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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)

## FULFILLMENT OF ALL RESUMPTION GUIDANCE AND RESUMPTION OF TRADING

Financial adviser to the Company



This announcement is made by China Tian Yuan Healthcare Group Limited (the “**Company**” together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) and Rule 13.24A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated (i) 16 March 2020 in relation to the inside information announcement in relation to the update on provision of financial assistance to an entity; (ii) 21 August 2020 in relation to suspension of trading in the shares of the Company; (iii) 31 August 2020 in relation to postponement of board meeting; (iv) 11 September 2020 in relation to the resumption guidance (the “**Resumption Guidance**”); (v) 30 September 2020 in relation to the delay in publication of the 2020 Interim Results; (vi) 23 November 2020 in relation to the quarterly update on recent development of suspension of trading; (vii) 15 December 2020 in relation to the further delay in publication of the 2020 Interim Results and dispatch of the 2020 Interim Report; (viii) 28 January 2021 in relation to the business update of the operation of the Company; (ix) 31 March 2021 in relation to (a) the further delay in publication of the 2020 Interim Results and dispatch of the 2020 Interim Report and (b) the delay in publication of the 2020 Annual Results and dispatch of the 2020 Annual Report; (x) 9 April 2021 in relation to the notification of board meeting; (xi) 21 April 2021 in relation to the change of date of board meeting; (xii) 22 April 2021 in relation to the clarification announcement to the change of date of board meeting; (xiii) 26 April

2021 in relation to the further delay in publication of the 2020 Interim Results and the 2020 Annual Results; (xiv) 21 May 2021 in relation to the publication of the 2020 Interim Results and the 2020 Annual Results; (xv) 24 May 2021 in relation to the quarterly update on recent development of suspension of trading; (xvi) 23 August 2021 in relation to the quarterly update on recent development of suspension of trading; (xvii) 23 November 2021 in relation to the key findings and results of internal control review; and (xviii) 23 November 2021 in relation to the quarterly update on recent development of suspension of trading (collectively, the “**Announcements**”), the 2020 Interim Report and the 2020 Annual Report published on 6 June 2021, and the 2021 Interim Report published on 30 September 2021. Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcements.

## **RESUMPTION GUIDANCE**

As disclosed in the announcement of the Company dated 11 September 2020, the Stock Exchange informed the Company of the following Resumption Guidance:

- (i) publish all outstanding financial results and address any audit modifications (“**Resumption Guidance 1**”);
- (ii) demonstrate the Company’s compliance with Rule 13.24 of the Listing Rules (“**Resumption Guidance 2**”);
- (iii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules (“**Resumption Guidance 3**”); and
- (iv) inform the market of all material information for shareholders of the Company and investors to appraise the Company’s positions (“**Resumption Guidance 4**”).

## **FULLFILMENT OF RESUMPTION GUIDANCE**

Since the suspension of trading of the Shares on 24 August 2020, the Board has been continuously making effort in taking steps to fulfil the Resumption Guidance, and is pleased to inform its Shareholders and potential investors that, as at the date of this announcement, all the Resumption Guidance have been fulfilled. Details of the fulfillment of the Resumption Guidance are set out below:

### **Resumption Guidance 1 – To publish all outstanding financial results and address any audit modifications**

The Company has published all outstanding financial results, in particular, it has:

- (i) published the 2020 Interim Results and the 2020 Final Results on 23 May 2021;
- (ii) published the 2020 Interim Report and the 2020 Annual Report on 6 June 2021;
- (iii) published the 2021 Interim Results on 30 August 2021; and
- (iv) published the 2021 Interim Report on 30 September 2021.

