THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Hygeia Healthcare Holdings Co., Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

HYGEIA

Hygeia Healthcare Holdings Co., Limited
海吉亚医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6078)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF HEZHOU GUANGJI HOSPITAL CO., LTD.

Capitalized terms used on this cover page have the same meaning as defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 9 to 49 of this circular.

The Company has obtained a written approval from a closely allied group of Shareholders who together held more than 50% of the total number of Shares in issue on the Acquisition in lieu of holding a general meeting of the Company in accordance with Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information purposes only.

June 25, 2021

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Acquisition"	the acquisition of the 99% equity interest in the Target Hospital and the transactions contemplated under the Equity Transfer Agreement
"Adjusted Consideration"	the Consideration after adjustments, details of which are set out in the section headed "Adjustments to the Consideration" in this circular
"Amber Tree"	Amber Tree Holdings Limited, a BVI business company incorporated under the laws of the BVI on August 31, 2018 and indirectly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on June 8, 2020 which has become effective on June 29, 2020, as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day on which banks in the PRC are generally open for normal banking business to the public and which is not a Saturday or Sunday
"Century River"	Century River Holdings Limited, a BVI business company incorporated under the laws of BVI on August 31, 2018 and indirectly wholly-owned by Mr. Zhu, one of the Controlling Shareholders
"Century River Investment"	Century River Investment Holdings Limited, a BVI business company incorporated under the laws of BVI on April 16, 2019 and directly wholly-owned by Mr. Zhu, one of the Controlling Shareholders
"Chengwu Hygeia Hospital"	Chengwu Hygeia Hospital Co., Ltd. (成武海吉亞醫院有限公司) (formerly known as Chengwuxian Tonghui Hospital Co., Ltd. (成武縣同慧醫院有限公司)), a limited liability company established in the PRC on November 25, 2016 and a subsidiary of the Company

"China" or "PRC"	the People's Republic of China, and for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Chongqing Hygeia Hospital"	Chongqing Hygeia Cancer Hospital Co., Ltd. (重慶海吉亞腫瘤醫院有限公司) (formerly known as Chongqing Hygeia Hospital Management Co., Ltd. (重慶海吉亞醫院管理有限公司)), a limited liability company established in the PRC on November 9, 2015 and a subsidiary of the Company
"Class III"	the largest and best regional hospitals designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds, as for a comprehensive hospital providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company"	Hygeia Healthcare Holdings Co., Limited (海吉亞醫療控股有限公司), an exempted company with limited liability incorporated under the laws of Cayman Islands on September 12, 2018, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition, as more particularly described in the section headed "Completion" in this circular
"Completion Date"	the date on which the Completion takes place
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration payable by the Purchasers to the Vendor pursuant to the Equity Transfer Agreement, details of which are set out in the section headed "Consideration" in this circular

"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Zhu, Ms. Zhu, Century River Investment, Century River, Red Palm Investment, Red Palm and Amber Tree
"COVID-19"	novel coronavirus pneumonia
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Equity Transfer Agreement"	an agreement dated May 26, 2021 entered into among the Purchasers, the Vendor and the Target Hospital, in relation to, among other things, the acquisition of the 99% equity interest in the Target Hospital
"Existing Contractual Arrangements"	the series of contractual arrangements, as the case may be, entered into by, among others, Xiangshang Investment, Hygeia Hospital Management, Gamma Star Tech and the VIE Hospitals, details of which are described in the section headed "Contractual Arrangements" in the Prospectus
"Facility Agreement"	the loan facility agreement entered into between Gamma Star Tech (as the borrower) and a bank (as the lender), an Independent Third Party, on May 26, 2021
"Fountain Grass"	Fountain Grass Investment Ltd, a limited liability company incorporated under the laws of Mauritius and an affiliate of Warburg Pincus LLC
"Gamma Star Tech"	Shanghai Gamma Star Technology Development Co., Ltd. (上海伽瑪星科技發展有限公司), a limited liability company established in the PRC on May 20, 2004 and a wholly-owned subsidiary of the Company
"GF Asset Management"	GF Securities Asset Management (Guangdong) Co., Ltd. (廣發証券資產管理(廣東)有限公司), a limited liability company established in the PRC on January 2, 2014 and a wholly-owned subsidiary of GF Securities

