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MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 0233)

UPDATE ON TRADING SUSPENSION — INTERNAL CONTROL REVIEW

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

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

The Resumption Conditions, amongst the others, require the Company to demonstrate that it has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations. On 22 November 2016, the Company engaged FTI Consulting (Hong Kong) Limited (“**FTI Consulting**”) to assist the Independent Board Committee (the “**IBC**”) of the Company to address the said Resumption Condition. An Internal Control Review Report was finalized and issued on 12 July 2018 (the “**ICR Report**”) which has been approved by the IBC.

* *For identification purpose only*

The ICR Report only focused on the internal control systems of the Company and Genetel Pharmaceuticals (Shenzhen) Company Limited (“GPSZ”) as the Company has not yet gained control over the two major subsidiaries, namely 上海銘源數康生物芯片有限公司(SHMY HealthDigit Biochips Company Limited) (“SHMY Biochips”) and 上海數康生物科技有限公

司 (Shanghai HealthDigit Co.Ltd) (“Shanghai HealthDigit”) and the other subsidiaries have no substantive business activities. The ICR Report only focused on the internal control systems of the Company and GPSZ on the following cycles and areas:

- Sales and Receipt Cycle
- Purchases and Inventory Cycle
- Fixed Assets Cycle
- Liabilities Cycle
- Payroll Cycle
- Bank and Cash Payment Cycle
- Chops and Seals Management Cycle
- Intangible Assets Cycle
- Financial Reporting Cycle
- Rules and Regulations Compliance Cycle

MAJOR FINDINGS OF THE INTERNAL CONTROL REVIEW REPORT

Sales and Receipt Cycle	
Sales through distributors	
Control Deficiencies	Recommendations
<p>The policy in 2011 concerning the sales cycle is outdated and did not reflect the change in sales prices.</p> <p>Delivery notes were not signed by customer and delivery records were only kept for 2 years</p>	<p>An updated policy should be made to ensure that:—</p> <ul style="list-style-type: none"> • details of sales cycle procedures and determination of pricing be included; • all delivery notes are signed by customers upon receipt of goods and delivery records be kept for 5 years;

Sales and Receipt Cycle	
Sales through distributors	

Control Deficiencies	Recommendations
<p>Sales were recorded based on the amounts of invoices issued by GPSZ to end customers. Given the sale agreements were entered into between GPSZ and the distributors and the amounts paid by the end customers were subsequently paid to the distributors, GPSZ should recognize the sales amounts based on its agreements with distributors.</p> <p>Sales were recognized when sales invoices were issued to end customers rather than on the date of delivery.</p> <p>The distributors informed GPSZ verbally on the sale prices agreed with end customers for issuance of invoices.</p> <p>No product liability insurance in place.</p> <p>No register is maintained by the finance department in relation to sales and payments between GPSZ and distributors/end customers for control purpose.</p>	<ul style="list-style-type: none"> • sales should be recognized based on the amounts paid by the distributors under the sale agreements entered into between GPSZ and the distributors; • sales be recognized when goods have been delivered; • requests from distributors for the issuance of invoices to end customers are documented; • insurance policy be put in place to cover the product liability; • a register in relation to sales and payments be prepared and updated on time.

Sales and Receipt Cycle	
Direct Sales	
Control Deficiencies	Recommendations

<p>The policy in 2011 concerning the sales cycle is outdated and did not reflect the change in sales prices.</p> <p>No facsimile or email confirmation was received from customers regarding the details of the expiry date of goods.</p> <p>Delivery notes were not signed by end customer and delivery records were only kept for 2 years.</p> <p>Sales were recognized when sales invoices were issued to end customers rather than on the date of delivery.</p> <p>Lack of effective control in relation to accounts receivable.</p>	<p>An updated policy should be made to ensure that:—</p> <ul style="list-style-type: none"> • details of sales cycle procedures be included; • goods with correct expiry date are delivered to the customers pursuant to orders; • all delivery notes are signed by end customers upon receipt of goods and delivery records be kept for 5 years; • sales should be recognized when goods have been delivered; • credit control of accounts receivable be put in place.
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Purchase and Inventory Cycle	
In relation to GPSZ	
Control Deficiencies	Recommendations

<p>Delivery note from the suppliers are not available.</p> <p>No policy regarding disclosure of the details of suppliers in the event that they are considered as connected parties.</p> <p>ERP system in warehouse is independent of the accounting system. Changes in inventory records under ERP system have to be updated in accounting system by finance department manually.</p>	<p>An updated policy should be made to ensure that:—</p> <ul style="list-style-type: none"> • delivery note from the supplier are properly filed and details be matched with inspection certificate; • connected parties transactions be disclosed; and • upgraded electronics system be implemented and inventory records maintained by warehouse and finance department be updated simultaneously.
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Purchase and Inventory Cycle

In relation to Company	
Control Deficiencies	Recommendations
No written policy for the payments procedure.	Policy for payments procedure should be made.