As disclosed in the 2019 Annual Report, the former auditor of the Company (the “**Former Auditor**”) issued a disclaimer opinion on the consolidated financial statements of the Group for the year ended 31 December 2019 (the “**Disclaimer Opinion**”), as the Former Auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

As disclosed in the announcements dated 24 December 2020 and 13 January 2021, the Former Auditor has resigned as the auditor of the Company due to (i) the matters as described in the basis for disclaimer of opinion section of the independent auditors’ report in the 2019 Annual Report; (ii) the professional risk associated with the audit for the year ended 31 December 2020; (iii) the level of the audit fee for the year ended 31 December 2020; and (iv) the Former Auditor’s available internal resources in the light of current work flows. The Former Auditor has confirmed in their letter of resignation that except for the matters as described in the basis for disclaimer of opinion section of the independent auditors’ report in the 2019 Annual Report issued on 22 August 2020, there are no matters or circumstances in connection with their resignation that need to be brought to the attention of the Shareholders. The Board further announced that, with the recommendation from the Audit Committee, Crowe has been appointed as the auditor of the Company with effect from 24 December 2020.

The summary below sets out (i) the background and details of the matters described in the Disclaimer Opinion; (ii) the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion; (iii) the audit opinion issued by Crowe in relation to the financial results for the year ended 31 December 2019; and (iv) the view of the Board and the Audit Committee on how the Disclaimer Opinion has been fully addressed.

**1. *Scope limitations on inability to obtain sufficient appropriate audit evidence to audit assets, liabilities, revenue and expenses of DIAM***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient requested information and materials for the audit of DIAM, which was primarily due to the outbreak of COVID-19.

In light of the above, the Company has engaged an independent external auditor in Korea, who acted as the component auditors of Crowe under the group audit instructions provided by Crowe to perform the on-site audit of DIAM and provide reporting to Crowe.

Based on the review of documents obtained from the Company and the audit procedures performed for DIAM, Crowe is of the view that (i) the issue on the inability to obtain sufficient appropriate audit evidence to audit assets, liabilities, revenue and expenses of DIAM has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group’s consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe’s audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**2. *Scope limitation on inability to obtain sufficient appropriate evidence to audit the Group's royalty income and related receivables***

As disclosed in the 2019 Annual Report, the Former Auditor has sent confirmation to DA Plastic Surgery Clinic to confirm the royalty income and related receivables of the Group and was unable to obtain a reply up to the date when the consolidated financial statements were authorised for issue.

To address the audit modification, Crowe has performed audit procedures, including but not limited to, obtained and reviewed the relevant agreements entered, circulated audit confirmation to DA Plastic Surgery Clinic and vouched the underlying supporting documents. In light of the above, Crowe is of the view that (i) the issue on the inability to obtain sufficient appropriate audit evidence to audit the Group's royalty income and related receivables has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**3. *Scope limitation on inability to obtain sufficient appropriate evidence to audit various derivatives associated with the Acquisition***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient audit evidence regarding various derivatives, including the Put and Call Options, associated with the Acquisition.

To address the audit modification, the Company has engaged an independent external valuer to perform valuation on the aforesaid derivatives associated with the Acquisition. Prior year adjustments were proposed by the management of the Company to derecognise the financial liabilities of the Put and Call Options.

Crowe has performed audit procedures, including but not limited to, obtained and reviewed the agreements signed in relation to the derivatives and the valuation report prepared by the independent external valuer, enquired the independent external valuer and the management of the Company regarding the reassessment and prior year adjustments proposed. In light of the above, Crowe is of the view that (i) the restatement of prior period's figures has addressed the audit modification; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**4. *Scope limitation on inability to obtain sufficient appropriate evidence to audit the Group's loans receivables and loan interest income***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient audit evidence regarding the Group's loans receivables and loan interest income, including, the relationships between the Group, the borrowers and the payers, the commercial substance of loans and credit assessment.

To address the audit modification, Crowe has obtained from the management the chronology of events related to the loans granted, together with the facts and circumstances surrounding the transactions and arrangements, and performed audit procedures, including but not limited to, obtained and reviewed the Group's policies on granting loans, credit assessment policies, and the underlying supporting documents of the loans, company search, confirmation procedures, phone interview with selected borrowers to corroborate the information available from the management. In light of the above, Crowe is of the view that (i) the issue on the inability to obtain sufficient appropriate audit evidence to audit the Group's loans receivables and loan interest income has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**5. *Scope limitation on inability to obtain sufficient appropriate evidence to audit "other receivables" from the 2019 Borrowers***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient audit evidence regarding the nature and measurement of the Group's other receivables from the 2019 Borrowers.

