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CHINA BIOTECH SERVICES HOLDINGS LIMITED

中國生物科技服務控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8037)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO CONTINUING CONNECTED TRANSACTIONS – THE 2022 MASTER SERVICES AGREEMENT AND THE 2022 REFERRAL SERVICES AGREEMENT

Reference is made to the announcement (the “**May Announcement**”) of China Biotech Services Holdings Limited (the “**Company**”) dated 27 May 2022 in relation to continuing connected transaction in respect of the 2022 Master Services Agreement and the 2022 Referral Services Agreement (collectively, the “**2022 CCT Agreements**”). Unless the context requires otherwise, capitalised terms used in this supplemental announcement shall have the same meanings as in the May Announcement.

In addition to the information set out in the May Announcement, the Board would like to provide the following additional and/or clarification information regarding the 2022 CCT Agreements.

(A) 2022 REFERRAL SERVICES AGREEMENT:

SCOPE OF SERVICES, PRICING AND ANNUAL CAP

Scope of services

In the section headed “(2) 2022 Referral Services Agreement – Scope of services” of the May Announcement, the scope of Referral Services is summarised to include “the referral of customers by SDCL to BGI for BGI to provide COVID-19 testing services to the customers; assisting BGI to enter into the service contracts, tender or service order with the potential customers; assisting with the communication between the potential customers and BGI; planning and organisation of the testing services scope; supervising the payment of services fee from the customers according to the terms of the service contracts entered into between BGI and the customers; and any follow up work under the service contracts”.

In such connection, the Company would supplement that for the follow up work under the service contracts as mentioned above, SDCL also provides to BGI the services set out below: (i) setting up of sample collection point at designated testing centres; (ii) transport of samples from collection points to testing laboratories; (iii) provision of manpower (with the consent of the procuring party(ies)), by secondment of the Group's staff or by enlisting services from outsourcing agencies, for performing sample collection and/or laboratory testing; employing PRC (inland) nursing or healthcare staff on a temporary basis to help delivering sample-collection or testing services in Hong Kong; assisting such PRC staff to apply for visas to work in Hong Kong; procuring related insurance policies for such PRC staff to work in Hong Kong; arranging for transport vehicles for such PRC staff to come to Hong Kong or to go back to the PRC, and their accommodation arrangement in Hong Kong; (iv) provision of manpower in arranging for testing registration or handling of on-site or telephone enquiries; and (v) other support services (e.g. crowd control, cleansing, infection control, security services, information technology support).

Referral services fee

In the section headed “(2) 2022 Referral Services Agreement – Referral services fee” of the May Announcement, it is mentioned that BGI shall pay SDCL a fixed Referral Services Fee per COVID-19 test performed by BGI under the service contracts, tender and/or service orders entered into with the Referred Customers during the Term (which may be revised by the parties according to the actual market conditions from time to time).

In such connection, the Company would clarify that during the period between 1 January 2022 and 26 May 2022 (i.e. the date immediately before the entering into of the 2022 Referral Services Agreement), the Group provided BGI with Referral Services. Such services were provided mainly in the course of BGI operating certain community testing centres and the temporary air-membrane laboratory in Ma On Shan, when Hong Kong was affected by the 5th wave of COVID-19. As the bases for determining the fees in respect of such services were not yet agreed before the 2022 Referral Services Agreement being entered into, up to the date of the May Announcement, no invoices have been issued by SDCL to BGI. Based on the terms of the 2022 Referral Services Agreement, it is estimated that the fees accrued for such services during such period amounted to about HK\$180 million.

The initial Referral Services Fee under the 2022 Referral Services Agreement was agreed between SDCL and BGI on 27 May 2022 (i.e. the date of the 2022 Referral Services Agreement being entered into) to be HK\$97.4 (subject to revision from time to time) per COVID-19 test performed by BGI under those contracts, tender and/or service orders as mentioned above. It has not been revised up to the date of this supplemental announcement. However, the Company is of the view that some of the Referred Customers (in particular, some governmental departments of Hong Kong) might review and/or adjust the capped fees payable by such Referred Customers to BGI, it is anticipated that the Referral Services Fee will be revised in the third quarter of 2022.