"GF Securities"	GF Securities Co., Ltd. (廣發証券股份有限公司), a joint stock company established in Guangdong province, the PRC with limited liability in accordance with PRC laws, the A shares of which are listed on the Shenzhen Stock Exchange with the stock code 000776, and the H shares of which are listed on the Stock Exchange with the stock code 1776
"GF Xinde"	GF Xinde Investment Management Co., Ltd. (廣發信德投資管理有限公司), a company with limited liability incorporated in the PRC, and a wholly-owned subsidiary of GF Securities
"Global Offering"	has the meaning ascribed to it in the Prospectus
"Group", "we", or "us"	the Company together with its subsidiaries
"Historical Guarantees"	the outstanding guarantees provided by the Target Group (including any indemnity and compensation relating thereto) as disclosed by the Vendor to the Purchasers under the Equity Transfer Agreement
"HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hygeia Hospital Management"	Hygeia (Shanghai) Hospital Management Co., Ltd. (海吉亞(上海)醫院管理有限公司), a limited liability company established in the PRC on March 6, 2019, wholly-owned by Xiangshang Investment and a subsidiary of the Company by virtue of the Existing Contractual Arrangements
"HZ Minority Shareholder"	Wuzhou Baoshiyuan Construction Development Co., Ltd. (梧州寶石園建設開發有限公司), a limited liability company established in the PRC on June 23, 2003, an Independent Third Party
"Independent Third Party(ies)"	person(s) who is(are) third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)

"IPO Waiver"	the waiver granted by the Stock Exchange to the Company from strict compliance with the requirements of (i) the announcement, circular and independent shareholders' approval in respect of the transactions contemplated under the Existing Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) setting an annual cap for the transactions under the Existing Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) limiting the terms of the Existing Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the shares of the Company are listed on the Stock Exchange, subject to compliance with the waiver conditions as disclosed in the section headed "Connected Transactions" in the Prospectus
"Kaiyuan Jiehua Hospital"	Kaiyuan Jiehua Hospital Co., Ltd. (開遠解化醫院有限公司), a limited liability company established in the PRC on May 31, 2021 and a subsidiary of the Company
"Latest Practicable Date"	June 22, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Managed Hospitals"	Handan Renhe Hospital (邯鄲仁和醫院) and Handan Zhaotian Orthopedics Hospital (邯鄲兆田骨科醫院)
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)

"Mr. Zhu"	Mr. Zhu Yiwen (朱義文), father of Ms. Zhu, the founder of the Group, a non-executive Director, vice Chairman and one of the Controlling Shareholders
"Ms. Zhu"	Ms. Zhu Jianqiao (朱劍喬), daughter of Mr. Zhu and one of the Controlling Shareholders
"Net Proceeds"	net proceeds from the Global Offering, amounting to approximately HK$2,391.9 million
"New Contractual Arrangements"	a series of contractual arrangements to be entered into by and among each of the Purchasers, the Target Hospital and Xiangshang Investments, details of which are described in the section headed "New Contractual Arrangements" in this circular
"NHFPC"	National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), currently known as National Health Commission of the PRC (中華人民共和國國家衛生健康委員會)
"percentage ratio"	the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
"PRC Legal Advisor"	JunHe LLP, the legal advisor to the Company as to the laws of the PRC
"Predecessor Hospital"	Hezhou Guangji Hospital (賀州廣濟醫院), a private not-for-profit hospital and the predecessor of the Target Hospital which obtained the Medical Institution Practicing License as a for-profit hospital in June 2020
"Prospectus"	the prospectus of the Company published on June 16, 2020
"Purchasers"	collectively, Gamma Star Tech (as to the acquisition of the 70% equity interest in the Target Hospital) and Hygeia Hospital Management (as to the acquisition of the 29% equity interest in the Target Hospital through the New Contractual Arrangements)

"Red Palm"	Red Palm Holdings Limited, a BVI business company incorporated under the laws of BVI on August 31, 2018 and indirectly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"Red Palm Investment"	Red Palm Investment Holdings Limited, a BVI business company incorporated under the laws of BVI on April 16, 2019 and directly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"RMB"	the lawful currency of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Shanxian Hygeia Hospital"	Shanxian Hygeia Hospital Co., Ltd. (單縣海吉亞醫院有限公司) (formerly known as Shanxian Hygeia Hospital Investment Co., Ltd. (單縣海吉亞醫院投資有限公司)), a limited liability company established in the PRC on November 20, 2012 and a subsidiary of the Company
"Share(s)"	ordinary share(s) in the share capital of the Company with nominal value of US$0.00001
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the same meaning ascribed to it in the Listing Rules
"Target Group"	the Target Hospital, its subsidiaries and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before the Predecessor Hospital transformed into the Target Hospital, the entities which carries on the business of the Target Hospital at the relevant time
"Target Hospital"	Hezhou Guangji Hospital Co., Ltd. (賀州廣濟醫院有限公司), a limited liability company incorporated under the laws of the PRC on March 4, 2020 and owned by the Vendor and the HZ Minority Shareholder as to 99% and 1%, respectively

