

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2022 ANNUAL REPORT

References are made to the annual results announcement (the “**Results Announcement**”) for the year ended 31 March 2022 (the “**FY 2022**”) of Wanjia Group Holdings Limited (the “**Company**”) dated 27 June 2022 and the annual report (the “**2022 Annual Report**”) of the Company for FY 2022 and published on 28 July 2022. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Results Announcement and the Annual Report.

As disclosed in the 2022 Annual Report, the Company has recorded an impairment in goodwill of approximately HK\$46.630 million (the “**Goodwill Impairment**”) which is caused by the combination of several events (the “**Events**”), namely the delay in business plan in respect of the opening of two self-operated hemodialysis treatment centres in Huidong, Guangdong (“**Huidong Centre**”) and in Maoming, Guangdong (“**Maoming Centre**”) and the temporary halt of business cooperation with a jointly operated hemodialysis treatment centre located in Xianyou, Fujian Province (“**Xianyou Centre**”).

The Board would like to provide further information on the Goodwill Impairment as follows:

1. **Huidong Centre**

Huidong Centre has applied for the enrolment for the required licence in respect of its hemodialysis treatment in April 2017. Huidong Centre was enrolled in an outpatient licence list in July 2019 for the trial run. Huidong Centre started trial run in the last quarter of 2019 and completed in the first quarter of 2021 and the licence of Huidong was expired shortly thereafter. Given that the hemodialysis treatment rendered by Huidong Centre belonged to specialty healthcare service rather than outpatient service, Huidong Centre also needed to continue to apply for a specialty licence (the “**Licence**”).

As the Guangdong provincial government has implemented very stringent measures, including lock down and work from home policy to combat the COVID-19, this hindered the application procedures for the Licence of Huidong Centre. The management of Huidong Centre expected certain delayed in the application procedures for the Licence of Huidong Centre as a result of the COVID-19 pandemic.

As disclosed in 2022 Annual Report, the trial run result of Huidong Centre was not to the satisfaction because of COVID-19 pandemic and Huidong Centre was required to perform stringent precautionary measures before providing treatment to its patients. This increased the operating cost of Huidong Centre. In light that the unpromising trial run result, after the trial run, Huidong Centre decided not to immediately proceed with formal operation.

The management took the view that Huidong Centre could use the experience and data obtained from the trial-run to improve and to prepare for its costs structure in this COVID-19 era. Once the PRC Government has adopted an effective and/or efficient policy to accommodate COVID-19 outbreak or to control the pandemic and Huidong Centre has obtained the Licence, Huidong Centre will officially and formally commence its operation to the full scale. The management believes such arrangement will ensure that the operation of Huidong Centre could bring a promising result to the Group and is in the better interest to the Company and its shareholders.

To the best knowledge of the Directors, the application for the Licence under normal and usual circumstances will take about two and a half years to three years. In light of the effect of COVID-19 pandemic, it is expected that the application procedures will take a longer time. The Directors expected that Huidong Centre will obtain the Licence in 2023.

2. Xianyou Centre

Lianan Hemodialysis (Fujian) Healthcare Management Company Limited (聯安腎析(福建)醫療管理有限公司#) (“**Lianan**”), a subsidiary of the Company, entered into a Xianyou Agreement (the “**Xianyou Agreement**”) with Xianyou Boai Hospital (仙遊博愛醫院#), being the joint venture partner, in April 2014, pursuant to which, the parties therein agreed to jointly set up Xianyou Centre. Pursuant to the Xianyou Agreement, Xianyou Boai Hospital was responsible for (a) providing suitable venue in its hospital to set up a hemodialysis treatment centre, i.e. Xianyou Centre, and (b) the operation of Xianyou Centre. Lianan was responsible for supplying medical equipment for hemodialysis treatment and providing professional and well-trained staff for the hemodialysis treatment service in Xianyou Centre. According to the Xianyou Agreement, the parties shall equally share the profit derived from Xianyou Centre.

Since 2018, Xianyou Centre has been making profit and Xianyou Boai Hospital was required to pay the shared profit to Lianan. Due to Xianyou Boai Hospital financial constraint, Xianyou Boai Hospital had on and off paid small sum of money to the Group afterwards. According to Lianan’s record, up to October 2021, the accumulated accrued profit for Xianyou Centre attributable to Lianan was approximately RMB7.376 million. Despite the repeated demand of Lianan to pay back the accumulated shared profit in the past few years, Xianyou Boai Hospital failed to pay the shared profit to the Group in full in accordance with the Xianyou Agreement. Hence, in January 2022, Lianan instituted a civil proceeding against Xianyou Boai Hospital with the People’s Court of Xianyou County, Fujian (福建仙遊縣人民法院)(“**Xianyou Court**”) claiming for itself entitlement to the profit sharing under the Xianyou Agreement together with interest accrued thereon. Pursuant to the civil judgment dated 16 May 2022 handed down by Xianyou Court, Xianyou Court was ordered to pay Lianan approximately RMB3.564 million. On 13 June 2022, Xianyou Boai Hospital lodged an appeal with the Intermediate the People’s Court of Putian City, Fujian (莆田市中級人民法院)(“**Putian Court**”). As at the date of this announcement, the appeal case was yet heard by Putian Court.

