Ziyuanyuan Holdings Group Limited
紫元元控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8223)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the annual report of Ziyuanyuan Holdings Group Limited (the "**Company**") dated 31 March 2025 for the year ended 31 December 2024 (the "**Annual Report**"). The Board would like to provide the following information to supplement the impairment of goodwill and intangible assets (the "**Goodwill and IA Impairment**") and impairment on the finance lease receivables ("**FLR Impairment**") as stated in the Annual Report. Unless otherwise stated, capitalised terms used herein shall have same meanings as those defined in the Annual Report.

(A) The Goodwill and IA Impairment

The Goodwill and IA Impairment is arising from (i) the acquisition of the Dunnan Group and an impairment loss on goodwill and trademark amounted to approximately RMB9.9 million and RMB8.5 million were recognised respectively for the Year; and (ii) the acquisition of Meikangmao and an impairment loss of approximately RMB7.1 million on goodwill was recognised for the Year.

(I) The Goodwill and IA Impairment relating to the Dunnan Group

The Group acquired the Dunnan Group pursuant to the equity transfer agreement dated 27 November 2020 and completion of which took place in February 2021 (the "**Dunnan Acquisition**"). The Group has performed due diligence review on the assets, liabilities, operations, legal and compliance and other affairs of the Dunnan Group prior to the Dunnan Acquisition. Apart from performing business due diligence review on the Dunnan Group by the management of the Group, the Group has also engaged professional advisers to perform the legal and financial due diligence review. The Board has considered valuation benchmarks derived from a group of comparable companies engaged in similar healthcare services, including maternal and postpartum care listed on the Hong Kong Stock Exchange and the National Equities Exchange and Quotations in the PRC in determining the consideration of the Dunnan Acquisition.

When the Group planned to proceed with the Dunnan Acquisition in late 2020, it was in the midst of the outbreak of COVID-19 which created economic uncertainties. The Group believed that after the COVID-19 epidemic, the healthcare industry would be facing a new economic breakthrough with significant value-added potentials as people prioritise physical and mental health and gravitate towards healthier lifestyle. Shortly before the Dunnan Acquisition, the Group completed the acquisition of the majority interest of a small-scaled postpartum care center in Wuhan, the PRC in August 2020 and which had started generating revenue in a short period of time. This reinforced the Board's confidence in the investment in the postpartum care industry. In 2015, the promulgation of the two-children policy to boost the country's stagnating population growth and the birth rate in the PRC had risen sharply afterwards. In anticipation of a positive prospect for the postpartum care industry, the Group proceeded with the Dunnan Acquisition.

Nonetheless, the Dunnan Group faced numbers of external factors and internal problems in the past few years. At the end of 2024, the Group initiated a plan to wind down the operation of Dunnan Group so as to minimize further financial losses and to better reallocate the Group's resources toward business segments with stronger performance and more sustainable profit potential. In reaching the decision of winding down Dunnan's operations, the Group had considered the following key factors, (i) Dunnan recorded continuous operating losses from 2023; (ii) the business continued to face significant challenges due to (a) the adverse macroeconomic environment, which led to more cautious consumer spending and a subsequent decrease in the revenue; and (b) intense price competition among postpartum care centers, resulting in customer attrition; (iii) the overall outlook for the postpartum care industry remains uncertain, with unclear demand trends and intensifying competition making future performance difficult to predict the market sentiment in light of the deterioration of the economy in the PRC in post-epidemic era and the intensified trade war; and (iv) the postpartum care centers of Dunnan have been in operation for around 10 years and the interior decoration, furniture, and fixtures at Dunnan's postpartum care centers were outdated. To restore their competitiveness, the postpartum care centers of Dunnan would require to carry out refurbishment or improvement work in the next few years. It was expected that substantial capital investment, amounting to several million dollars per center, would be required if the Group continued to operate the postpartum care centers of Dunnan. However, such capital investment carried no assurance of generating future operating profits.

The Goodwill and the IA Impairment in relation to the Dunnan Acquisition was due to the close down of the postpartum care centers of Dunnan Group by end of February 2025. The Group performed a year end annual impairment test on goodwill. Taking into consideration of the Dunnan Group suffered a continuous operating loss, all of the postpartum care centers in Dunnan Group were ceased operations after the reporting date and the unfavorable market condition facing by Dunnan Group, the Group determined that there was an indication for impairment on the goodwill arising from the Dunnan Acquisition. The recoverable amount of Dunnan has been determined from the higher of its fair value less costs of disposal based on the asset-based approach and its value-in-use calculation based on cash flow projections from formally approved budgets covering a two-month period. The result in nil recoverable amount of the Dunnan cash-generating unit ("**CGU**") as at 31 December 2024. The goodwill of RMB9,885,000 and trademark of RMB8,500,000 in the Dunnan CGU have been fully impaired and recognised for the Year.

