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TIAN YUAN HEALTHCARE

天元医疗

CHINA TIAN YUAN HEALTHCARE GROUP LIMITED

中國天元醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

KEY FINDINGS AND RESULTS OF INTERNAL CONTROL REVIEW

This announcement is made by the board of directors (the “**Board**”) of China Tian Yuan Healthcare Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated (i) 21 August 2020 in relation to the suspension of trading in the shares of the Company; (ii) 11 September 2020 in relation to the resumption guidance set forth by the Stock Exchange; (iii) 23 November 2020 and 23 August 2021 in relation to the quarterly update on recent development of suspension of trading (collectively, the “**Announcements**”). Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

As disclosed in the announcement of the Company dated 11 September 2020, the Stock Exchange set forth the resumption guidance, among other things, required the Company to conduct an independent internal control review and demonstrate that the Company has in place adequate internal control and procedures to comply with the Listing Rules.

To assist the Company in fulfilling the relevant resumption guidance and in order to improve the internal control of the Group, the Company has engaged Crowe (HK) Risk Advisory Limited (the “**Crowe (HK)**”) on 5 October 2020 as its independent internal control consultant to conduct a comprehensive review of the internal control system, policies and procedures of the Group and provide corresponding recommendations for rectification to the management of the Company (the “**Management**”) in order to improve the Group’s financial reporting procedures and internal control system (the “**Internal Control Review**”). Crowe (HK) is an independent specialist global business advisory firm, and has extensive experience in reviewing and advising on the internal controls and corporate governance environments of companies listed on the Stock Exchange.

Based on the factual findings and the implementation of the enhanced internal control measures, the Management and the audit committee of the Company (the “**Audit Committee**”) are able to assess the effectiveness of the Group’s financial reporting procedures and internal control systems.

The key internal control findings identified by Crowe (HK) throughout the Internal Control Review, corresponding recommendations for rectification (the “**Rectification Recommendation(s)**”), the Company’s response and the remediation status are summarised as follows:

Key Findings	Rectification Recommendations	Company’s response and remediation status
<p>1. (a) The Group hasn’t set up a code of conduct and system for reporting conflict of interest in order to improve employee’s integrity and mitigate the risk of conflict of interest between the employees and the Company.</p> <p>(b) The Company hasn’t set up clear segregation of rights and duties and approval authority for each key controlling points of daily operation.</p> <p>(c) The Directors need to attend regular trainings and the attendance records need to be kept.</p>	<p>It is recommended the Company to have a proper documentation on a code of conduct and declaration of conflict of interest as well as proper record on approval authority and directors’ training.</p>	<p>(a) The Company has formulated a code of conduct and declaration of conflict of interest. The directors have signed the above documentation and will re-sign to declare annually.</p> <p>(b) The Company has established an approval authority table to clarify the responsibility of every management level and kept all the written records of approvals.</p> <p>(c) The Company has arranged several trainings for the Directors and the attendance records were kept.</p>

Key Findings	Rectification Recommendations	Company's response and remediation status
2. Policies and procedures for corporate governance and operational processes need to be further enhanced.	It is recommended the Group to formulate and enhance the policies and procedures for corporate governance and operational processes.	The Group has set up a set of comprehensive written policies and procedures for corporate governance and operational processes. The Board has approved the policies and procedures. The policies and procedures will be reviewed and revised where appropriate at least annually.
3. The Group needs to set up a Business Continuity Plan for business continuity in the event of planned and unplanned outages.	It is recommended the Group to establish a business continuity plan, including unplanned outages.	The Group has established a business continuity plan which has been approved by the Board.
4. The Group needs to strengthen the procedures of bookkeeping and financial records management, e.g., to keep a complete financial record and supporting documents on the recognition of revenue and receivables, to make sure the accuracy and completeness of financial reporting.	It is recommended the Group to improve the procedures for bookkeeping and financial records management.	<p>The Group has improved the procedures of bookkeeping and financial records management, including but not limited to:</p> <p>(a) The Company</p> <p>The Company has kept the working papers and relevant supporting documents on assessment of indication of impairment, impairment test and provision for impairment</p> <p>(b) PRIP</p> <p>PRIP has recognized the royalty income at least semiannually and retained complete supporting documents</p> <p>(c) Delightful Aesthetics</p> <p>Delightful Aesthetics has recognized the interest income and retained complete supporting documents.</p>

Key Findings	Rectification Recommendations	Company's response and remediation status
		<p>(d) DIAM</p> <p>DIAM has strengthened the bookkeeping, and has retained complete records of recognition on revenue and receivables, salary payment, fixed assets and the calculation of depreciation, bank payment and receipt, tax return and tax payment etc.</p>
		<p>(e) Shanghai Hospital</p> <p>(i) Shanghai Hospital has retained complete records of recognition on revenue from aesthetic medical services, including daily income summary, receiving vouchers, invoices, receiving records through different payment methods etc.</p> <p>(ii) Shanghai Hospital has exercised a standard process of drug requisition and kept the stock-out records of medical drugs.</p> <p>(iii) Also, it has established a supervision procedures of all the receivables from employees or other companies and monitored the repayment status every month and kept the relevant records of application of cash advance, fund release, repayment record, accounting record etc.</p>

