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China Regenerative Medicine International Limited

中國再生醫學國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8158)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2023 ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of China Regenerative Medicine International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2023 (the “**Annual Report**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Annual Report.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to supplement the following information in relation to the Annual Report in respect of: (a) the material impairment loss recognised on other receivables (“**Other Receivables**”) from a third party (the “**Third Party**”) amounted to approximately HK\$83,001,000 and HK\$7,273,000 for the year ended 31 December 2023 and 2022 respectively; (b) the qualified opinion expressed by the auditor, CCTH CPA Limited (the “**Auditor**”), of the Company in relation to the impairment loss recognised on Other Receivables from a Third Party amounted to approximately HK\$7,273,000 for the year ended 31 December 2022 (the “**Audit Qualification**”); and (c) the restatement of prior years financial statements in relation to the agency business.

(A) MATERIAL IMPAIRMENT LOSS RECOGNISED ON OTHER RECEIVABLES

The Company engaged an independent professional qualified valuer, Valtech Valuation Advisory Limited (the “**Valuer**”), to conduct valuations to determine the amount of the expected credit losses (“**ECL**”) provision on Other Receivables in aesthetic medical and beauty segment for the years ended 31 December 2023 and 2022 amounting to HK\$83,001,000 and HK\$7,273,000 respectively.

(i) The valuation method and the reasons for using that method

The lifetime ECL with respect to the general approach is determined under the HKFRS 9.

The calculation of the ECL is determined by the general formula which presented as:
 $ECL = Exposure\ at\ default \times PD \times LGD$.

When a significant increase in credit risk is noticed, HKFRS 9 requires the evaluation of the lifetime ECL (instead of a 12-month ECL). To determine the lifetime ECL, the Valuer have adopted the valuation method of settlement analysis based on historical quarterly ageing and default record. This method is the most relevant and reliable way to fairly reflect the credit risk of invoices across different ageing status based on specific historical settlement records. This method is particularly useful if financial information of the debtor(s)/supplier(s) is not available to the Group for in-depth credit assessment.

(ii) The value of the input

The amount of the impairment is determined by the ECL assessment pursuant to HKFRS 9 Financial Instruments. The key inputs for valuation are:

1. Probability of default (“**PD**”).
2. Loss given default (“**LGD**”).

The value of the inputs as of 31 December 2023

ECL Inputs for Other Receivables

Year ended	31 December 2023
Lifetime PD* (current quarter)	14.11%
LGD	63.65%
ECL rates (across invoice days**)	8.98% (current quarter) to 47.90% (more than 365 days since invoiced)

* Forward looking adjusted PD with reference to historical record and empirical industry and credit research. An average cashflow-weighted lifetime of 2.5-year (even instalment in 5 years under a 5-year repayment plan) is assumed.

** Derived from historical aging and settlement pattern

Basis of inputs as of 31 December 2023

The Valuer has referred to different basis to determine the parameter inputs:

1. For the determination of PD, the Valuer has considered a B3 grade-equivalent risk category on the Third Party of the Other Receivables pursuant to latest 2023 change of business collaboration with a counterparty and discussion with management that a 5-year repayment plan is expected.
2. For forward looking adjustment, the Valuer adopted regression model considering the historical and 2023 forecast macroeconomic indicators (i.e. GDP and CPI) and historical market default data to arrive at applicable forward-looking adjustment.
3. For the determination of LGD, the Valuer has studied loss given default with reference to Moody's 2023 default rate research.

The assumptions adopted as of 31 December 2023

The Valuer has adopted the following assumptions in the ECL assessment of the impairment on Other Receivables:

1. Historical aging schedules, settlement and default records can be reliably measured and be relied on when measuring the ECL.
2. Industry credit data and default records can be reliably measured and be relied on when measuring the ECL.
3. Forward looking information, based on the point-in-time estimates of macroeconomic indicators as at the reporting date can be reliably measured.

(iii) The significant changes in the value of the inputs

There are significant changes in the value of the inputs when deriving the PD in the assessment in financial year ended 31 December 2023 (“**FY2023**”) compared to the assessment in financial year ended 31 December 2022 (“**FY2022**”), due to the following reasons:

1. a higher credit risk category (from a general industry-wide risk category in FY2022 to a specific B3 grade-equivalent risk category in FY2023);
2. a longer repayment horizon (from a lifetime of between 1-year and 2-year in FY2022 to a 2.5-year in FY2023 pursuant to a 5-year repayment plan); and

3. For FY2022 unbilled receivable (portion without invoice day(s)), a 3-month lifetime (with a ECL rate of 0.27%) is assumed due to its nature of “not yet invoiced” and minimal credit risk. For FY2023, such receivable is assumed to be covered by the said 5-year repayment plan.

The significant change in value of inputs is summarised as follows:

Year ended	31 December 2022	31 December 2023
Lifetime PD* (current quarter)	Ranged from 1.74% to 3.34%	14.11%
ECL rates (across invoice days)	1.08%** (current quarter) to 10.99% (more than 365 days since invoiced)	8.98% (current quarter) to 47.90% (more than 365 days since invoiced)

* Due to the reasons mentioned above

** An ECL rate of 0.27%, being a quarter of the yearly 1.08%, is assumed on receivable which is deemed not yet invoiced.

Underlying Business Reasons:

The changes in the value of the inputs are to fairly reflect the increased credit risks from the recent business updates.

For FY2022, the Other Receivables were arising from daily business operations. The Other Receivables could be settled by periodical collection or by offsetting against future operating costs incurred by the Third Party. Thus, the Other Receivables were assumed a low collection risk.

