendment to HKFRS 3	Definition of a Business ⁴

Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁵
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ⁸
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁷
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ⁶
Amendments to HKAs 16	Property, Plant and Equipment — Proceeds before Intended Use ⁷
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ⁷
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ⁷
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁹
Amendments to HKAS 1 and HKFRs Practice Statement 2	Disclosure of Accounting Policies ⁶
Amendments to HKAS 8	Definition of Accounting Estimates ⁶
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁶
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹⁰

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2020.

⁶ Effective for annual periods beginning on or after 1 January 2023.

⁷ Effective for annual periods beginning on or after 1 January 2022.

⁸ Effective for annual periods beginning on or after 1 June 2020.

⁹ Effective for annual periods beginning on or after 1 April 2021.

¹⁰ Effective for annual periods beginning on or after 1 April 2024.

Except for the new and amendments to HKFRSs and interpretations mentioned below, the Board anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are

not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing/operating cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned. In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information. HKFRS Practice Statement 2 Making Materiality Judgements (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement. The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications. The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

3. REVENUE

An analysis of revenue is as follow:

Continuing operations

(i) Disaggregation of revenue from contracts with customers

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<u>Types of goods or service</u>		
Medical and well-being business		
Sale of optical products and provision of eye-care services	51,104	42,225
Provision of obstetric and gynecological services	7,125	9,898
Pharmaceutical manufacturing, medical laboratory test and provision of research and development services	—	68,399
Total	58,229	120,522
<u>Geographical markets</u>		
Hong Kong	58,229	120,522
<u>Timing of revenue recognition</u>		
At point in time	58,229	120,522

(ii) Performance obligations for contracts with customers

For sale of optical products and provision of eye-care services, the provision of obstetric and gynecological services to customers, revenue is recognised when control of the goods has transferred to the customer and pharmaceutical manufacturing, medical laboratory test and provision of research and development services, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods, the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The sale of optical products and provision of eye-care services, the provision of obstetric and gynecological services and pharmaceutical manufacturing, medical laboratory test and provision of research and development services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. SEGMENT INFORMATION

The Group's reportable and operating segments under HKFRS 8 are based on the information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. During the year, the Group has two (2017: two) reportable operating segments:

Medical and well-being business	—	operation of optical products and eye-care services retail shops
	—	manufacturing and sale of pharmaceutical and health related products; provision of medical laboratory testing services and health check services; and
	—	provision of obstetric and gynaecological services
Asset management business	—	investment in assets and loan financing

Segment reporting

The following summary describes the Group's reportable segments:

Continuing operations

For the year ended 31 December 2018

	Medical and well- being business <i>HK\$'000</i>	Asset management business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	58,229	—	58,229
External sales	—	—	—
Segment revenue	<u>58,229</u>	<u>—</u>	<u>58,229</u>
Segment results	250	1,623	1,873
Unallocated corporate expenses			(49,644)
Unallocated finance costs			(17,001)
Loss before taxation			<u>(64,772)</u>
Reportable segment assets	130,985	23,049	154,034
Unallocated assets			37,143
Total assets			<u>191,177</u>
Reportable segment liabilities	28,505	3,467	31,972
Unallocated liabilities			253,097
Total liabilities			<u>285,069</u>

For the year ended 31 December 2017

	Continuing operations			Discontinued operation	Total <i>HK\$'000</i>
	Medical & well-being business <i>HK\$'000</i>	Asset management business <i>HK\$'000</i>	Subtotal <i>HK\$'000</i>	Health management business <i>HK\$'000</i>	
Segment revenue	120,522	—	120,522	—	120,522
Segment results	(60,140)	(72,066)	(132,206)	(20,554)	(152,760)
Unallocated corporate expenses					(61,198)
Unallocated finance costs					(28,831)
Loss before taxation					(242,789)
Reportable segment assets	128,654	115,549	244,203	—	244,203
Unallocated assets					67,124
Total assets					311,327
Reportable segment liabilities	29,917	31,327	61,244	—	61,244
Unallocated liabilities					67,124
Total liabilities					128,368

Geographical information

The Group's operation is located in Hong Kong. The Group's revenue from external customers is all from Hong Kong and all non-current assets of the Group are located in Hong Kong.