To address the audit modification, Crowe has obtained from the management the chronology of events relating to the receivables, together with the facts and circumstances surrounding the transactions and arrangement; and performed audit procedures, including but not limited to, obtained and reviewed the Group's policies on granting loans, credit assessment policies, and the underlying supporting documents of the loans, company search, confirmation to corroborate the information available from the management and to identify any related party relationship and transactions with the Group and between the parties involved. In addition, Crowe performed confirmation procedures for selected borrowers on the outstanding receivables and arranged phone interview with selected borrowers to understand the loan arrangement. In light of the above, Crowe is of the view that (i) the issue on the inability to obtain sufficient appropriate audit evidence to audit the Group's other receivables has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**6. *Scope limitation on inability to obtain sufficient appropriate evidence to ascertain whether the Company has the ability to lend without money lending license***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient audit evidence regarding the Group's legal validity to lend money.

To address the audit modification, the Company has engaged a legal adviser to issue a legal opinion related to the money lending license for the granting of loans and to ascertain the legality for granting the relevant loans.

Crowe has performed audit procedures, including but not limited to, obtained and reviewed the aforesaid legal opinion. In light of the above, Crowe is of the view that (i) the issue on the inability to obtain sufficient appropriate audit evidence to ascertain whether the Company has the ability to lend without money lending license has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

**7. *Scope limitation on inability to obtain sufficient appropriate evidence to audit the Group's prepayments, other receivables, amount due from fellow subsidiary and royalty income and related trade receivables***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain sufficient audit evidence to audit the Group's prepayments, other receivables, amount due from fellow subsidiary and royalty income and related trade receivables.

To address the audit modification, Crowe has performed audit procedures, including but not limited to, enquired the management and obtained the chronology of events on such prepayment/receivables to understand the circumstances and reasons for the transactions. In respect of the prepayment on advisory fee and reassessment by management on prior year adjustments, Crowe examined the evidences, including chronology of events, that support the prior year adjustments and reviewing the terms and conditions of underlying documents and other relevant facts and circumstances leading to the adjustments made. Crowe had also performed audit procedures including company search, confirmation arrangement, phone interview, to corroborate the information available from the management. In light of the above, Crowe is of the view that (i) the restatement of prior period's figures has addressed the audit modification; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

#### **8. *Unable to obtain directors' fee confirmations***

As disclosed in the 2019 Annual Report, the Former Auditor was not able to obtain original confirmations from some of the Directors.

To address the audit modification, Crowe has performed audit procedures, including but not limited to, obtained and reviewed the service agreements entered with the Directors and received the confirmations from the respective Directors. In light of the above, Crowe is of the view that (i) the issue on the inability to obtain directors' fee confirmation has been resolved; (ii) no audit modification for the comparative figures for the year ended 31 December 2019 was required; and (iii) the audit modification as described in the Disclaimer Opinion has been duly resolved and had no continuing effect on the Group's consolidated financial statements for the year ended 31 December 2020.

The Board and the Audit Committee agreed with the view of and audit procedures performed by Crowe regarding the Disclaimer Opinion, and are of the view that the information provided by the Company was matched with Crowe's audit requests. Therefore, the Board and the Audit Committee agreed with the conclusion that the audit modification has been duly addressed.

As at the date of this announcement, the Company has no outstanding financial results which are required to be published according to the relevant rules and regulations (including the Listing Rules) and there is no audit modification in the 2020 Final Results.

#### **Resumption Guidance 2 – To demonstrate Company's compliance with Rule 13.24 of the Listing Rules**

##### ***Sufficient operations of the Group***

The Group is principally engaged in (i) healthcare business mainly through (a) Shanghai Hospital, which is principally engaged in the plastic surgery operation and is a specialised plastic surgery hospital in Shanghai Province of the PRC, (b) PRIP for royalty fees from licensing DA Trademark; and (c) DIAM for the management fees; and (ii) money lending and related business in the PRC and Hong Kong.

The Group generates the beauty surgery and related income from the Shanghai Hospital in the PRC. The beauty surgery and related income mainly comprised of four categories of aesthetic surgery services, namely facial surgeries, nose and eyes surgeries, skin and injection treatment and other surgeries or treatments.