Annual cap

In the section headed “(2) 2022 Referral Services Agreement – Referral services fee” of the May Announcement, it is mentioned that pursuant to the 2022 Referral Services Agreement, the maximum aggregate amount payable by BGI to SDCL under the 2022 Referral Services Agreement for the year ending 31 December 2022 (“FY2022”) shall not exceed HK\$400 million. The annual cap shall cover all the Referral Services provided by SDCL to BGI for the year ending 31 December 2022. It is also mentioned that the annual cap was determined ‘with reference to (i) the historical figures of the actual amounts paid by BGI to SDCL under the 2021 Referral Services Agreement for the year ended 31 December 2021; (ii) the anticipated demand for the COVID-19 test services for the year ending 31 December 2022; and (iii) the factors set out in the section headed “reasons for and benefits of the entering into of the 2022 Master Services Agreement and the 2022 Referral Services Agreement” of the May Announcement

Concerning such annual cap, the Company would supplement the following information on how such annual cap was arrived at:

- (a) For the year ended 31 December 2021, the amount of service fees payable by BGI to SDCL under the 2021 Referral Services Agreement amounted to approximately HK\$303.5 million.
- (b) Based on the terms of the 2022 Referral Services Agreement, it was estimated that the fees accrued for such services during the period between 1 January 2022 and 26 May 2022 (i.e. the date immediately before the entering into of the 2022 Referral Services Agreement) amounted to about HK\$180 million. By using the said amount as a benchmark, the annualized amount of service fee for FY2022 is approximately HK\$432 million (= HK\$180 million x 12 months/5 months).

- (c) In estimation of the total amount of service fees payable by BGI to SDCL under the 2022 Referral Services Agreement, there involved certain uncertainties which principally include the following: (i) ***Estimation of the number of COVID-19 contracting or suspected cases:*** in the first few months of 2022 when the 5th wave of COVID-19 pandemic took place, the number of contracting or suspected cases was in the range of tens of thousands each day; while in April and May 2022, the daily number dropped to hundreds; but between mid-June 2022 and late July 2022, the number was in the range of 1,000 and 4,000. Such number would affect the number of customers or potential customers that SDCL may have to refer to BGI once the testing capacity of SDCL has been filled up, hence the fees payable by BGI to SDCL. (ii) ***Policy uncertainty:*** During the period between January 2021 and mid-December 2021, SDCL did not hold certain requisite medical-laboratory accreditation, and consequently it was not invited by some of the Referred Customers to bid for contract(s) for operating community testing centres (“**CTC Contract(s)**”) in 2021. A CTC Contract usually has a term of three months, and the relevant governmental departments of Hong Kong had a general practice of inviting qualified medical laboratories to bid for new CTC Contracts. In December 2021, SDCL obtained the requisite medical-laboratory qualification, and expected to be invited to bid for (and likely to be awarded) CTC Contract(s). However, following the outbreak of the 5th wave of COVID-19 pandemic in Hong Kong, during the first few months of 2022, some of the governmental departments of Hong Kong did not follow the usual practice of giving invitations to bid for new CTC Contracts, but instead informed existing suppliers (including BGI) that the existing CTC Contracts would be renewed on a three-month (or, occasionally, a shorter period) rotation basis. In addition, there was also policy uncertainty on whether a compulsory universal testing scheme would be launched. The level of COVID-19 testing services to be provided by BGI and/or SDCL will be significantly different, depending on whether SDCL is awarded new CTC Contracts or BGI (with the support of SDCL) continues to undertake COVID-19 testing services under existing CTC Contracts, and also on whether a compulsory universal testing scheme would be launched.
- (d) Given the uncertainties as mentioned in paragraph (c) above, the Company reasonably believes that it is prudent and appropriate to use the annualized amount as mentioned in paragraph (b) above as a benchmark for an agreement on the above Annual Cap (with a slight reduction to HK\$400 million, having taken into account the Group’s plan that SDCL is expected to operate community testing centres on its own having regard to the requisite medical-laboratory accreditation obtained in December 2021).