5. OTHER INCOME, GAINS AND LOSSES

Continuing operations

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income on bank balances	2	149
Dividend income	—	267
Net loss on disposal of property, plant and equipment	(26)	—
Others	8,898	10,125
	<u>8,874</u>	<u>10,541</u>

6. FINANCE COSTS

Continuing operations

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest expense on:		
Bank and other borrowings	16,825	17,346
Convertible notes	—	101
Bonds payable	3,268	10,099
Promissory note	—	5,285
	<u>20,093</u>	<u>32,831</u>

7. INCOME TAX CREDIT (EXPENSE)

Continuing operations

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	117	(544)
PRC Enterprise Income Tax	—	(84)
	<u> </u>	<u> </u>
		(628)
Deferred tax	—	118
	<u> </u>	<u> </u>
	<u>117</u>	<u>(510)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

8. LOSS FOR THE YEAR

Continuing operations

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	2,619	5,205
Amortisation of intangible assets included in cost of services	—	975
	<u> </u>	<u> </u>
Total depreciation and amortisation	2,619	6,180
Auditors' remuneration	727	1,467
Cost of inventories recognized as expenses	27,372	73,808
Employee salaries and other benefit	29,868	47,220
	<u> </u>	<u> </u>

9. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

10. LOSS PER SHARE

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

From continuing operations and discontinued operation

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	<u>(66,078)</u>	<u>(228,594)</u>
	2018 <i>'000</i>	2017 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>326,037</u>	<u>326,037</u>

From continuing operations

	2018 HK\$'000	2017 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company from continuing operations	<u>(66,078)</u>	<u>(208,040)</u>
	2018 '000	2017 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>326,037</u>	<u>326,037</u>

Basic loss per share from discounted operation is HK\$Nil (2017: HK\$6.3 cents), based on the loss for the year from discounted operation attributable to owners of the Company of HK\$Nil (2017 HK\$20,554,000) and the demonstrators detached above for basic loss per share.

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for the share consolidation on 20 November 2017. The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for both 2018 and 2017.

11. TRADE RECEIVABLES

	2018 HK\$'000	2017 <i>HK\$'000</i>
Trade receivables (net of allowance)	<u>3,364</u>	<u>1,936</u>

12. TRADE PAYABLES

	2018 HK\$'000	2017 <i>HK\$'000</i>
Trade payables	<u>8,570</u>	<u>4,960</u>

13. BORROWINGS

	2018 HK\$'000	2017 <i>HK\$'000</i>
Borrowings	<u>198,117</u>	<u>273,364</u>
Analysed into:		
Repayable within one year or on demand	<u>123,109</u>	200,322
Repayable within a period of more than one year	<u>75,008</u>	<u>73,042</u>
	<u>198,117</u>	<u>273,364</u>

The amount represented loans with aggregate principal amount of HK\$196,290,000 (2017: HK\$269,855,000), bearing interest rates ranging from 2% to 12% (2017: 2% to 12%).

14. BONDS PAYABLE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bonds payable	<u>19,345</u>	<u>19,112</u>
Analysed into:		
Repayable within a period of more than one year	<u>19,345</u>	<u>19,112</u>

The amount represented bonds issued by the Company with aggregate principal amount of HK\$20,000,000 (2017: HK\$20,000,000), bearing interest rates ranging from 5% to 6.5% (2017: 5% to 6.5%) and effective interest rates ranging from 6% to 9% (2017: 6% to 9%).