The below table sets forth the selected information from the consolidated statements of profits or loss and other comprehensive income of the Group for the respective years/period as indicated:

	For the year ended 31 December		For the six months ended 30 June		For the ten month ended 31 October	
	2019	2020	2020	2021	2020	2021
	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)	HK\$ ('000)
	(Audited and restated)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	70,548	56,340	17,801	48,439	36,809	78,357
Gross profit	70,548	37,574	16,110	37,413	29,739	58,268
Net loss from continuing operations attributable to owners of the Company	(139,324)	(110,035)	(88,141)	(6,411)	(87,904)	(9,127)

The Board considers that the Group has a sufficient level of operations based on the factors as set out below:

- the Company has been operating with solid businesses and continued to further develop and expand its businesses, particularly in the healthcare business. The acquisition of Shanghai Hospital in 2020 was in line with the Company's expansion strategy in the healthcare business sector and an opportunity to strengthen its existing principal business in the healthcare business segment;
- the Group has continued to develop its money lending and related business by leveraging and making good use of the resource and network of the executive Directors in banking and finance industries. In order to strike a balance between expansion of the money lending and related business segment and the risk control of the Group, the Group has continued to adopt a more prudent credit assessment and procedures when accepting customers for money lending business;
- the revenue generated from the healthcare business of the Group represented approximately 48.6%, 69.9%, 82.6% and 82.0% of the total revenue for the financial years ended 31 December 2019 and 2020 ("FY2019" and "FY2020"), for the six months ended 30 June 2021 ("6M2021") and for the ten months ended 31 October 2021 ("10M2021"), respectively;
- the revenue generated from the healthcare business of the Group has increased by approximately 14.9% from approximately HK\$34.3 million for FY2019 to approximately HK\$39.4 million for FY2020;
- the revenue generated from the healthcare business of the Group has further increased by approximately 381.9% from approximately HK\$8.3 million for the six months ended 30 June 2020 ("6M2020") to approximately HK\$40.0 million for 6M2021;
- the revenue generated from the healthcare business of the Group has increased by approximately 173.2% from approximately HK\$23.5 million for the ten months ended 31 October 2020 ("10M2020") to approximately HK\$64.2 million for 10M2021;
- the Board is of the view that the increase in the revenue contribution from the healthcare business demonstrated a steady and solid growth of business performance of the Group in the respective sector;

- the gross profit of the Group has increased from approximately HK\$16.1 million for 6M2020 to approximately HK\$37.4 million for 6M2021, which represented an increase of approximately 132.3%;
- the gross profit margin of the Group has increased from approximately 66.7% for FY2020 to approximately 77.2% for 6M2021. The gross profit margin of the Group remained stable at approximately 74.4% for 10M2021;
- the Group has recorded a net loss of approximately HK\$139.3 million for FY2019, which has decreased by approximately 21.0% to approximately HK\$110.0 million for FY2020. The non-recurring professional fees incurred in relation to the preparation of the Resumption amounted to approximately HK\$2.2 million for FY2020. With the assumption that such non-recurring expenses are excluded, the adjusted net loss of the Group would be approximately HK\$107.8 million for FY2020;
- the Group has recorded a net loss of approximately HK\$88.1 million for 6M2020, which has decreased by approximately 92.7% to approximately HK\$6.4 million for 6M2021. With the assumption that the non-recurring expenses Resumption related are excluded, the adjusted net loss of the Group would be approximately HK\$4.9 million for 6M2021;
- the Group has recorded a net loss of approximately HK\$87.9 million for 10M2020, which has decreased by approximately 89.6% to approximately HK\$9.1 million for 10M2021. With the assumption that such non-recurring Resumption related expenses are excluded, the adjusted net loss of the Group would be approximately HK\$86.3 million for 10M2020 and approximately HK\$6.6 million for 10M2021; and
- the Board believes the Group would have achieved better financial results for FY2020, 6M2021 and 10M2021 without the drastic unforeseen circumstances arisen from the COVID-19. The Directors are in strong confidence and believe that the net losses recorded by the Group in the relevant periods were primarily caused by temporary and uncontrollable incidents. With the expected gradual recovery from the impacts of COVID-19 in the PRC and other overseas countries, the Directors are confident that the Group will be able to capture more potential business opportunities and achieve a faster business growth in the future.