Key Findings	Rectification Recommendations	Company's response and remediation status
5. The Group needs to strengthen the monitoring process on revenue recognition.	It is recommended the Group should keep proper documentation and record the revenue on a timely, an accurate and a complete manner.	<p>The Company has checked the financial records of the subsidiaries annually to ensure the subsidiaries have maintained adequate supporting documents for bookkeeping management and the financial reporting.</p> <p>The Group has followed the recommendation on revenue recognition to keep proper documentation and record the revenue on a timely, an accurate and a complete manner.</p>
6. Delightful Aesthetics Investment Limited (“Delightful Aesthetics”) needs to improve the mechanisms of assessment, approval and granting for loans, to mitigate the credit risk in money lending business.	It is recommended Delightful Aesthetics to improve policies and procedures on money lending, including the assessment of credit risk, anti-money laundering and compliance.	<p>Delightful Aesthetics has improved the policies and procedures on money lending in order to enhance the assessment and approval procedures of loan application in the following aspects:</p> <p>(a) Improved the procedures of “know your client” and has to keep the complete documentation of due diligence and approval. Set up procedures and keep documents regarding: i) documentation on reasons for loans and future business plans of the borrower, ii) records of assessing borrower’s financial position, including review and analysis of financial statement by the Finance Department, iii) results of searching borrower’s credit history.</p>

Key Findings	Rectification Recommendations	Company's response and remediation status
		<p>(b) Improved the procedure for assessing the risk of money laundering according to “Anti-Money Laundering and Counter-Terrorist Financing Ordinance” (Chapter 615 of Laws of Hong Kong). Relevant assessment included i) keeping the assessment records about recognizing and supervising the risk of money laundering; ii) requesting the borrower to declare for compliance with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, iii) conducting constant supervision on the transactions of the borrower to monitor any suspicious transactions.</p> <p>(c) Delightful Aesthetics has enhanced the procedure of the determination of contract terms of loan agreement, including determining the interest rate and the payment terms of the loan by further assessment on the risk of loan.</p> <p>(d) Delightful Aesthetics has appointed an appropriate compliance staff in charge of (i) overseeing the money lending business in compliance with the Money Lenders Ordinance (Chapter 163 of Laws of Hong Kong) as well as the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of Laws of Hong Kong); and (ii) monitoring the connected transactions according to the Listing Rules.</p>

The Company is recommended to keep complete documentation in order to demonstrate the above-mentioned procedures are exercised effectively.

Key Findings	Rectification Recommendations	Company's response and remediation status
<p>7. Delightful Aesthetics needs to strengthen the procedures of continuous supervision on the recoverability of the borrower and mechanism of following the loan repayment, including reviewing and assessing the financial situations of the borrower and guarantor and also the market value of the pledge asset regularly, in order to reduce the risk of bad debt.</p>	<p>It is recommended Delightful Aesthetics to strengthen the supervision mechanism, including to set up the mechanism for monitoring recoverability of the borrowers and keep documentation about the follow up processes on outstanding loan receivables.</p>	<p>Delightful Aesthetics has set up a supervision mechanism about the financial situations of borrower and guarantor and the market value of pledge asset and report to the board on a quarterly basis and if discover any potential credit risk. The board of directors will assess the credit risk and adjust the repayment plan accordingly (i.e request the borrower to add new guarantees or securities).</p> <p>Delightful Aesthetics has strengthened the mechanism of tracking the repayments and collection of loans overdue. A summary of the status of loans collection, including the reasons of overdue and the status of follow-up action, has been reported to senior management periodically.</p>
<p>8. Delightful Aesthetics needs to strengthen the mechanism of approval procedure and continuous supervision for loan extension.</p>	<p>It is recommended Delightful Aesthetics should strengthen the credit assessment, approval mechanism and have continuous supervision on loan extension, including re-assessing the financial information and market value of pledged assets.</p>	<p>Delightful Aesthetics has kept complete records of issuing repayment notice and report to the executive director in time, to make sure the supervision mechanism has been exercised effectively.</p> <p>Delightful Aesthetics has re-assessed the financial position of borrower and guarantor and the market value of pledge asset, in order to ensure the asset of borrower and guarantor and the value of the pledge asset have covered the loan principals and accumulated interest. Delightful Aesthetics has maintained complete written file of the assessment and approval process and the supporting documents.</p>

Key Findings	Rectification Recommendations	Company's response and remediation status
9. The records of usage of toxic drugs in Shanghai Hospital are incomplete for compliance with the relevant rules and regulations, for example, there was missing information on the remaining volumes.	It is recommended the Shanghai Hospital should keep proper documentation for the usage of toxic drugs.	<p>The terms of loan extension agreement should be adjusted according to the assessment of the recoverability of the repayment, for example, increase the frequency of interest repayment or adjust the repayment terms of principal from a lump-sum to installment. If the total value of guarantees and assets of guarantor cannot cover the principal and interest, the borrower needs to add new guarantees when extending the loans.</p> <p>Delightful Aesthetics should enhance the ongoing monitoring procedures on the repayment of the loan extension, including but not limited to assess and review the financial situation of the borrower every month when the recoverability risk is high.</p> <p>Shanghai Hospital has followed the recommendation on the documentation for the usage of toxic drugs.</p>
10. Social insurance and housing provident fund has not registered and paid in according with the relevant rules and regulations.	It is recommended Shanghai Hospital to obtain a legal opinion about its legitimacy to ensure compliance with the relevant rules and regulations..	Shanghai Hospital obtained a legal opinion on voluntary waiver of employee's participation in social insurance and housing provident fund, the calculation of employee's housing provident fund payment and whether foreign employees working in the PRC need to pay social insurance for compliance with relevant rules and regulations. Appropriate follow-up actions to enhance the control measures were implemented.