15. SHARE CAPITAL

	Number of shares <i>'000</i>	Amount <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2017	6,520,737	3,030,660
Share consolidation (note)	(6,194,700)	—
At 31 December 2017, 1 January 2018 and 31 December 2018	<u>326,037</u>	<u>3,030,660</u>

Notes: Pursuant to an ordinary resolution passed in the extraordinary general meeting held on 17 November 2017, share consolidation of 20 existing shares were consolidated into 1 share of the Company.

16. EVENTS AFTER THE REPORTING PERIOD

The events after the end of the report period are as follows:

- (i) In March 2021, a subsidiary of the Company under the medical and well-being business filed a winding-up petition to the High Court of Hong Kong. In July 2021, the subsidiary was wound up by the High Court of Hong Kong.
- (ii) In April 2023, a creditor of the Company filed a winding up petition against the Company relating to its claim for an outstanding debt of HK\$16,175,304, together with the unpaid interest and cost thereon.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL RESULTS

Revenue

The Group recorded revenue of HK\$58.2 million for the year ended 31 December 2018 (2017: HK\$120.5 million).

Gross Profit

For the year ended 31 December 2018, the Group recorded gross profit and gross profit margin of HK\$30.9 million (2017: HK\$46.7 million) and 53.0% (2017: 38.8%) respectively.

Loss for the Year

For the year ended 31 December 2018, the Group recorded consolidated loss and consolidated loss attributable to the owners of the Company of HK\$64.7 million (2017: HK\$243.3 million) and HK\$66.1 million (2017: HK\$228.6 million) respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity and financial resources

As at 31 December 2018, the Group's total assets and net liability amounted to HK\$191.1 million (2017: HK\$311.3 million) and HK\$93.9 million (2017: HK\$28.5 million) respectively. Its cash and bank balances amounted to HK\$11.4 million (2017: HK\$36.2 million) and liquidity ratio (calculated based on the Group's total assets to total liabilities) was 0.7 (2017: 0.9).

During the year ended 31 December 2018, the Group's net cash outflow from operating activities amounted to HK\$21.0 million (2017: HK\$54.4 million), net cash inflow from investing activities amounted to HK\$4.5 million (2017: HK\$99.1 million) and net cash outflow from financing activities amounted to HK\$8.3 million (2017: HK\$78.2 million). As a result, the Group recorded a net cash outflow of HK\$24.8 million for the year ended 31 December 2018 (2017: HK\$33.5 million).

As at 31 December 2018, the Group's total borrowings amounted to HK\$217.5 million (2017: HK\$292.5 million), including borrowings of HK\$198.1 (2017: HK\$273.4 million) and bond payable of HK\$19.3 million (2017: HK\$19.1 million).

Capital structure

As at 31 December 2018, the total number of issued shares and the issued share capital of the Company were 326,036,828 (2017: 326,036,828) and HK\$3,030,660,000 (2017: HK\$3,030,660,000) respectively.

CORPORATE DEVELOPMENT AND FUTURE PROSPECTS

Suspension of trading

On 27 November 2017, the Company announced that the SFC had issued a direction under section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V) to suspend trading in the shares of the Company with effect from 27 November 2017 because it had appeared to the SFC that the Company's announcement dated 22 June 2016 about the Group's acquisition of 9.9% issued shares of New Ray Medicine International Holding Limited contained materially false, incomplete or misleading information. Trading in the shares of the Company remained suspended as at the date of this results announcement pending the fulfillment of the following resumption conditions imposed by the Stock Exchange: (i) obtaining the SFC's approval to the resumption of trading in the shares of the Company; (ii) publication of all outstanding financial results in accordance with The Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and address any audit modification; (iii) demonstrating that the Company has sufficient level of operations and assets of sufficient value in compliance with the requirements of the Listing Rules; (iv) re-compliance with the requirements of the Listing Rules to have a minimum of three independent non-executive directors and three members in its audit committee; and (v) announcement of all material information for the Company's shareholders and other investors to appraise the Company's position. The Stock Exchange may modify the resumption conditions and/or give further guidance if the Company's situation changes.