"United States"	the United States of America, its territories, possessions, and all areas subject to its jurisdiction
"US$"	US dollar, the lawful currency of the United States
"Vendor"	GF Xinde (Zhuhai) Medical Industrial Investment Center L.P. (廣發信德(珠海)醫療產業投資中心(有限合夥)), an equity investment fund, established in October 2013 in the PRC
"VIE Hospitals"	collectively, Shanxian Hygeia Hospital, Heze Hygeia Hospital Co., Ltd. (菏澤海吉亞醫院有限公司, a subsidiary of the Group), Suzhou Canglang Hospital Co., Ltd. (蘇州滄浪醫院有限公司, a subsidiary of the Group), Chongqing Hygeia Hospital, Longyan Boai Hospital Co., Ltd. (龍岩市博愛醫院有限公司, a subsidiary of the Group), Chengwu Hygeia Hospital, Anqiu Hygeia Hospital Co., Ltd. (安丘海吉亞醫院有限公司, a subsidiary of the Group), Liaocheng Hygeia Hospital Co., Ltd. (聊城海吉亞醫院有限公司, a subsidiary of the Group), Dezhou Hygeia Hospital Co., Ltd. (德州海吉亞醫院有限公司, a subsidiary of the Group), Wuxi Hygeia Hospital Co., Ltd. (無錫海吉亞醫院有限公司, a subsidiary of the Group) and Longyan Hygeia Hospital Co., Ltd. (龍岩海吉亞醫院有限公司, a subsidiary of the Group)
"Xiangshang Investment"	Shanghai Xiangshang Investment Development Co., Ltd. (上海向上投資發展有限公司), a limited liability company established in the PRC on September 1, 2015 and owned by Mr. Zhu and Ms. Zhu as to 40% and 60%, respectively
"%"	per cent

All English translation of the Chinese names of the companies established in the PRC is for identification purposes only.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments.

Hygeia Healthcare Holdings Co., Limited
海吉亚医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6078)

Executive Directors:
Ms. Cheng Huanhuan
Mr. Ren Ai
Mr. Zhang Wenshan
Ms. Jiang Hui

Non-Executive Directors:
Mr. Fang Min *(Chairman)*
Mr. Zhu Yiwen *(vice Chairman)*

Independent Non-executive Directors:
Mr. Liu Yanqun
Mr. Chen Penghui
Mr. Ye Changqing

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No. 248 Queen's Road East
Wanchai
Hong Kong

June 25, 2021

To the Shareholders

Dear Sir and Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF HEZHOU GUANGJI HOSPITAL CO., LTD.

A. INTRODUCTION

References are made to the announcements of the Company dated January 25, 2021 and May 26, 2021, in relation to, among other things, (i) the letter of intent entered into between the Company and the Vendor in relation to the possible Acquisition; and (ii) the Equity Transfer Agreement and the Acquisition contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) a letter from the Board containing its opinion and recommendations to the Shareholders in respect of, among other things, the Equity Transfer Agreement and the Acquisition contemplated thereunder; (iii) the financial information of the Group; (iv) the financial information of the Target Hospital; (v) the management discussion and analysis on the Target Hospital, (vi) the unaudited pro forma financial information of the Enlarged Group; and (vii) other general information required to be disclosed under the Listing Rules, for information purposes only.

B. THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized below:

Date

May 26, 2021

Parties

(1) Gamma Star Tech, a wholly-owned subsidiary of the Company, as one of the Purchasers;

(2) Hygeia Hospital Management, a subsidiary of the Company by virtue of the Existing Contractual Arrangements, as one of the Purchasers;

(3) GF Xinde (Zhuhai) Medical Industrial Investment Center L.P. (廣發信德（珠海）醫療產業投資中心（有限合夥）) as the Vendor; and

(4) Hezhou Guangji Hospital Co., Ltd. (賀州廣濟醫院有限公司) as the Target Hospital.

As of the Latest Practicable Date and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor, the Target Hospital and their ultimate beneficial owner(s) are Independent Third Parties.

Equity interests to be acquired

Pursuant to the Equity Transfer Agreement, Gamma Star Tech and Hygeia Hospital Management conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the 70% and 29% equity interest in the Target Hospital, respectively. The Purchasers, the Target Hospital and Xiangshang Investment will enter into the New Contractual Arrangements in respect of the 29% equity interest in the Target Hospital to be held by Hygeia Hospital Management upon the Completion. For details of the New Contractual Arrangements, please refer to the section headed "The New Contractual Arrangements" below.

Consideration

Subject to the adjustments in accordance with the terms of the Equity Transfer Agreement, the maximum Consideration shall be RMB641,569,500.