(B) 2022 MASTER SERVICES AGREEMENT

In the last paragraph under the principal terms of the 2022 Master Services Agreement under the section headed “(1) 2022 Master Services Agreement” of the May Announcement, it is mentioned that “SDCL has not placed any order for the Services from BGI during the period from 1 January 2022 to the date immediately prior to the date of the 2022 Master Services Agreement” (*underline added*).

The Company would clarify that the above sentence contains inadvertent typographical errors, and that sentence should read “SDCL has not received (nor has BGI issued) any invoice for the Services from BGI during the period from 1 January 2022 to the date immediately prior to the date of the 2022 Master Services Agreement”.

In such connection, the Company would further supplement that for the four months ended 30 April 2022, because of SDCL’s testing capacity limitation and new testing laboratories to be operated by SDCL still being under construction and furnishing, SDCL sought BGI’s assistance to complete COVID-19 tests through RT-PCR method, which services fall under the categories as provided under the 2022 Master Services Agreement. Based on the terms of the 2022 Master Services Agreement, the transaction amount for such services for the four months ended 30 April 2022 is expected to be about HK\$12.5 million. However, as the service fee rate has not been agreed before the finalisation of the terms and the signing of the 2022 Master Services Agreement, no invoices have been issued by BGI nor any payment has been made by SDCL to BGI in such connection.

(C) RELATIONSHIP WITH BGI

SDCL is an indirect non-wholly owned subsidiary of the Company. Since June 2020 (when SDCL was formed) and up to the date of this supplemental announcement, BGI has been a holder of 40% of the issued share capital in SDCL. Accordingly, BGI is a connected person of the Company at the subsidiary level.

For each of the financial years ended 31 December 2020 (“**FY2020**”) and 31 December 2021 (“**FY2021**”) and the six months ended 30 June 2022 (“**1H-2022**”), the Group entered into certain transactions with BGI, the amount of which (and the corresponding percentage as compared with the relevant accounting items of the Group for the respective financial years) are set out as follows:

(in HK\$ million, unless otherwise stated)	FY2020 (Audited)	FY2021 (Audited)	1H-2022 (Unaudited)
Total revenue of the Group	655.79	623.76	686.98
Referral Services Fee generated from BGI	Nil	303.53 <i>(Note)</i>	205.40
Percentage of revenue attributable to BGI (in%)	0%	48.66%	29.90%
Total cost of sales of the Group	316.71	265.74	332.01
Purchases/Procurement of consumables and kits from BGI (excluding purchase of fixed assets) and service fees charged by BGI	207.00	71.29	196.28
Cost of sales attributable to BGI (in%)	65.36%	26.83%	59.12%
Total purchase of property, plant and equipment (“ PPE ”) of the Group	126.60	12.22	14.75
Purchases of PPE from BGI	116.41	2.23	6.52
Increase in purchase of PPE attributable to BGI (in%)	91.95%	18.25%	44.20%

Note: For FY2020, the Group did not record any revenue generated from BGI. For FY2021, the amount of HK\$303.53 million represents the fees payable by BGI under the 2021 Referral Services Agreement.

Based on the above table, the cost of sales attributable to BGI for FY2021 and 1H-2022 amounted 26.83% and 59.12% respectively, and the percentage of revenue attributable to BGI for FY2021 and 1H-2022 amounted to 48.66% and 29.90% respectively. During the six months ended 30 June 2022, the Group purchased additional rapid antigen test kits from BGI due to the raging fifth wave of COVID-19 pandemic. As a result, the Group recorded higher cost of sales attributable to BGI for 1H-2022. It is also anticipated that the Group will continue to have transactions with BGI for the second half of FY2022.

Given such facts, the Company would supplement the information below in this Section (C) to demonstrate that the Group’s close business relationship with BGI does not threaten the Group’s business sustainability, because it is unlikely that such relationship may materially adversely change or terminate, and that the Group will be able to effectively mitigate its exposure to any material adverse changes to or termination of its relationship with BGI.