Fixed Assets Cycle

In relation to GPSZ	
Control Deficiencies	Recommendations
No insurance policy in place to cover the fixed assets.	Insurance policy to cover the fixed assets should be made.
In relation to Company	
Control Deficiencies	Recommendations
No material deficiency has been identified	Not applicable

Liability Cycle

In relation to GPSZ

Control Deficiencies	Recommendations
Not applicable as GPSZ does not enter into any loans, guarantee or financing agreements	Not applicable
In relation to Company	
Control Deficiencies	Recommendations
No material deficiency has been identified	Not applicable
Payroll Cycle	
In relation to GPSZ	
Control Deficiencies	Recommendations
No individual payroll receipt is available. Instead, staff members acknowledged receipt of their payroll on the list of payrolls.	Individual payroll receipt should be prepared for each of the staff member.
In relation to Company	
Control Deficiencies	Recommendations
No material deficiency has been identified	Not applicable
Bank and Cash Payment Cycle	
In relation to GPSZ for payment requisitions and petty cash	
Control Deficiencies	Recommendations
No monitoring on the bank balance.	Policy should be made and weekly position report be prepared to ensure the liquidity is monitored.
Lack of segregation of duties among the work performed by the finance manager.	Segregation of duties among the work performed by the finance manager.

Bank and Cash Payment Cycle

In relation to Company	
Control Deficiencies	Recommendations
HK\$76,259 being the petty cash could not be located when the current board of directors of the Company took over the management of the Company in May 2016. The Board believed that the said sum would be lost.	Policy should be made to strengthen the internal control of petty cash cycle.
Chop and Seals Management Cycle	
In relation to GPSZ	
Control Deficiencies	Recommendations
<p>Company Chop and finance chop are kept by general manager instead of the respective chief officer.</p> <p>Only registration records of the company chop and the finance chop have been kept.</p> <p>No approval record of the general manager on the chop register.</p>	Updated written policy and registration records for all chops should be prepared, and chop register be approved by the general manager.
In relation to Company	
Control Deficiencies	Recommendations
No material deficiency has been identified	Not applicable.
Intangible Assets Cycle	
In relation to GPSZ	
Control Deficiencies	Recommendations
No material deficiency has been identified	Not applicable.
Financial Reporting Cycle	
In relation to GPSZ	

Control Deficiencies	Recommendations
No material deficiency has been identified. The monthly management accounts are prepared and submitted to the general manager and the Company.	Written policy in relation to financial reporting is recommended.

Financial Reporting Cycle

In relation to Company	
Control Deficiencies	Recommendations
<p>The annual results and reports for years 2014, 2015, 2016 and 2017 have not been published.</p> <p>The interim results and report for 6-month ended June 2015, 2016 and 2017 have not been published.</p> <p>The hard copies of accounting records were stored in mini warehouse instead of warehouses managed by records management company. There is no policy or procedure for the maintenance of the books and records.</p>	<p>Financial statements should be compiled and announced timely.</p> <p>Financial statements should be compiled timely.</p> <p>The books and records should be kept by the management company.</p>

Rules and Regulations Compliance Cycle

In relation to Company	
Control Deficiencies	Recommendations

<p>The Annual Reports for the years 2014, 2015, 2016 and 2017 have not been published within four months after the financial years.</p> <p>The Interim Reports for 6-month ended June 2015, 2016 and 2017 have not been published within three months after each financial period end.</p> <p>Some board meetings in 2015 to 2016 were convened in Shanghai but the relevant board minutes were not properly maintained by the Company in Hong Kong.</p> <p>No written internal policies/ procedures in relation to the Company's financial reporting and internal control systems to meet its Listing Rules obligations.</p>	<p>To publish the outstanding annual reports as soon as possible.</p> <p>To publish the outstanding interim reports as soon as possible.</p> <p>Complete records of board meetings should be kept by the Company in Hong Kong.</p> <p>Establish policies and procedures for the Company's financial reporting and internal control systems to meet its Listing Rules obligations.</p>
Rules and Regulations Compliance Cycle	
In relation to Company	
Control Deficiencies	Recommendations
<p>No internal audit department</p> <p>No annual review of risk management and internal control systems</p> <p>There is no written policy with respect to handling and dissemination of inside information.</p>	<p>Internal audit department be established.</p> <p>Analysis and independent appraisal of the adequacy and effectiveness of risk management and internal control systems should be carried out on an ongoing basis. The review should be conducted at least annually and be reported to shareholders in the corporate governance report.</p> <p>Establish policies and procedures for complying with the inside information disclosure requirements.</p>

The Company wishes to emphasize that it is committed to address any issues raised in the ICR Report by implementing appropriate rectification measures based on the recommendations of FTI Consulting.

While the Board and the IBC note that the scope and findings of the ICR Report only concern the Company and GPSZ, they consider the scope and findings of the ICR Report adequate at this stage. The Board and the IBC will revisit the need for a follow-up review by FTI Consulting after the Company has regained control of the two major subsidiaries in Shanghai.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange will remain suspended until further notice.

By Order of the Board

Mingyuan Medicare Development Company Limited LAM Ping Cheung

Chairman

Hong Kong, 15 November 2018

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.