The Consideration was determined after arm's length negotiations between the Purchasers and the Vendor after the Purchasers' due diligence on the Target Group and with reference to, among other things: (i) the price-to-sales multiple ("**P/S Multiples**") of recent comparable transactions (the "**Comparable Transactions**") and comparable companies (the "**Comparable Companies**") in the PRC healthcare services sector; (ii) the adjusted price-to-earnings multiple ("**P/E Multiple**") and adjusted net asset value multiples ("**NAV Multiple**") of the Target Hospital; (iii) the recent financial position and historical financial performance of the Target Group; (iv) the regional advantages, business prospects and future growth of the Target Hospital, including its expansion potential in terms of the land resources and other service capacities; and (v) the strategic benefits to be derived by the Group from the Acquisition. For further details, please see the section headed "Reasons for and Benefits of the Acquisition" below.

When determining the Consideration, the Company considered the P/S Multiples, the P/E Multiples and the NAV Multiples but the Company decided to adopt P/S approach for the following reasons:

(i) for the past three financial years (2018-2020), the Target Hospital's revenue amounted to RMB323.1 million, RMB374.5 million and RMB362.3 million, respectively, which was relatively stable. However, the Target Hospital's net profit each year (2018-2020) was subject to a few one-off adjustments, including (a) bad debt accrual of other receivables from historical shareholder and one related party of the Target Hospital; and (b) accrual on financial guarantee contracts (as set out in Note 30 to the accountants' report of the Target Hospital in Appendix II to this Circular) based on the discounted value of the Historical Guarantees. For the past three financial years (2018-2020), the audited net profit of the Target Hospital amounted to approximately RMB44.5 million, RMB12.5 million and RMB18.4 million, respectively, and the adjusted net profit[1] of the Target Hospital amounted to approximately RMB48.3 million, RMB36.4 million and RMB32.9 million, respectively. Due to the impact of the one-off adjustments, the Board considered that the audited net profit of the Target Hospital for the past three financial years may not be accurately reflecting the genuine operating capability and indicating the prospects of the Target Hospital under the management of the Group;

(ii) the NAV Multiples of the Target Hospital may not reflect the fair value of the Target Hospital due to the impact of the one-off adjustments. As of December 31, 2020, the audited NAV of the Target Hospital amounted

1 Adjusted net profit refers to the relevant net profit excluding the relevant non-operating one-off adjustments. The relevant one-off adjustments include (i) bad debt accrual of other receivables from historical shareholder and one related party of the Target Hospital; and (ii) accrual on financial guarantee contracts (as set out in Note 30 to the accountants' report of the Target Hospital in Appendix II to this Circular) based on the discounted value of the Historical Guarantees.

to approximately RMB103.5 million, and the adjusted NAV[2] of the Target Hospital amounted to approximately RMB210.6 million;

(iii) the P/S Multiples are not affected by the one-off adjustments;

(iv) the Vendor commercially agreed to adopt P/S Multiples when determining the Consideration after arm's length negotiation with the Company;

(v) the net profit of the Target Hospital in 2020 is not material comparing with the same of most of the industry peers in 2020. The net profit margin of the target companies (the "**Industry Peers**") in the Comparable Transactions ranged from approximately 1.2% to 18.4%, with an average (after excluding the maximum and minimum figures) of approximately 10.9%. The audited net profit margin and adjusted net profit margin[3] of the Target Hospital in 2020 was approximately 5.1% and 9.1%, respectively, both of which are near the low end of the range of net profit margin of the Comparable Transactions and are lower than the average of 10.9%. However, the management of the Company believes the Target Hospital's profit growth potential is promising considering its stable revenue and local reputation; and

(vi) it is not uncommon to adopt P/S Multiples for the valuation of targets in healthcare-related acquisitions in the PRC for the following reasons:

(a) based on public information, the transactions below involve acquisitions of companies primarily engaging in provision of healthcare services in the PRC and the P/S Multiples were adopted for the valuation of the target companies; and

Purchaser/Vendor	Name of the target company	Percentage acquired/ disposed	Date of the transaction	Valuation of the target company (RMB million)	Net profit ratio	P/S Multiples
NC HEALTHCARE (1518.HK)	Chengdu New Century Women's and Children's Hospital Co., Ltd.	85%	December 29, 2017	200	13.7%[2]	2.7
Chengdu Bright Eye Hospital Co., Ltd. [1]	Dongguan Guangming Eye Hospital	45%	July 8, 2020	378	17.2%	2.8

2 Adjusted NAV refers to the relevant NAV excluding the relevant non-operating one-off adjustments. The relevant one-off adjustments include (i) accumulated bad debt accrual of other receivables from historical shareholder and one related party of the Target Hospital; and (ii) accumulated accrual on financial guarantee contracts (as set out in Note 30 to the accountants' report of the Target Hospital in Appendix II to this Circular) based on the discounted value of the Historical Guarantees.

3 Adjusted net profit margin is calculated based on adjusted net profit divided by revenue.

Notes:

1. The relevant information of the transaction is disclosed in the initial public offering prospectus of Chengdu Bright Eye Hospital Co., Ltd. on the Sci-tech Innovation Board dated July 27, 2020.