The Company considers that the Group's relationship with BGI is unlikely to materially adversely change or terminate for the following reasons:

- (a) A shareholders agreement ("**Shareholders Agreement**") was made by SDCL, Grande Fortune International Limited (a direct wholly-owned subsidiary of the Company), BGI and Mr. Wu Ting Yuk, Anthony (a consultant of the Company). Under the Shareholders Agreement, none of the shareholders of SDCL have right to terminate the Shareholders Agreement unilaterally. If any shareholder is in default of any term of the Shareholders Agreement, which results in SDCL suffering any losses, such defaulting shareholders is liable to make compensation to SDCL.
- (b) BGI is under the control of 深圳華大基因股份有限公司 (in English, for identification purpose only, BGI Genomics Co., Ltd. ("**BGI Shenzhen**")), which is a listed issuer whose shares are listed on the Shenzhen Stock Exchange. For reputation, corporate governance and disclosure reasons, BGI is reasonably expected to observe and perform its obligations under the Shareholders Agreement, and it is most unlikely for BGI to unilaterally terminate the Shareholders Agreement or to violate any material terms thereunder.
- (c) BGI and BGI Shenzhen have strong technological capability and experience in the field of COVID-19 testing, in particular, its technology and knowhow in setting up and operating temporary air membrane laboratories for COVID-19 testing (火眼實驗室) in the PRC, and also of its high capacity of production of reagents, devices and machines for running COVID-19 RT-PCR tests. On the other hand, some of the subsidiaries of the Company had long operating history (with over 20 years) and experience of medical laboratory testing and health-check services. As of late June 2022, these subsidiaries had around 200 enrolled nurses, healthcare assistants and medical laboratory technicians in employment. The Group also had good connections with outsourcing agents for provision of nursing or healthcare workers for carrying out sample collection and/or laboratory testing services on temporary basis. Further, the Group's consultant is experienced in community affairs and has good connections with community organisations. In view of the above factors, it is beneficial for BGI Shenzhen to work together with SDCL (with the support of its other shareholders) to provide COVID-19 testing services in Hong Kong.
- (d) For FY2020 and FY2021, SDCL recorded profits and BGI (as a 40% shareholder of SDCL) is entitled to such profit proportionately.

In light of the above, the Company is of the view that the working relationship of the Group with BGI is mutually beneficial. If there is any reliance relationship, such reliance is also mutual: in particular, without the support of the other shareholders of SDCL, BGI might encounter difficulty to maintain a good and smooth relationship with various governmental departments or community organisations in Hong Kong and other procuring parties in Hong Kong, or to render its services in an efficient manner. The Company does not find any major incentive for BGI to terminate its business relationship with the Group (including SDCL) or to make material adverse change thereto.

In the unlikely event that the Group's relationship with BGI is materially adversely changed or terminated, the Group is or will be able to effectively mitigate its exposure of any material adverse changes to or termination of its relationship with BGI, on the following grounds:

- (a) SDCL is the owner of equipment (“**Equipment**”) for performing COVID-19 testing services, which includes temporary air membrane laboratories (火眼實驗室); equipment for the unpacking, transfer and extraction of the testing sample and reagents; devices and machines for running the COVID-19 RT-PCR test, detection of COVID-19 virus and inactivation of COVID-19 virus in the test samples; and sterilizing equipment. The Group also has the ability to deploy all necessary resources to render quality COVID-19 sampling and testing services, whether they are on a large-scale community testing program or on schedules with short notice.
- (b) The Group has senior management to plan, coordinate and supervise the provision of COVID-19 testing services, and has manpower and other resources to provide COVID-19 testing services independently. As mentioned above, as of late June 2022, the Group had around 200 enrolled nurses, healthcare assistants and medical laboratory technicians in employment.
- (c) In December 2021, SDCL was awarded the medical-laboratory accreditation for providing medical testing services and, accordingly, has the requisite qualification to operate community testing centres, which are procured and funded by the relevant governmental departments of Hong Kong. A greater amount of transactions between SDCL and BGI in FY2021 was recorded, because SDCL was then in the process of obtaining the said accreditation. Once SDCL is awarded any new contracts for operating CTCs in the second half of 2022, such transactions are expected to be reduced gradually.

- (d) The equipment, consumables and kits required for performing COVID-19 testing services are not specialised ones, and may be sourced from other suppliers. In fact, SDCL purchased from other suppliers to set up the mobile laboratory in Hong Kong International Airport. As SDCL has been sourcing such equipment, consumables and kits on normal commercial terms and at market prices, the Group does not foresee any material difficulty for SDCL to source equipment, consumables and kits of similar quality from these potential third-party suppliers.

