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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the annual report of China Tian Yuan Healthcare Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2020 (the "**2020 Annual Report**"). Capitalised Terms used herein shall have the same meanings as defined in the 2020 Annual Report unless otherwise stated.

The board of directors (the "**Board**") of the Company wishes to provide the following additional information in relation to directors' remuneration and intangible assets as disclosed in the Note 11 and 17 respectively to the consolidated financial statements in the 2020 Annual Report.

REASONS FOR AND THE CIRCUMSTANCES LEADING TO THE IMPAIRMENT LOSS

According to the Hong Kong Accounting Standard 36 ("**HKAS 36**") "Impairment of Assets" issued by the Hong Kong Institute of Certified Public Accountants, the recoverable amount of an asset is required to be measured whenever there is an indication that the asset may be impaired.

Details of the impairment assessment of intangible assets

Intangible assets – trademark

Trademarks arising on an acquisition of a business is established at the date of acquisition of the business.

Due to the fact that the revenue and profit guarantee of DIAM could not be met for the year ended 31 December 2019 and the dispute with the non-controlling shareholder, Dr. Lee, also the business was suspended due to travel restrictions from COVID-19, resulted in a drop in revenue in 2020.

For the purposes of impairment testing, trademarks are allocated to each of the Group's cash-generating units ("**CGUs**") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represents the lowest level at which the trademarks are monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which trademarks have been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any trademarks and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Determining whether trademarks are impaired requires an estimation of the recoverable amount of the CGU (or a group of CGUs) to which trademarks have been allocated, which is the higher of the value in use or fair value less costs of disposal.

The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/ further impairment loss may arise.

The Group determined the recoverable amount of the trademarks based on its value in use calculation (the "**VIU**"). The Company engaged Valtech Valuation Advisory Limited (the "**Independent Valuer**") to assist to determine the value in use of a CGU of the trademarks, as primarily represented by a registered DA trademark in the Korea to derive future royalty income, under PRIP Communications Limited (the "**PRIP**") in the Korea market, with key parameters including a discount rate of 15.67% by applying the Modified Capital Asset Pricing Model and capitalization rate of 13.67% on the pre-tax royalty income for the Korea healthcare business.

In determining the VIU of the DA trademark as at 31 December 2020 (being the valuation date), the management had taken into account the following factors, including the fact that the existing licensee of the DA trademark in Korea (the "**DA Licensee**") failed to settle the royalty fee to use the DA trademark and unauthorised use of DA trademark, a legal letter has been delivered to the DA Licensee to request for settlement of the unpaid royalty and cessation of the unauthorized use of the DA trademark, and the plan of the Company to commence an official legal claim on the aforesaid damages and losses in the civil court of Korea.

The valuation of the CGU of the DA Trademark is determined to be approximately US$2.8 million, equivalent to approximately HK$20.9 million as at 31 December 2020. The Company compared the valuation of the CGU as valued by the Independent Valuer, which is the estimated recoverable amount of the CGU with, and the carrying amount, and hence made an impairment loss on trademarks of approximately HK$62.7 million based on the shortfall.

Intangible assets – customer contracts

Intangible assets arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business. It represents the customer contracts acquired during the acquisition of 51% equity interests of PRIP.

Due to the fact that the revenue and profit guarantee of DIAM could not be met for the year ended 31 December 2019 and the dispute with the non-controlling shareholder, Dr. Lee which affected the potential healthcare business development with Dr. Lee, also the business was suspended due to travel restrictions from COVID-19, resulted in a drop in revenue in 2020.

The Company did not prepare independent valuation. The Group determined the recoverable amount of the intangible assets based on its VIU, as primarily represented by a healthcare business in Korea to derive future service fees income, under DIAM.

Considering that the Group was in dispute with Dr. Lee and no customers are introduced to DA Plastic Surgery Clinic and the business being affected by the outbreak of COVID-19, no service income was generated and the CGU is estimated at zero and impairment on intangible assets – customer contracts were made.

The Company compared the estimated recoverable amount of the CGU with, and the carrying amount, and hence made an impairment loss on intangible assets – customer contracts of approximately HK$17.9 million.

DEFINED CONTRIBUTION PLAN

As disclosed in relation to Note 11 of the Notes to the Financial Statements as set out in the 2020 Annual Report, the Board would like to supplement that there was approximately HK$27,000 (2019: HK$21,000), which was included in salaries, wages and other benefits under staff costs as disclosed in Note 9 of the Notes to the Financial Statements as set out in the 2020 Annual Report, contributed to defined contribution retirement benefit scheme organized by the relevant local government authorities in the PRC for the our executive director and Chief Executive Officer of the Company, Ms. Zhang Xian.

In addition to the information provided in Note 9 and 11 of the Notes to the Financial Statements as set out in the 2020 Annual Report, the Board would like to provide the following information in relation to the Group's defined contribution retirement benefit schemes (the "**Schemes**") pursuant to paragraph 26(2) of Appendix 16 to the Listing Rules as follows:

The Group's contributions to the Schemes vest fully and immediately with the employees. Accordingly, there was no forfeited contribution under the Schemes which may be used by the Group to reduce the contribution payable in the future years.

Saved as disclosed in this announcement, the remaining contents of the 2020 Annual Report remain unchanged.

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

Hong Kong, 29 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.