2. The net profit ratio of Chengdu New Century Women's and Children's Hospital Co., Ltd. for the six months ended June 30, 2017 was 13.7%.

(b) The P/E Multiples were adopted for the valuation of Etern Group Ltd. ("**Etern Group**") as mentioned in the Company's circular dated 14 May 2021 because the target hospital had a relatively stable and material net profit at the time of acquisition (*approximately RMB72.0 million, RMB75.7 million and RMB60.6 million in FY2018-2020*) and there were no material non-operating one-off adjustments which may affect the relevant net profits.

In addition to the P/S Multiples, the Company considered the P/E Multiples and the NAV Multiples of the Comparable Transactions and Comparable Companies. However, due to the reasons as set out above, the P/E Multiples may not be accurately reflecting the genuine operating capability and indicating the prospects of the Target Hospital under the management of the Group, and the NAV Multiples may not reflect the fair value of the Target Hospital, so the adjusted P/E Multiples[4] and adjusted NAV Multiples[5] of the Target Hospital were taken into account.

In order to assess the fairness and reasonableness of the Consideration, the Company has carried out an analysis based on Comparable Transactions and Comparable Companies, respectively.

4 Adjusted P/E Multiples are calculated based on the valuation of the target company divided by its adjusted net profit.

5 Adjusted NAV Multiples are calculated based on the valuation of the target company divided by its adjusted NAV.

For comparable transactions analysis, the Company has identified and reviewed, to the best of its knowledge and ability, the P/S Multiples represented by the Comparable Transactions which (i) involve acquisitions of target companies primarily engaging in provision of healthcare services in the PRC in the past two years as of the date of the Equity Transfer Agreement with transaction particulars publicly available; (ii) the target company will be held by more than 50% by the purchaser upon completion of the relevant acquisition, and met at least one of the following criteria: (i) the target company was profitable with a revenue between RMB100 million to RMB600 million at the time of the relevant acquisition, which is determined with reference to the revenue of the Target Hospital in 2020 of approximately RMB362 million; and (ii) the number of patient visits per year is between 100,000 to 600,000, which is determined with reference to the number of patient visits (being the aggregate of inpatient visits and outpatient visits) of the Target Hospital in 2020 of approximately 330,000. Details of the Comparable Transactions are set out as below:

Purchaser	Stock Code	Name of the target company	Nature of business	City	Establishment of the target company (1)	Date of the Transaction	Percentage acquired	Patient visits per year(2)	Revenue (2) (RMB'000)	Net profit ratio (%)(2)	P/S Multiples(2)	P/E Multiples(2)	NAV Multiples(2)
China Resources Medical Holdings Company Limited	1515.HK	Sinophi China Hospitals Limited	General medical services	Huaian	1941	March 28, 2021	99.19%	600,000	493,500	2.0	1.8	88.0	1.2
China Resources Medical Holdings Company Limited	1515.HK	Jinan Zhong Qi Hospital Company Limited	General medical services	Jinan	1952	August 21, 2020	25% (3)	456,000	195,490	1.2	1.7	139.9	1.0
Ningbo Sanxing Medical Electric Co., Ltd. (4)	601567.SH	Nanjing Mingzhou Rehabilitation Hospital Company Limited	Rehabilitation medical services	Nanjing	2017	April 2, 2021	100%	Not disclosed	128,568	16.1	2.5	15.4	3.9
Ningbo Sanxing Medical Electric Co., Ltd. (4)	601567.SH	Hangzhou Mingzhou Brain Rehabilitation Hospital Company Limited	Rehabilitation medical services	Hangzhou	2017	April 2, 2021	100%	Not disclosed	195,941	18.4	2.4	13.3	3.9
Zhejiang Shapuaisi Pharmaceutical Co., Ltd.	603168.SH	Taizhou Women and Children Hospital Company Limited	Obstetrics and Gynecology Medical Services	Taizhou	2015	September 30, 2020	100%	Not disclosed	172,291	16.8	2.9	17.3	3.8

Purchaser	Stock Code	Name of the target company	Nature of business	City	Establishment of the target company (1)	Date of the Transaction	Percentage acquired	Patient visits per year(2)	Revenue (2) (RMB'000)	Net profit ratio (%)(2)	P/S Multiples(2)	P/E Multiples(2)	NAV Multiples(2)
Hygeia Healthcare Holdings Co., Limited	6078.HK	Etern Group Ltd.	General medical services	Suzhou	2007	April 25, 2021	100%	502,000	492,099	12.3	3.5	28.7	3.6
INKON Life Technology Co.,Ltd.(4)	300143.SZ	Suzhou Guangci Oncology Hospital Company Limited	Oncology specialist services	Suzhou	2005	May 25, 2021	100%	157,105	394,553	7.4	1.6	21.7	11.6
							Maximum	600,000	493,500	18.4	3.5	139.9	11.6
							Minimum	157,105	128,568	1.2	1.6	13.3	1.0
							Average (excluding the maximum and minimum figures)	479,000	290,075	10.9	2.3	34.2	3.3

Notes:

(1) The establishment of the target company is the earlier of the establishment time of the target company or its predecessor, if applicable.