After Lianan initiated the legal proceeding, Xianyou Boai Hospital ceased to provide financial information of Xianyou Centre to Lianan and did not allow the personnel of Lianan to participate the operation of Xianyou Centre. Therefore, Lianan temporarily halted its participation in Xianyou Centre pending the final outcome of the legal proceeding.

It is expected that after the dispute has been resolved, Lianan and Xianyou Boai Hospital will further negotiate for resumption of their cooperation under the Xianyou Agreement. Lianan was advised by its legal adviser in the PRC that the appeal hearing will probably be concluded by the end of this year depending on the schedule of the Putian Court.

3. Maoming Centre

Maoming Centre applied for business licence in 2016 and the first stage approval was obtained in December 2016. In August 2017, the renovation work of Maoming Centre began. In early 2018, the Group applied for the enrollment the required specialty licence in respect of the hemodialysis treatment. The Group originally expected that the application of specialty licence would take about two and a half years to three years and Maoming Centre would be open by late 2020 or middle of 2021.

However, shortly after the renovation work began in August 2017, in or about October 2017, some villagers had made enquiries about the business nature of Maoming Centre. When they understood that Maoming Centre would perform hemodialysis treatment, the villagers raised their concern about the sewage treatment in Maoming Centre as well as any pollution caused to the surrounding environment.

At the material times when the Group leased the premises and started the renovation, no objection from villagers was encountered. As of today, the renovation work of Maoming Centre was mostly completed. It was only later on when a few villagers had the concern about pollution effect caused by the sewage generated by Maoming Centre and they widely spread the words to affect other villagers, the villagers' objection was accelerated to a higher level.

The Group also encountered similar objection from villagers when it set up another centre, the Group was able to persuade and convince the other villagers and finally those villagers agreed to withdraw their objection when the Group provided them with sufficient information and explanation including the Group's strict procedures to handle the sewage from the hemodialysis treatment. Hence, at the outset of setting up the Maoming Centre, the Group believed that the villagers' objection would be resolved when the villagers understood Maoming Centre's strict sewage treatment procedures. However, there were a few villagers vigorously objecting the opening of Maoming Centre in the neighbourhood and incited other villagers to join them. This caused prolonged delay in the opening of Maoming Centre.

In light of the villagers' objection, the relevant Government authority held up the Group's application for the enrollment for the required specialty licence pending the resolution of the dispute. As the Group is still in the course of negotiation with the villagers, it is expected that Maoming Centre will only be open in 2026.

4. The Valuation leading to the impairment

According to the 5-Years financial forecasts from 31 March 2023 to 31 March 2027 provided by the Company, the average gross margin of hemodialysis treatment centres was decreased from 57.4% to 46.9% and the average net profit margin was decreased from 14.1% to 11.8% when compared to last year. The decrease of the average gross margin and net profit margin is caused by the combination of the Events and demonstrated in below section. In addition, the pre-tax discount rate adopted for year ended 31 March 2021 is 11.76% and the pre-tax discount rate adopted in the valuation for year ended 31 March 2022 is 11.90%.

The delay in business plan in respect of the opening of Huidong Centre was incorporated in the 5-Years financial forecast for the year ended 31 March 2022 by postponing the beginning of its operation to 1 April 2023. The scale of centre utilization was also adjusted downwards when compared to 5-Years financial forecast for the year ended 31 March 2021. As a result, the first forecast year for the Huidong Centre becoming profitable will be delayed for one year and the profit before taxation is therefore lower when compared to the 5-Years financial forecast for year ended 31 March 2021.

The delay in business plan in respect of the opening of Maoming Centre was incorporated in the 5-Years financial forecast for the year ended 31 March 2022 by postponing the beginning of its operation to 1 April 2026. As a result, there is no profit before taxation in the 5-Years financial forecast for the year ended 31 March 2022 as compared to that ended 31 March 2021.

Due to the halt of business cooperation with Xianyou Centre, we have not included in our financial forecast during the year ended 31 March 2022. The lack of financial forecast for the year ended 31 March 2022 due to halt of business cooperation with Xianyou Centre resulted in a zero profit before taxation for Xianyou Centre and therefore lower value in use was resulted from the calculation.

As a result of the delay in the business plan of Huidong Centre and Maoming Centre and the halt of business cooperation with Xianyou Centre, the 5-Years financial forecasts were adjusted downwards and which led to the Goodwill Impairment.

The above additional information does not affect other information contained in the 2022 Annual Report and save for those disclosed above, all other information contained in 2022 Annual Report remains unchanged.

By Order of the Board
WANJIA GROUP HOLDINGS LIMITED
Wang Jia Jun
Chief Executive Officer and Executive Director

Hong Kong, 12 August 2022

The English transliteration of the Chinese names in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English names of such Chinese names.

As at the date of this announcement, the Board comprises one executive Director, namely Mr. Wang Jia Jun, one non-executive Director, namely Dr. Xiao Zhixin, and three independent non-executive Directors, namely Mr. Wong Hon Kit, Dr. Liu Yongping and Mr. Ho Man.