Set out below are the details on the method, key assumptions and basis used in determining the amount of Goodwill and IAs Impairments relating to the Dunnan Group.

(i) Fair value less costs of disposal based on the asset-based approach:

Under asset-based approach, it provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. Value is established based on cost of reproducing or replacing the asset, less depreciation or amortization from functional and economic obsolescence, if present and measurable.

Given the Group's plan, as concluded in December 2024, to wind down Dunnan's operations within the first two months of 2025, the asset-based approach is the most appropriate valuation method, as it reflects the fair value of the business's assets upon liquidation. The impending wind-down suggests that Dunnan will cease as a going concern, making earnings-based methods such as the income approach and market approach less relevant.

The asset-based approach estimates the proceeds available to shareholders after settling liabilities, aligning with the wind-down scenario. Unlike the income and market approaches, the asset-based approach avoids speculative assumptions about future cash flows or profitability, which would be immaterial given the short-term wind-down timeline.

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. Discount for Lack of Marketability ("**DLOM**") is commonly considered in the valuations of privately held companies to reflect difference in the marketability of the shares of the subject private companies and that of the selected publicly-traded comparable companies.

A DLOM of 20.4% is estimated with reference to the 2024 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability included an examination of 779 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through March 2024. The adopted DLOM is the average discount implied by these 779 private placement transactions in comparison with the corresponding publicly traded common stocks, and is considered fair and reasonable for the valuation of the equities of Dunnan.

*(ii) Value-in-use calculation based on cash flow projections **("VIU Assessment")**:*

As part of the impairment evaluation process, the Group performed a VIU Assessment for Dunnan in accordance with HKAS 36, utilising an income approach methodology. In the valuation as of 31 December 2024, the projected revenue and net loss of Dunnan for the two months period ended February 2025 was RMB2,292,000 and RMB(3,920,000) respectively. The above projection is obtained by referring to the actual operating data and management accounts of Dunnan during the period of January 2025 to February 2025.

Under the Capital Assets Pricing Model, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the business is expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated beta of the business and firm specific risk factors. The discount rate (post tax) of approximately 15% was weighted average of the cost of equity and the estimated cost of debt according to average debt to equity ratios of the comparable companies.

The key assumptions adopted in both valuation methods include the following:

- It is assumed that the accuracy of financial and operational information provided by Dunnan, and relied to a considerable extent on such information in arriving at the opinion of value;

- It is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value;

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

- There will be no major changes in the current taxation law in the areas in which Dunnan conducting its business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

- Dunnan will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- The business is unaffected by any statutory notice and that operation of the business gives, or will give, no rise to a contravention of any statutory requirements; and

- The business is not subject to any unusual or onerous restrictions or encumbrances.

Apart from the above key assumptions apply to both valuation methods, in respect of the asset-based approach, there are two additional assumptions.

- According to the Group's management, the lease of the postpartum care centers operating space of Dunnan will be early terminated in February 2025, and the lease-related deposit will not be recovered; and

- According to the Group's management, all financial assets except for the inter-company current account receivables are considered irrecoverable and will be fully provisioned.

In respect of the VIU Assessment, there has the following additional assumption.

- It is relied on the profit and cash flows forecast provided by the Group and Dunnan. It is assumed that the Group has exercised due diligence on profit and cash flow forecast provided which is fair and appropriate and management of the Group can achieve the projected result.

(II) The Goodwill Impairment relating to Meikangmao

The Group acquired Meikangmao pursuant to the equity transfer agreement dated 29 December 2022 and completion of which took place in April 2024 (the "**Meikangmao Acquisition**"). The Goodwill Impairment arising from the Meikangmao Acquisition was due to significant changes in post-acquisition circumstances as disclosed below.

At the material time of Meikangmao Acquisition, the Group planned to provide high-end postpartum care services at the postpartum care center of Meikangmao ("**Meikangmao Postpartum Care Center**") which would be in line with the three-child policy implemented in the PRC in 2021 and the Group expected that the three-child policy would boost the demand for postpartum care services, which was also the general belief of market players leading to significant increase in the number of postpartum care centers by approximately 27% from 2021 to 2024.