Key Findings	Rectification Recommendations	Company's response and remediation status
11. The Group needs to strengthen the procedures of advances to third parties, related parties and employees, including approval of application and follow up on settlement.	It is recommended the Group that all the advances should be approved by the Board, and there should be documents stating purpose of advance, credit assessment and identification of connected transactions. The Group should monitor the receivables continuously and retain the documents on follow-up on settlement.	The Group has established a supervision procedures of all the receivables from employees or other companies and monitored the repayment status every month and kept the relevant records of application for advances, fund release, repayment record, accounting record etc.
12. The Group needs to establish an effective policy and procedure on the notifiable transactions and connected transactions, to ensure the Group has implemented the mechanism in order to comply with the Chapter 14 and 14A of the Listing Rules.	It is recommended the Group to have proper control over management of notifiable and connected transactions, including identification, disclosure and monitoring for compliance with the Listing Rules.	<p>The Group has set up a written policies and procedures on notifiable transactions and connected transactions in order to regulate the procedures on identification, approval and disclosure and monitoring of the notifiable transactions and connected transactions, including:</p> <ul style="list-style-type: none"> <li data-bbox="1023 947 1474 1160">(a) The directors and senior management of the Group have to declare their connected persons and conflict of interest upon their appointment and on an annual basis. <li data-bbox="1023 1205 1474 1350">(b) The Company Secretary and Chief Financial Officer("CFO") have to prepare, review and renew a list of connected parties at least annually. <li data-bbox="1023 1395 1474 1787">(c) The Company has to set up and review the threshold of reporting major transactions from subsidiaries to the Company annually. If the transaction size exceeds the threshold, the Company Secretary and the CFO should review and confirm whether the major transactions are subject to notifiable transactions or connected transactions.

Key Findings	Rectification Recommendations	Company's response and remediation status
13. The Group needs to have proper documentation about the monitoring of compliance procedures.	It is recommended the Group to keep complete documentation and arrange training in order to demonstrate the monitoring procedures on the compliance with relevant law and regulations are exercised effectively.	<p>(d) The Company has to prepare and review the list of connected transactions regularly according to Chapter 14A of Listing Rules to identify, approve and disclose relevant transaction.</p> <p>(e) The subsidiaries of the Company should provide the list of transactions to the Company Secretary and the CFO for review. The Company Secretary and the CFO should review and ascertain whether all notifiable transactions or connected transactions should be identified for disclosure.</p> <p>(f) If a transaction is identified as a connected transaction, then the related documentation has to be reported to the board for approval under consideration of arm's length basis.</p> <p>Training in knowledge of handling notifiable and connected transactions should be provided to relevant divisions to make sure the mechanism could be exercised effectively.</p> <p>The Group has established a compliance checklist and organize relevant training for the responsible staffs.</p>

RESULTS OF THE INTERNAL CONTROL REVIEW

The Internal Control Review has been completed by Crowe (HK) on 9 September 2021. As at the date of this announcement, the Group has (i) fully adopted and implemented the Rectification Recommendations; and (ii) rectified the relevant deficiencies in the Group's internal control system.

The Company believes that adequate internal controls and procedures have been in place in the Company to comply with the Listing Rules. Based upon the results of the above mentioned Internal Control Review, Crowe (HK) is of the view that the Company has in place adequate and reliable corporate governance, internal controls and financial reporting procedures to comply with the Listing Rules.

OPINIONS OF THE AUDIT COMMITTEE AND THE BOARD

Having considered the report of the Internal Control Review and the remediated actions taken by the Group, both the Audit Committee and the Board are of the view that the enhanced internal control measures implemented by the Company based on the Rectification Recommendations are adequate and sufficient to address the key findings of the report of the Internal Control Review. The Group will continue to implement the Rectification Recommendations on an ongoing basis so as to further strengthen its internal control system, to meet its obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on Monday, 24 August 2020 and will remain suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

By Order of the Board
China Tian Yuan Healthcare Group Limited
Zhang Xian
Executive Director

Hong Kong, 23 November 2021

As at the date of this announcement, the Board is composed of seven Directors of which Mr. Wang Huabing (chairman) and Ms. Zhang Xian are the executive Directors, Ms. He Mei and Mr. Zhou Yuan are the non-executive Directors and Mr. Hu Baihe, Mr. Yuen Kwok Kuen and Mr. Guo Jingbin are the independent non-executive Directors.