(2) The patient visits per year of the target hospitals is the aggregate number of inpatient visits and outpatient visits per year. The revenue of the target hospitals is the revenue of the latest financial year. The net profit ratio of the target hospitals is calculated by dividing its net profit of the latest financial year by its revenue of the latest financial year. The P/S Multiples and P/E Multiples of the Comparable Transactions are calculated by dividing the valuation of the target company by its revenue or earnings of the latest financial year. The NAV Multiples of the Comparable Transactions are calculated by dividing the valuation of the target company by its net asset value as of the end of the latest financial year or as of the end of the latest period.

(3) China Resources Medical Holdings Company Limited was already holding 75% of the equity interest in the target company before the acquisition and this was a transaction of acquiring the remaining 25% of the equity interest in the target company.

(4) The transaction is a related party transaction pursuant to its published announcement.

The P/S Multiples of the Comparable Transactions ranged from approximately 1.6 times to 3.5 times, with an average (after excluding the maximum and minimum figures) of approximately 2.3 times. The maximum Consideration reflects a P/S Multiple of 1.8 times, which is lower than the average of 2.3 times.

For illustration purposes, the P/E Multiples of the Comparable Transactions ranged from approximately 13.3 times to 139.9 times, with an average (after excluding the maximum and minimum figures) of approximately 34.2 times. The maximum Consideration reflects an adjusted P/E Multiple of 19.7 times, which is lower than the average of 34.2 times and near the low end of the range. The NAV Multiples of the Comparable Transactions ranged from approximately 1.0 times to 11.6 times, with an average (after excluding the maximum and minimum figures) of approximately 3.3 times. The maximum Consideration reflects an adjusted NAV Multiple of 3.1 times, which is near the average of 3.3 times.

For comparable companies analysis, the Company has identified and reviewed, to the best of its knowledge and ability, the P/S Multiples represented by the Comparable Companies that met the following criteria: (i) companies listed in Hong Kong or the PRC; (ii) companies that primarily engage in provision of healthcare services with a medical specialty focus in the PRC; and (iii) companies that have a positive net profit or adjusted net profit for the year ended December 31, 2020. Details of the Comparable Companies are set out as below:

Name of Comparable Company	Stock code	Nature of business	P/S Multiples[1]	P/E Multiples[2]	NAV Multiples[3]
Jinxin Fertility Group Limited	1951.HK	Provision of assisted reproductive services	28.6	104.8[4]	5.5
Aier Eye Hospital Group Co., Ltd.	300015.SZ	Provision of ophthalmic healthcare services	28.9	195.0	34.9
Topchoice Medical Co., Inc.	600763.SH	Provision of dental healthcare services	55.0	232.1	53.4
Hygeia Healthcare Holdings Co., Limited	6078.HK	Provision of oncology healthcare services	28.9	128.1[5]	12.1
Wenzhou Kangning Hospital Co., Ltd.	2120.HK	Provision of psychiatry healthcare services	1.7	24.1	1.3
		Maximum	55.0	232.1	53.4
		Minimum	1.7	24.1	1.3
		Average (after excluding the maximum and minimum figures)	28.8	142.6	17.5

Notes:

(1) The P/S Multiples of Comparable Companies are calculated by dividing the market capitalisation of the Comparable Company as of May 25, 2021 (being the last trading day prior to the date of the Equity Transfer Agreement) by its revenue of the latest financial year.

(2) The P/E Multiples of the Comparable Companies are calculated by dividing the price per share as of May 25, 2021 (being the last trading day prior to the date of the Equity Transfer Agreement) by the basic earnings per share of the latest financial year.

(3) The NAV Multiples of the Comparable Companies are calculated by dividing the market capitalisation of the Comparable Company as of May 25, 2021 (being the last trading day prior to the date of the Equity Transfer Agreement) by its net asset value attributable to the parent as of the end of the latest financial year.

(4) The P/E Multiple of Jinxin Fertility Group Limited is calculated by using its adjusted basic earnings per share, which is calculated by dividing its adjusted net profit by its weighted average number of shares for the purpose of basic earnings per share. As disclosed in its annual report, its adjusted net profit for the latest financial year is calculated by excluding (i) listing expenses; (ii) expenses in relation to its restricted share award scheme and share option scheme; (iii) amortization and depreciation of medical practice license and property, plant and equipment arising from certain acquisitions; (iv) imputed interest income from related parties; (v) the loss associated with the disposal of two community health service centers; and (vi) donation to Wuhan to better reflect its current business and operations.