(D) GEM LISTING RULES IMPLICATION

Under GEM Listing Rule 20.32, the Group must enter into a written agreement for a connected transaction. The 2022 Master Services Agreement and the 2022 Referral Services Agreement (collectively, the “**2022 CCT Agreements**”) were entered into on 27 May 2022. During the period (“**Relevant Period**”) between 1 January 2022 and 26 May 2022 (i.e. the date immediately before the date of the 2022 Master Services Agreement being entered into), transactions falling under the categories as governed by the 2022 CCT Agreements took place between the Group and BGI. The Company therefore admits that these transactions which took place during the Relevant Period should be regarded as connected transactions, despite the fact that the terms of the connected transactions had not been agreed, and the failure by the Company (or its subsidiary(ies)) to enter into written agreements with BGI constitutes non-compliance with Rule 20.32 of the GEM Listing Rules.

Under GEM Listing Rule 20.51, the Company must set an annual cap for the continuing connected transactions. The Company admits that during the Relevant Period (and before the 2022 CCT Agreements being entered into), it did not set an annual cap when providing to BGI (or, as the case may be, receiving from BGI) the relevant services, and hence did not comply with GEM Listing Rule 20.51. The annual caps were set out in the respective 2022 CCT Agreements on 27 May 2022 when they were entered into between SDCL and BGI.

Such non-compliance, however, arose because of certain extraordinary and/or mitigating circumstances, which are summarised below:

- (a) The 5th wave of COVID-19 pandemic in Hong Kong started in late December 2021, and the number of contracting cases or suspected cases increased rapidly. In February and March 2022, Hong Kong recorded tens of thousands of infection cases on a daily basis. Much resources and attention of both BGI and the Group’s management were devoted to provide COVID-19 testing services during the Relevant Period, in support of the general policy to safeguard public health through prevention and control of the pandemic. In addition, as large volume of COVID-19 testing reports had to be sent to individual customers and/or compiled into relevant summary or reporting forms to be sent to the relevant governmental departments of Hong Kong (almost on same-day or next-day basis), there was time-lag for the testing laboratories to send the operational and business data to SDCL.

- (b) Unprecedented lock-down arrangements were then implemented in Hong Kong, affecting normal business operations (including collation of financial and operational data).
- (c) During the first half of 2022, there were a few times of changes on promulgated measures to combat COVID-19 pandemic, such as whether or not to launch compulsory universal testing scheme (全民強制檢測). Implementation of any compulsory universal testing scheme will significantly affect the level of COVID-19 testing services, hence the respective pricing bases and annual caps under the 2022 CCT Agreements.
- (d) A contract for operating community testing services usually has a term of three months. As SDCL obtained the requisite medical-laboratory accreditation in December 2021, SDCL then expected to be invited to bid for (and likely to be awarded) CTC Contract(s), once the relevant governmental departments of Hong Kong started to invite such bids from qualified providers of testing services (including SDCL). However, following the outbreak of the 5th wave of COVID-19 pandemic in Hong Kong, during the first half of 2022, invitations to bid for new CTC Contracts were not made, but instead BGI was informed that the existing CTC Contract would be simply renewed on a three-month rotation basis. The annual cap under the 2022 Referral Services Agreement would be significantly different, depending on whether BGI continued to operate community testing centres under the existing contract, or SDCL may operate community testing centres under new contract(s).
- (e) Since December 2021, the Group had already made repeated requests to BGI to discuss and finalise on the pricing bases and the related annual caps to be included in the 2022 CCT Agreements as early as possible, but BGI had not started formal discussion with the Group until May 2022. As a subsidiary of BGI Shenzhen (a listed issuer which has adopted relatively stringent procedural and internal control process), BGI has to complete their own internal approval process before starting to discuss with SDCL on any major agreements to be made. Facing similar difficulties and uncertainties as mentioned above, only in May 2022 was BGI prepared to start discussion with SDCL on the above pricing bases and annual caps of the 2022 CCT Agreements.