Like the Dunnan Acquisition, prior to the Meikangmao Acquisition, the Group has performed due diligence review on the assets, liabilities, operations, legal and compliance and other affairs of Meikangmao. In particular, the Group's in-house PRC legal counsel carried out legal due diligence on Meikangmao. At the material time, the Group noted that Meikangmao had not obtained the license and permits for the operation of its postpartum care center (the "**Postpartum Care License**"). The in-house legal counsel did not foresee any legal impediments that hindered Meikangmao to apply for the Postpartum Care License. The Group therefore made it a condition precedent for Meikangmao to obtain the Postpartum Care License before completion. Before Meikangmao Postpartum Care Center was permitted to commence operation, it must pass the fire safety inspection and obtain the fire safety license. However, the fire safety inspection was prolongedly delayed due to unclear job division between the regional construction bureau and the local fire rescue brigade – where the Meikangmao Postpartum Care Center was located at. The delay in obtaining the necessary licenses and permits for the Meikangmao Postpartum Care Center leading to the postponement of the center's opening and the completion of Meikangmao Acquisition in April 2024. Such delay was merely due to the administrative issue and unrelated to legal aspect and was not able to be identified or foreseen during the legal due diligence review.

After the official opening of the Meikangmao Postpartum Care Center, Meikangmao experienced an unfavorable market environment and intense price competition. The PRC economy continued to face with complex and grave environment featuring greater external pressure and increasing internal difficulties. Despite the gross domestic product (GDP) in 2024 recorded a growth over the previous year, facing high international trade tension, stagnant real property market, uncertainty in the employment market and poor market sentiment, consumers are more prudent about spending their disposal incomes. In addition, the postpartum care industry in the PRC has faced keen competition. From 2016 to 2023, the number of postpartum care centers had a compound annual growth rate of approximately 18%. It was estimated that there were about 5,800 centers in 2024. This rapid expansion has resulted in market saturation in many regions, further driving down prices and increasing pressure on profitability. Such unfavorable market condition leading to continuous operational losses since the opening of Meikangmao Postpartum Care Center.

In early 2024, before the Completion, the Group developed a business plan for the Meikangmao Postpartum Care Center. Given the uncertainties in the postpartum care industry, the Group initially considered partnering with an established provider to operate the center and engaged in discussions with several potential partners to explore viable business models. Ultimately, the Group decided to operate the Meikangmao Postpartum Care Center independently. In August 2024, three months after the Completion, the Group reviewed the Meikangmao Postpartum Care Center's performance and reassessed its strategic direction. It concluded that partnering with an experienced postpartum care provider could help mitigate operational risks. Consequently, the Group actively engaged in discussions with two established providers to explore potential collaboration opportunities. In September 2024, the Group entered into a five-year agreement with a third-party postpartum care service provider, transferring operational control of the facility. Under such arrangement, the third party operates the center under its own brand and pays the Group a fixed rent plus certain percentage of profit sharing. While the arrangement reduced operational risks and costs, it represented a fundamental shift from the original business model and strategic intent behind the Meikangmao Acquisition. The Group no longer retained control over brand, service delivery, or strategic direction, these are the elements that were integral to the initial valuation of the goodwill. A reassessment of future cash flows as at 31 December 2024 indicated a substantial decline in the economic benefits expected from the acquired business under the new structure.

The recoverable amount of Meikangmao has been determined from the higher of its fair value less costs of disposal based on the market approach and its value-in-use calculation based on cash flow projections from formally approved budgets covering a seven-year period. The carrying amount of Meikangmao CGU, including goodwill, property, plant and equipment and right of use assets attributed Meikangmao CGU, was written down to its recoverable amount of RMB17,600,000. An impairment loss of RMB7,067,000 on goodwill in Meikangmao CGU was recognised.

Set out below are the details on the method, key assumptions and basis used in determining the amount of Goodwill Impairment relating to Meikangmao.

(i) Fair value less costs of disposal based on the market approach:

It provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available, and incorporating adjustments to be made for any difference between the properties of the comparable assets and the subject asset being appraised. The market approach generally involves two valuation methods, namely (i) the guideline public company method, which involves the use of the valuation multiples applicable to the subject companies, to assess the fair value of the equity interest in Meikangmao, and (ii) the comparable transactions method, which involves the direct comparison of other transactions that may be considered similar to the subject transaction regarding the equity interest of Meikangmao. However, it is considered that comparison transactions method is not appropriate due to the lack of public information on recent comparable transactions in the market.