(5) The P/E Multiple of the Group is calculated by using its adjusted basic earnings per share in 2020, which is calculated by dividing its adjusted net profit by its total number of shares in issue. As disclosed in its annual report, its adjusted net profit for the latest financial year is calculated by excluding (i) impact of the deferral of the redemption date of redeemable Shares; (ii) interest expenses of redeemable Shares; (iii) listing expenses after tax; and (iv) share-based compensation expenses.

The Board believes that the Comparable Companies share similar business model with the Target Group, and are able to reflect the current market consideration of the companies operating in the same industry. The Board considers the above analysis is sufficient and meaningful for the Board to form an observation and meaningful comparison with the Acquisition. The Board is aware that the Comparable Companies are all listed companies whose shares are traded on the Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange. The Target Group is not a public company, and thus its shares would not enjoy the benefit of marketability similar to the above Comparable Companies, yet there is no public and direct assessment of the fair market value of the Target Group itself. The Board understands that it is a market practice to derive a fair value of a private company based on the P/S Multiples of a comparable group of listed companies. To the best knowledge and information of the Directors, after considering the adjusted P/E Multiples and adjusted NAV Multiples of the Target Hospital, the P/S Multiples of the Comparable Companies, based on the above criteria, are exhaustive and could serve as fair and representative samples for the purpose of the Acquisition.

The maximum Consideration reflects a P/S Multiple of 1.8 times, which is lower than the average (after excluding the maximum and minimum figures) of 28.8 times and near the low end of the range.

For illustration purposes, the maximum Consideration reflects an adjusted P/E Multiple of 19.7 times, which is lower than the low end of the range. Also, the maximum Consideration reflects an adjusted NAV Multiples of 3.1 times, which is lower than the average (after excluding the maximum and minimum figures) of 17.5 times and near the low end of the range.

Having considered the above factors, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Of the Consideration, RMB369,569,500 will be funded by the unutilized Net Proceeds, RMB272,000,000 will be funded by the external loan facilities provided under the Facility Agreement, and to the extent that there is any shortfall due to the appreciation of RMB against HK$, the remaining amount will be funded by the internal resources of the Group. For details of the Facility Agreement, please refer to the section headed "The Facility Agreement" below.

Adjustments to the Consideration

Pursuant to the Equity Transfer Agreement, the Purchasers are entitled to review or engage an accounting firm to review the assets and liabilities of the Target Group as of the Completion Date (the "**Completion Accounts**"), and the Consideration shall be adjusted downward by the relevant amount in the following events:

(1) any reduction in assets of the Target Group, including, among others, the lands, properties and the bank deposits of the Target Group;

(2) (a) incurrence of any accounts payable outside the ordinary course of business of the Target Group, (b) declaration of dividends of the Target Hospital exceeding RMB25,000,000 or without the prior written consents of the Purchasers, (c) incurrence of bank loans for the construction of the new outpatient integrated building exceeding RMB50,000,000 or other borrowings or advancements, (d) any purchase of fixed assets exceeding RMB200,000 unless agreed by the Vendor and the Purchasers;

(3) the total capital expenditure for the construction and decoration of the new outpatient integrated building exceeding RMB100,000,000 (for the portion exceeding RMB95,000,000 but no more than RMB100,000,000, the Purchasers and the Vendor shall negotiate in good faith);

(4) the settlement of Historical Guarantees by the Target Group exceeding the liability cap of RMB49,178,000 (the "**Liability Cap**").

The Target Hospital was previously involved in several litigations (the "**Cases**") concerning its obligation as a guarantor for loan facilities granted to the relevant parties of the historical shareholders of the Target Hospital, which were disclosed under the Equity Transfer Agreement as Historical Guarantees.

As of the Latest Practicable Date, all the Cases are concluded and pending for settlement. According to the court's rulings, the compensation amount to be borne by the Target Hospital shall be half of the outstanding loans (plus interests and costs) after deducting the amount which will be paid by the borrowers. In one of the Cases, the lender, has deducted the amount of approximately RMB11.178 million (being the half of the relevant outstanding loan in that case) from the account of the Target Hospital for settlement. In terms of the other Cases, the Vendor is currently negotiating settlement agreements with the lenders. Although no written settlement agreements have been entered into as of the Latest Practicable Date, as confirmed by the Vendor, the minimum compensation amount to be borne by the Target Hospital for the other Cases is expected to be approximately RMB38 million in aggregate. As such, the Liability Cap was set at RMB49,178,000 in the Equity Transfer Agreement after arm's length negotiation between the Vendor and the Company; and

(5) any other existing liabilities, potential liabilities and other obligations that may affect the Consideration, to the extent such expenses will be borne by the Target Group.