For further details of the financial information and business performance of the Group, please refer to the 2020 Annual Report and the 2021 Interim Report. As at the date of this announcement, the businesses of the Group continue to operate as usual in all material respects.

### ***Sufficient assets of the Group***

The table below sets forth the selected information from the consolidated statement of financial position as at the respective dates as indicated:

	As at 31 December		As at	As at
	2019	2020	30 June	31 October
	HK\$ ('000)	HK\$ ('000)	2021	2021
	(Audited and	(Audited)	HK\$ ('000)	HK\$ ('000)
	restated)		(Unaudited)	(Unaudited)
Non-current assets	147,500	159,525	155,973	146,860
Current assets	301,789	221,771	220,288	228,436
Non-current liabilities	(17,453)	(52,044)	(51,714)	(53,311)
Current liabilities	(16,276)	(31,865)	(30,484)	(29,367)
Total assets	449,289	381,296	376,261	375,296
Net assets	415,560	297,387	294,063	292,618

The non-current assets of the Group amounted to approximately HK\$147.5 million, HK\$159.5 million, HK\$156.0 million and HK\$146.9 million as at 31 December 2019, 31 December 2020, 30 June 2021, and 31 October 2021, respectively. The total assets of the Group amounted to approximately HK\$449.3 million, HK\$381.3 million, HK\$376.3 million and HK\$375.3 million as at 31 December 2019, 31 December 2020, 30 June 2021, and 31 October 2021, respectively. The main assets of the Group comprised of the right-of-use assets, being the leased properties of the Shanghai Hospital, which amounted to approximately HK\$52.2 million, HK\$50.6 million, and HK\$50.8 million 31 December 2020, 30 June 2021, and 31 October 2021, respectively. The Board considers that the level of assets of the Group has remained relatively stable and sufficient for the purpose of supporting the Group's business operation.

In light of the abovementioned factors, the Board is of the view that the Group operates with a sufficient level of operations and assets of sufficient value to support its operations to satisfy the requirements under Rule 13.24 of the Listing Rules and warrant the continued listing of the Shares on the Stock Exchange.

### **Resumption Guidance 3 – To conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls 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) 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 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 of the Company and the Audit Committee are able to assess the effectiveness of the Group's financial reporting procedures and internal control systems.

On 23 November 2021, the Company has published the announcement in relation to the key findings and results of the Internal Control Review performed by Crowe (HK), in which has been completed on 9 September 2021. 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.

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. Accordingly, the Board is of the view that the Company has fulfilled the requirements under Resumption Guidance 3.

#### **Resumption Guidance 4 – To inform the market of all material information for shareholders of the Company and investors to appraise the Company's positions**

Since the suspension of trading of the Shares on 24 August 2020, the Company has, in accordance with the Listing Rules and other applicable regulatory requirements, continued to inform the market with material information by publishing announcements, financial reports and other disclosure documents in connection with, among others, quarterly updates on recent development of suspension of trading, financial results of the Group, inside information announcements and other information from time to time to inform the Shareholders and potential investors of the Company on the material information and recent development of the Company.

In addition to the information as set out in the announcements and other disclosure documents published by the Company, the Board would like to provide further information in relation to the status of the disputes between the Group and Dr. Lee which might have adversely affected the potential healthcare business development with Dr. Lee:–

- (1) As disclosed in the 2020 Annual Report, upon the expiry of DA Trademark Agreement entered into between PRIP and Dr. Lee in May 2020, the Group was not able to recover the outstanding royalty fee income derived from revenue generated by licensing the use of DA Trademark from March 2020 to May 2020 and the subsequent unauthorised use of DA Trademark by Dr. Lee.