The scheme

The Company, in view of its deteriorating financial situation since suspension of trading in its shares in November 2017, has been contemplating solutions to settle its debts. After due and careful consideration, the Board has resolved that it would be in the best interest of the Company, its creditors and shareholders (particularly the public shareholders) to conduct a debt restructuring by way of scheme of arrangement in order to restore the Company's financial and business positions to normality. The Company has been making strenuous efforts to pursue the scheme and, as at the date of this results announcement, the Company has solicited irrevocable support from its creditors of not less than 75% in value and not less than 50% in number to participate in the scheme. The Company appreciates the support of the majority of its creditors and the overwhelming support from the supporting creditors and their agreement to participate in the scheme strongly indicated that a majority of the creditors do intend to rescue the Company and are confident in the prospects of the Company in the long run.

Business development and prospects

All of the previous businesses of the Group had been wound down, liquidated or deconsolidated for reasons of the long suspension of trading, its heavy indebtedness, issues with management partners as well as the adverse impact of the COVID-19 pandemic. Despite the Company's very limited resources resulted from the long suspension of trading

and heavy indebtedness as well as the disruptive impact of the COVID-19 pandemic on the business activities including those of the Group, the Company has been continuously exploring business opportunities to enhance long term shareholders' value. The Company, as a natural extension of its medical and well-being business segment and leveraging on its resources and business connections, has commenced the business of distribution of medical equipment and products ("Healthcare Business") in 2021. Notwithstanding the challenges arising from the Sino-United States trade conflict, the war in Ukraine, the disruptive changes in the business environment and disruption of supply chains in the midst of the COVID-19 pandemic as well as the worldwide interest and inflation hikes, the Healthcare Business progressed well in 2022. With the gradual opening up of the global, Hong Kong and China economy, the Group is confident that the Healthcare Business will further thrive in 2023 and beyond. Such confidence is apparently shared by the majority of the creditors in giving their irrevocable support to the scheme and their intention to become shareholders of the Company if resumption of trading takes place. Looking ahead, the challenges arising from the continuing Sino-United States trade conflicts, drastic and uncertain changes in the business environment as a result of the COVID-19 pandemic as well as the worldwide interest and inflation hikes will continue to take a hit on the global economy and may inevitably affect the Group's business operations. But the Company is confident that it will be able to survive all these challenges with the support of its creditors and business partners and, after implementation of the scheme, its financial position will return to normality and its businesses will improve steadily with good prospects.

FUND RAISING ACTIVITIES

The Company did not conduct any equity fund raising activities during the year ended 31 December 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the total number of employees of the Group was 60. The Group remunerates its employees based on their performance, working experience and the prevailing market rate. Other employee benefits include retirement benefits, insurance and medical coverage, training programs and share option scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the year ended 31 December 2018, the Company has complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules except for none of the existing non-executive directors being appointed for a specific

term. However, since all the non-executive directors are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the code.

AUDIT COMMITTEE

The principal responsibilities of the audit committee of the Company include: making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors; review and monitoring of the external auditors' independence and objectivity; development and implementation of policy on the engagement of the external auditors to supply non-audit services; monitoring integrity of the interim and annual financial statements as well as interim and annual reports and accounts; review of significant financial reporting judgments; ensuring that management has discharged its duty to have an effective internal control system. The final results of the Group for the year ended 31 December 2018 have been reviewed by the audit committee.

EVENTS AFTER THE REPORTING PERIOD

Please refer to note 16 to the consolidated financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made enquiry to all directors, Each of the directors has confirmed that he/she had complied with the required standards set out in the code during the year ended 31 December 2018.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below paragraphs set out an extract of the report by the auditors of the Company regarding the consolidated financial statements of the Group for the year ended 31 December 2018.

Disclaimer of opinion

We do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report.