- (f) The number of tests completed and the related amount of testing fees payable by some Referred Customers to an operator of community testing centres cannot be confirmed until after such Referred Customers having given formal notice to such operator. Due to the procedural requirements, it will usually take more than one month for a formal notice to be given to the operator, and additional lead time for payment to be made. Without the pricing basis being agreed with BGI, the Group has difficulty to estimate the annual caps accurately, and/or to recognise any revenue or costs attributable to BGI with precision. Further, the Referral Services rendered by the Group to BGI include (among other items) following up and supervising payment of service fee from the Referred Customers to BGI. In practice, there is a lag between the time of testing services performed by BGI (which will involve certain part of Referral Services being provided by SDCL) and the receipt of formal confirmation to BGI for such testing services. Accordingly, the related Referral Service Fee may be recognised by the Group only when BGI confirms the relevant testing service fee. Such time lag results in some Referral Service Fee (in respect of certain part of Referral Services being provided by SDCL in the first half of 2022) to be recognised by the Group in the second half of 2022.

(E) REMEDIAL MEASURES

Some of the internal control measures adopted by the Company regarding the terms of the 2022 CCT Agreements are set out under the section headed “Internal Control” (on page 10 and 11) of the May Announcement.

In order to prevent recurrence of similar non-compliance as mentioned in Section (D) above in the future, the Company plans to take the following remedial measures:

- (a) The general manager of SDCL to be assigned to oversee the business development and any transactions with BGI, before entering into any agreements or before any orders are placed.
- (b) The Company to request its legal advisers as to Hong Kong laws to conduct additional training for the directors of the Company, the accounting and finance staff of the Company, and the senior management, operation team and accounting staff of SDCL on the compliance obligations under Chapter 20 of the GEM Listing Rules.
- (c) The Group to start negotiating with BGI with a view to agreeing to the general principle that the pricing bases under the prevailing CCT agreements for the current year shall be carried to the next financial year, until a revised pricing basis is otherwise agreed by the parties.

- (d) The Group to strengthen the communication channel up to senior level with BGI to meet with certain extraordinary situation (such as the eruption of the 5th wave of COVID-19).
- (e) Internal control consultant to be retained:
 - (i) By no later than October 2022, the Company will retain a reputable internal control consultant (“**IC Consultant**”) to review the process for negotiating, finalising and agreeing to the agreements for continuing connected transactions made with BGI, and the subsequent compliance therewith.
 - (ii) The IC Consultant will be requested to compile a report (“**First Report**”) which will record its findings, and will make recommendations to improve the continuing connected transactions approval and/or monitoring process. The First Report shall be given by the IC Consultant to the Company within two months from the date of the Company’s appointment of the IC Consultant.
 - (iii) The Group (including SDCL) will adopt and implement the recommendations of the IC Consultant as set out in the First Report.
 - (iv) The IC Consultant will conduct a further review within six months from the date of the issue of the First Report, and will set out in a report (“**Second Report**”) its findings on whether the recommendations given in the First Report will have been adopted and implemented. The Second Report is expected to be issued by no later than eight months from the date of the issue of the First Report.

The measures mentioned in paragraph (a) above were already implemented before the publication of this supplemental announcement.

On the measures mentioned in paragraph (b) above, an additional training session is planned to be conducted in September 2022. On the measures mentioned in paragraph (c) and (d) above, it is expected that the Group will start to discuss with BGI in September 2022, and to reach common consensus with BGI on the relevant arrangements in the 4th quarter of 2022. The measures mentioned in paragraph (e) are planned to be implemented in accordance with the timeline indicated above. The progress of implementation of such measures will be stated in the annual report or interim report to be published by the Company.

By order of the Board
China Biotech Services Holdings Limited
Liu Xiaolin
Chairman and Executive Director

Hong Kong, 24 August 2022

As at the date of this announcement, the board of Directors comprises three executive Directors, namely, Mr. Liu Xiaolin (Chairman), Mr. He Xun and Mr. Huang Song; one non-executive Director, namely, Mr. Wang Zheng; and three independent non-executive Directors, namely, Mr. Yan Guoxiang, Dr. Ho Ivan Chun Kit and Mr. Qian Hongji.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk on the "Latest Listed Company Information" for at least 7 days from the date of its publication and on the website of the Company at www.cbshhk.com.