For FY2023, the operation of business with the Third Party of the Other Receivables was suspended from May 2023 onwards, thus a significant part of the Other Receivables could no longer be settled by way of offsetting against future operating cost incurred. Thus, the whole Other Receivables were assumed a high collection risk.

(B) QUALIFIED OPINION IN RELATION TO IMPAIRMENT LOSS RECOGNISED AGAINST OTHER RECEIVABLES FOR THE YEAR ENDED 31 DECEMBER 2022

Basis of Audit Qualification

As disclosed in note 17 to the consolidated financial statements of the Annual Report, included in the Group's deposits, prepayments and other receivables at 31 December 2023 is the receivable from the Third Party with the carrying amount of approximately HK\$249,244,000 (31 December 2022: HK\$251,457,000) and impairment loss on the receivable amounted to approximately HK\$83,001,000 was recognised in profit and loss of the Group in respect of the current year then ended (prior year ended 31 December 2022: HK\$7,273,000). CCTH CPA Limited were appointed as the auditor in January 2024 in respect of the Group's consolidated financial statements for the year ended 31 December 2023 and they were unable to obtain sufficient appropriate audit evidence to assess that the basis and assumption adopted for the estimation of the impairment losses recognised against this receivable at 31 December 2022 is reasonable and appropriate, accordingly Auditor are unable to satisfy themselves whether the amount of the impairment losses on the receivable was properly recognised in the consolidated financial statements for the prior year ended 31 December 2022. Any adjustments, if required, to be made to increase/decrease the amount of impairment losses recognised for the receivable for the prior year ended 31 December 2022 or before and to decrease/increase the carrying amount of the other receivables as at 31 December 2022, might have a corresponding decrease/increase in the amount of impairment loss recognised for the receivable in profit and loss in respect of the year ended 31 December 2023. Auditors' opinion on the Group's consolidated financial statements in respect of this matter is also qualified because of the possible effect of the matter on the comparability of the current year's figures and the corresponding figures for the prior year ended 31 December 2022.

View of the Management and Audit Committee

The Audit Committee has reviewed and agreed with the management of the Company's position that the ECL provision is based on professional knowledge and the assessment report by the Valuer. The management of the Company and the Audit Committee are not aware of the point of view is different when the Audit Qualification is occurred in financial year ended 31 December 2023 for the ECL provision in financial year ended 31 December 2022.

Plan to address the Audit Qualification

The management, the Audit Committee and the Auditor agreed that the Audit Qualification was issued against the impairment loss recognised on the other receivables for the financial year ended 31 December 2022, and it will only have a carry forward effect on the opening balances of retained earnings and other receivables for financial year ended 31 December 2023 and will not have carried forward effect to financial year ended 31 December 2024.

(C) RESTATEMENT OF PRIOR YEARS FINANCIAL STATEMENTS IN RELATION TO AGENCY BUSINESS

As disclosed in the note 6 to the consolidated financial statements of the Annual Report, the Group's subsidiary engaged a PRC entity for the provision of aesthetic medical and beauty services since 2021 and has recognised the revenue generated from the provision of aesthetic medical and beauty services with the amount approximately to HK\$231,612,000 (2021: HK\$282,897,000) for the year ended 31 December 2022, of which approximately HK\$204,743,000 (2021: HK\$220,774,000) were generated from the destined service (the "Agency Business"). After reviewed by the management, it is considered more appropriate for the Group to recognise the revenue according to the net basis as the Group's subsidiary played an agent role in the provision of the respective aesthetic medical and beauty services according to the HKFRS 15 Revenue Recognition. Accordingly, the effects of correction of the misstatement on the Group's consolidated financial statements for the year ended 31 December 2022 and 2021 are summarised and restated as follows:

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	As previously reported <i>HK\$'000</i>	Correction of misstatement <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Revenue	231,612	(190,075)	41,537
Cost of sales	<u>(193,989)</u>	<u>190,075</u>	<u>(3,914)</u>
Gross profit	<u>37,623</u>	<u>–</u>	<u>37,623</u>

For the year ended 31 December 2021

	As previously reported <i>HK\$'000</i>	Correction of misstatement <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Revenue	282,897	(178,962)	103,935
Cost of sales	<u>(215,170)</u>	<u>178,962</u>	<u>(36,208)</u>
Gross profit	<u><u>67,727</u></u>	<u><u>–</u></u>	<u><u>67,727</u></u>

There is no impact on the basic and diluted earnings per share as well as accumulate losses for the year ended 31 December 2021 and 2022 for the above correction of misstatement of financial statements.

Following the restatement of the financial statement of the above, the Agency Business contributed net loss of approximately HK\$881,000 (2022: net profit of approximately HK\$14,668,000) to the Group for the year ended 31 December 2023. The changes mainly attributable to the seasonal effect brought by Chinese New Year in the first quarter of 2023, during which less customers would visit the clinics and therefore financial performance in the first quarter of 2023 is normally weaker than other quarters. Further, more PRC customers willing to visit our Hong Kong clinic center instead of the PRC one after the release of cross-border restriction in first quarter of 2023 and nil revenue was generated since May 2023. We expect the Agency Business will further shrink in 2024 as a result of those PRC customers willingness and Hong Kong business will flourish instead.

By Order of the Board

China Regenerative Medicine International Limited

Wang Chuang

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 8 August 2024

As at the date of this announcement, the executive Director is Mr. Wang Chuang (Chairman and Chief Executive Officer); the non-executive Director is Mr. Tsang Ho Yin; and the independent non-executive Directors are Ms. Huo Chunyu, Dr. Liu Ming and Mr. Leung Man Fai.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the website of the Stock Exchange at www.hkexnews.hk for at least seven days from the date of its publication. This announcement will also be published on the Company’s website at www.crimi.hk.