Basis for disclaimer of opinion

1. Limitation of scope on accounting books and records of subsidiaries which had been disposed, liquidated and deconsolidated

As explained in note 2 to the consolidated financial statements, the directors advised that since the disposal, liquidation and deconsolidation of certain subsidiaries and associates of the Group before our appointment as the auditors of the Group in February 2023, (“Disposed and Liquidated companies”) who the Group were unable to contact after the disposal/liquidation, the Company has retained the basic business records of these Disposed and Liquidated companies, including but not limited to management accounts, ledgers and sub-ledgers accounts, certain vouchers, bank statements, certain agreements and documentation (collectively referred to as the “Basic Records”), that were left behind by the former management and accounting departments of these Disposed and Liquidated companies as far as possible. The Basic Records were not considered to be of a sufficient level for our audit purposes. More specific business records and supporting explanations of the accounting records were needed for our audit, including but not limited to, (i) certain supporting documents of certain business transactions, such as invoices, receipts and purchase orders; (ii) detailed explanation of the accounting entries made (collectively, the “Specific Records”). In the absence of the Specific Records of these Disposed and Liquidated companies following the disposal/liquidation, the directors considered that they could only use their best endeavor to preserve the books and records that were left behind by the former management and the accounting department and they were unable to determine whether these Specific Records were complete in the first place, and they had no other access to such Specific Records despite they have taken all reasonable steps and have used their best endeavor to locate such Specific Records.

As a result of the above matters, we have not been able to obtain sufficient appropriate audit evidence to ascertain whether the income and expenses for the year ended 31 December 2018 and the assets and liabilities as at 31 December 2018 and other related disclosure notes in relation to these Disposed and Liquidated subsidiaries, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements. Accordingly, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded transactions and the elements making up the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2018.

2. Limitation of scope on opening balances, comparative figures and related disclosures

As described in the preceding paragraphs, due to the absence of sufficient supporting documents and more detailed explanations in relation to the accounting records in connection to the opening balances and comparative information made available to the directors in respect of the Disposed and Liquidated companies, we were unable to obtain sufficient appropriate audit evidence over the account balances as at 31 December 2017 and the transactions and notes to consolidated financial statements of the Group and Company for the year then ended. Any adjustments that might have been found necessary to the Group's consolidated statement of financial position as at 31 December 2017 and 1 January 2018 would have a consequential effect on the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017.

3. Non-compliance with HKFRSs and omission of disclosures

As explained in note 2 to the consolidated financial statements, as the consolidated financial statements of the Group have been prepared based on incomplete books and records. Consequently, the directors of the Company were unable to confirm that the consolidated financial statements comply with Hong Kong Financial Reporting Standards (the "HKFRSs") or the disclosure requirements of the Hong Kong Companies Ordinance. Given these circumstances, which are more fully described in note 2 to the consolidated financial statements, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group's consolidated financial statements.

Material uncertainty relating to going concern

We draw attention to note 2 to the consolidated financial statements, the Group incurred a net loss attributable to owners of the Company of HK\$66.1 million for the year ended 31 December 2018, and as at 31 December 2018, the Group had net current liabilities and net liabilities of HK\$106.1 million and HK\$93.9 million respectively, which included borrowings of HK\$123.1 million that would be repayable within one year, while the Group's cash and cash equivalent balance was HK\$11.4 million. The Group did not have sufficient cash and cash equivalents for immediate settlement of borrowings as mentioned above.

These factors, together with other matters disclosed in note 2, indicated the existence of material uncertainties that may cast significant doubt on Group's ability to continue as a going concern. However, our opinion is not modified in respect of this matter.

ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2018 will be despatched to shareholders and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.648.com.hk) as soon as practicable.

For and on behalf of the board of
SoftMedx Healthcare Limited
Lam Sung Him Gaston
Company Secretary

Hong Kong, 19 May 2023

As at the date of this announcement, the Board comprises Mr. Chan Ka Chung, Mr. Cheung Wai Kwan and Mr. Wang Jianguo as executive directors; and Ms. Hu Xuezhen, Mr. Lin Pinzhuo and Mr. Yiu Chun Wing as independent non-executive directors.