The Group has engaged the legal advisers as to the laws of the Republic of Korea (the “**Korean Legal Advisers**”) to file a lawsuit against Dr. Lee at the Seoul Central District Court (the “**Court**”) on 1 October 2021 with respect to the claim for, amongst others, the unpaid royalty fee to use the DA Trademark from March 2020 to May 2020 and the damage for the unauthorised use of the DA Trademark, as well as requesting Dr. Lee to cease the use of DA Trademark (the “**Claim**”). As advised by the Korean Legal Advisers and based on the prevailing facts and circumstances of the case, subject to the condition that PRIP (as the plaintiff) pays certain security amount to the Court in order to secure PRIP’s payment of lawsuit expenses to Dr. Lee (as the defendant) in the event that PRIP loses in the aforesaid lawsuit in the future, it is estimated that the first court hearing in relation to the Claim will be held on a date between January and February in 2022, and the court decision for the first instance will be completed by October in 2022.

- (2) Reference is made to the announcements of the Company dated 30 May 2017 and 17 August 2017 and the 2020 Annual Report.

Pursuant to the shareholders’ agreement (the “**Shareholders’ Agreement**”) entered on 29 May 2017 between PRIP, Dr. Lee, Pyung Kim and the Company, on condition of financial achievement of the guaranteed revenue of PRIP and guaranteed net profits of DIAM for the financial years of 2017, 2018 and 2019 (the “**Performance Guarantee**”), Dr. Lee and Pyung Kim (together, the “**Non-controlling Shareholders**”) shall have the right and option (the “**Put Option**”) to require the Company to purchase the 29% of the issued and outstanding shares (the “**Option Shares**”) in PRIP during the three months after the issue of the audited financial report of DIAM for the financial year of 2019 (the “**Option Commitment Period**”) and the total purchase price of all the Option Shares shall be US\$12,285,458. On the other hand, the Company shall have the right and option (the “**Call Option**”) to require the Non-controlling Shareholders to sell the Option Shares within the Option Commitment Period and the total selling price of all the Option Shares shall be US\$12,285,458. In the event PRIP and/or DIAM fail(s) to achieve the Performance Guarantee in any financial year of 2017, 2018 and 2019, Dr. Lee shall pay a compensation to the Company (in proportion of his shareholding in PRIP) within a certain time frame after the issue of the annual audited financial statements for each relevant year of the Performance Guarantee.

Since the Performance Guarantee for the financial year of 2019 could not be met according to the audited financial report of PRIP for the financial year of 2019, the Non-controlling Shareholders are not entitled to exercise the Put Option pursuant to the Shareholders’ Agreement. As at the date of this announcement, the Company has no intention to exercise the Call Option pursuant to the Shareholders’ Agreement.

In order to further safeguard the interests of the Company and the Shareholders as a whole, the Company is in the course of seeking external legal advice to assess the merits and the costs and benefits of commencing legal proceedings against Dr. Lee in respect of the claim for (i) the refund of the prepayment of US\$1,000,000 in relation to further acquisition of the Option Shares in early 2020; and (ii) the compensation of the failure to achieve the Performance Guarantee for the financial year of 2019. As at the date of this announcement, the Company has not yet commenced any legal action or proceedings against Dr. Lee in this regard.

- (3) As disclosed in the 2020 Annual Report and as at the date of this announcement, there was an outstanding receivable of around USD360,000 in relation to the provision of marketing services in 2018 by the PRIP to DA Plastic Surgery Clinic in which Dr. Lee is the sole entrepreneur. In order to safeguard the interests of the Company and the Shareholders as a whole, the Company is in the course of seeking external legal advice whether to commence legal action or proceedings against Dr. Lee in this regard.

The Company will make further announcement(s) regarding any updates of the relevant legal action or proceedings in relation to the aforesaid disputes as and when appropriate and in accordance with the Listing Rules.

To the best of knowledge of the Directors, the Board considers that the Company has announced all material information it considers necessary for the Shareholders and potential investors to appraise the Company's position. Hence, the Board is of the view that the Company has fulfilled the requirements under Resumption Guidance 4.

### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on Monday, 24 August 2020. Based on the reason as disclosed above, the Board is of the view that all the Resumption Guidance has been fulfilled. Accordingly, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 16 December 2021.

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

By order of the Board of  
**China Tian Yuan Healthcare Group Limited**  
**Wang Huabing**  
*Executive Director*

Hong Kong, 15 December 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.*