Therefore, it is relied solely on the market approach and adopted the guideline public company method in the Valuation, and the multiples applicable to Meikangmao are derived with reference to the valuation multiples of the comparable companies of Meikangmao.

Under the guideline public company method, it has attempted to compare the value against the market valuation of other comparable companies using the price-to-sales ratio ("**P/S multiple**"), the enterprise value-to-earnings before interest, tax, depreciation and amortization ("**EV/EBITDA multiple**"), the price-to-earnings ratio ("**P/E multiple**") and the price-to-book ratio ("**P/B multiple**") given that the above multiples are the commonly used valuation benchmarks in assessing the valuation of a company since the data for calculating these ratios can be obtained directly from publicly available information and reflect the value of Meikangmao determined by the open market.

Meikangmao is principally engaged in the business of operating postpartum care centers. This kind of business is dependent on its ability to drive sales and cash flows to generate value. Given that Meikangmao recorded net loss and negative EBITDA during 2024 according to the latest available management account of Meikangmao, the assessment of fair value of Meikangmao by using the P/E multiple and EV/EBITDA multiple was infeasible. As a result, P/S multiple is considered the remaining appropriate and common valuation multiple, and this is adopted for the valuation of the equity value of Meikangmao.

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. DLOM is commonly considered in the valuations of privately held companies to reflect difference in the marketability of the shares of the subject private companies and that of the selected publicly-traded comparable companies.

A DLOM of 20.4% is estimated with reference to the 2024 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability included an examination of 779 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through March 2024. The adopted DLOM is the average discount implied by these 779 private placement transactions in comparison with the corresponding publicly traded common stocks, and is considered fair and reasonable for the valuation of the equities of Meikangmao.

(ii) Value-in-use calculation based on cash flow projections:

The recoverable amount of the CGU is based on the net present value of the expected future cash flows generated by the CGU, which was determined based on financial forecasts approved by management covering a 7-year period, based on the lease term of the existing lease entered into by Meikangmao.

Under the Capital Assets Pricing Model, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the business is expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated beta of the business and firm specific risk factors. The discount rate (post tax) of approximately 15% was weighted average of the cost of equity and the estimated cost of debt according to average debt to equity ratios of the comparable companies.

Cash flows beyond the five-year period are extrapolated using an estimated terminal growth rate of 2%. The projected China inflation rates provided by International Monetary Fund research was adopted as the proxy for the terminal growth rate. It is considered reasonable to assume that the long-term growth rate of the cash flows would be in line with the long-term inflation rate of the overall economy.

The key assumptions adopted in both valuations include the followings:

- It is assumed that the accuracy of financial and operational information provided by Meikangmao, and relied to a considerable extent on such information in arriving at the opinion of value;
- It is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value;
- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;
- There will be no major changes in the current taxation law in the areas in which Meikangmao conducting its business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;
- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;
- Meikangmao will retain their management and technical personnel to maintain their ongoing operations;
- There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;
- Meikangmao will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- The business is unaffected by any statutory notice and that operation of the business gives, or will give, no rise to a contravention of any statutory requirements; and

- The business is not subject to any unusual or onerous restrictions or encumbrances.

Apart from the above key assumptions apply to both valuation methods, in respect of the VIU Assessment, there are three additional assumptions:

- According to the Group's management, the amount of fixed and contingent rent in accordance with relevant agreement shared by the Group by reference to the underlying postpartum care service business operated by the lessee;

- It is assumed that the future operating revenue and expenditure of Meikangmao will be in accordance with the projection provided by the Group and Meikangmao; and

- The valuation result is substantially dependent on the profit and cash flows forecast provided by the Group and Meikangmao. After the discussion between the Group and the valuer the assumptions undertaken in the forecast which, the Group is ultimately responsible for these assumptions, it is presumed that the Group has exercised the necessary due-diligence on profit and cash flow forecast and it is believed by the Group that Meikangmao can achieve the projected results.

(B) The FLR Impairment

The Group is principally engaged in provision of medical equipment finance leasing services. As disclosed in the Annual Report, the Group recorded the FLR Impairment for the Year of approximately RMB35.6 million, which represented approximately 5.9% of the total assets of the Group as at 31 December 2024. The FLR Impairment was primarily caused by the following factors:

(a) *Deterioration in Clients' Financial Health and Residual Impact of COVID-19*

Several of the Group's finance lease clients pursued aggressive expansion strategies during and after the COVID-19 pandemic, anticipating a strong economic rebound. Based on this optimism, they took on substantial debt and expanded their operations rapidly. However, the recovery of the PRC economy was slower and weaker than expected. In 2024, many clients, particularly in service-based sectors such as healthcare, continued to experience the residual effects of the pandemic, including reduced patient visitation due to lingering health concerns, shifts in consumer spending behavior, and tighter household budgets. These factors constrained revenue generation, weakened operational resilience, and contributed to cash flow difficulties. As a result, clients were increasingly unable to meet lease obligations, leading to a rise in defaults and overdue payments under the Group's finance lease arrangement.

(b) *Sector-Specific Pressures*

The Group's primary finance lease clients are in the dental clinic sector, which experienced increasing operational challenges in 2024 due to falling patient traffic, intensified competition, and regulatory tightening. As a result, many clients encountered cash flow difficulties and resulting in some clients opted to close their clinics entirely, while others delayed or refused to settle lease obligations in order to preserve liquidity. These actions directly contributed to a higher level of overdue accounts and required greater impairment provisions.

(c) *Underperformance of Newly Opened Clinics/Hospitals*

A number of the Group's finance lease contracts were entered into with newly established clinics and hospitals that commenced operations near the end of the COVID-19 pandemic or shortly thereafter. These clients typically lacked an established customer base, experienced management, and adequate working capital. As the post-pandemic economic recovery proved slower than expected and competition increased, many of these clients struggled to generate stable revenue and faced in sufficient cash flow problem in 2024. As a result, a significant portion of them defaulted or delayed lease payments under the Group's finance lease arrangement, contributing to the elevated default rate in this segment.

(d) *Macroeconomic Headwinds*

The recovery of macroeconomic environment in the PRC in 2024 was with slower pace than expected, reduced consumer confidence, and tighter credit conditions. These challenges not only increased the past due ratio across the Group's finance lease portfolio but also heightened credit risk expectations going forward. The overall market sentiment weakened, and many clients adopted a more conservative financial posture, further delaying repayments. Additionally, uncertainty surrounding the economic outlook in 2025 due to the US tariff war contributed to a more cautious and risk-averse stance in assessing asset quality, leading to more conservative impairment provisioning.

As a result of one or a combination of the above factors, some of the Group's finance lease clients experienced a breakdown in its cash flow and, in some cases, ceased operations entirely. This ultimately led to defaults or an inability to repay the finance lease obligations as scheduled.

The Group has adopted bad debts recovery policy. To recover the bad debts arising from the FLR, the Risk Management Department and Business Development Department of the Group usually initiate collection efforts through phone calls. Based on the progress, collection documents, such as demand letters, early settlement notices, and legal letters, may be issued, if necessary, to recover the bad debts. For clients who remain in default after these collection efforts, the Group will file lawsuits or arbitration proceedings with the court or arbitration tribunal. At the same time, the Group will apply for the freezing or seizure of the client's assets, such as bank accounts, other payment accounts, real estate and vehicles. While awaiting hearings or rulings, the Group engages in settlement negotiations with cooperative clients to establish new repayment plans. If no settlement is reached, the Group will proceed with enforcement measures upon receiving a court judgment or arbitration award. For finance lease clients with relatively small overdue amounts, where the cost of litigation or arbitration would exceed the amount recoverable, the Group continues collection through phone calls and written notices, but does not initiate legal proceedings.

As at 31 March 2025, lawsuits or arbitration proceedings have been initiated for certain overdue FLR, which represented approximately 43% of the total overdue amount. Among the FLR court cases, 50% of which (in term of the amount of FLR) was ruled in favour of the Group while the others are pending court rulings. Notwithstanding a number of the judgment debtor elected to evade their liability by going bankrupt or loss contract, the Group managed to obtain court orders to freeze approximately 20.3% of total FLR that were subject to court cases. As at 31 March 2025, the Group had recovered approximately 2.7% of the FLR Impairment.

By order of the Board
Ziyuanyuan Holdings Group Limited
Zhang Junshen
Chairman and Chief Executive Officer

Hong Kong, 4 June 2025

As at the date of this announcement, the executive Directors are Mr. Zhang Junshen (Chairman and Chief Executive Officer) and Mr. Tian Zhiwei, the non-executive Directors are Mr. Lyu Di and Ms. Li Xinpei, the independent non-executive Directors are Mr. Chan Chi Fung Leo, Mr. Chow Siu Hang and Dr. Deng Bin.