After the expiry of one year (*i.e.*, three hundred and sixty-five (365) calendar days) from the Completion Date, the Purchasers are entitled to further adjust the Consideration downward by RMB30,000,000 (together with the related expenses and taxation, if any) if the Vendor fails to complete the condition precedent (c) for the Final Installment, unless the Purchasers elect to waive this condition precedent.

Payment terms and the respective conditions precedent

The Consideration shall be satisfied by cash in the following manners:

(1) the first installment, representing 20% of the maximum Consideration (the "**First Installment**"), of which

(a) RMB50,000,000 (the "**First Payment**") shall be paid to the bank account designed by the Vendor within two Business Days upon signing of the Equity Transfer Agreement; and

(b) RMB78,313,900 (the "**Escrow Amount**") shall be paid to the account opened in the name of the Vendor and jointly managed by the Vendor and Gamma Star Tech (the "**Escrow Account**") within five (5) Business Days after (i) the Escrow Account has been opened, and (ii) the Company have obtained the written Shareholders' approval from a closely allied group of the Shareholders, who together hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting of the Company to approve the Acquisition pursuant to the Listing Rules, provided that the Escrow Amount shall be paid to the Escrow Account no later than fifteen (15) Business Days from the payment date of the First Payment;

(2) the Escrow Amount shall be released by Gamma Star Tech to the Vendor and the second installment (the "**Second Installment**", together with the First Installment, representing 80% of the Adjusted Consideration) shall be paid to the bank account designed by the Vendor within five Business Days after the Purchasers have received the written notice issued by the Vendor and the Target Hospital confirming the fulfillment of the following conditions precedent, including but not limited to, unless waived by the Purchasers:

(a) all requisite internal approvals and consents for the Acquisition having been obtained from the Purchasers, the Vendor, the Company and the Target Hospital, as the case may be;

(b) all documents for requisite approvals, filings or registrations in relation to the transformation of the Target Hospital from a not-for-profit hospital into a for-profit hospital having been obtained;

(c) the consulting service agreement between the Target Hospital and a third-party service provider having been terminated;

(d) the new outpatient integrated building of the Target Hospital having passed its lightning protection acceptance in accordance with applicable PRC laws and regulations;

(e) the Target Hospital having informed the relevant parties that should be informed of the Acquisition;

(f) all documents required for the entering into of the New Contractual Arrangements upon Completion having been obtained;

(g) the company registration procedures of the Target Hospital in relation to the Acquisition, including the change of shareholders, legal representative, director(s), supervisor(s) and general manager and adoption of new articles of associations, having been completed (the "**Registration Completion**");

(h) the Purchasers and the Vendor having agreed on the Completion Accounts in writing;

(i) the properties and materials of the Target Group as agreed by the Purchasers and the Vendor having been delivered to the Purchasers (the "**Properties Delivery**");

(j) all governmental exemptions, consents and approvals required for the execution of the Equity Transfer Agreement and the completion of the transactions thereunder having been obtained;

(k) the representations and warranties of the Vendor and the Target Group being true, accurate and complete, and there being no material breach of the obligations or undertaking of the Equity Transfer Agreement by the Vendor and the Target Group;

(l) there being no effective laws or agreements, contracts or legal documents which shall prohibit or restrict the Acquisition (unless a waiver was obtained) or shall have a material adverse effect on the Target Group in owning, operating or controlling its principal business and the related assets;

(m) there being no material change in the Target Group or any event or fact that may cause a material change in the Target Group (unless disclosed to the Purchasers pursuant to the Equity Transfer Agreement or the Vendor has materially remedied such material change and obtained approval from the Purchasers); and

(n) there being no litigations, arbitrations, administrative penalties or other investigations or disputes that may affect the legality of the Acquisition or have a material adverse effect on the operations or conditions of the Target Group;

(3) the third installment (the "**Third Installment**", together with the First Installment and the Second Installment, representing 90% of the Adjusted Consideration) shall be paid to the bank account designed by the Vendor within five Business Days after the Purchasers have received the written notice issued by the Vendor and the Target Hospital confirming the fulfillment of the following conditions precedent, unless waived by the Purchasers:

(a) the Second Installment has been paid; and

(b) the Historical Guarantees having been settled in the manner satisfactory to the Purchasers and, other than the liabilities capped at RMB49,178,000 to be borne by the Target Group, having been assumed by the Vendor;

(4) the final installment, representing the remaining balance of the Adjusted Consideration (the "**Final Installment**"), shall be paid to the bank account designed by the Vendor within five Business Days after the Purchasers have received the written notice issued by the Vendor and the Target Hospital confirming the fulfillment of the following conditions precedent, unless waived by the Purchasers:

(a) one year (i.e., three hundred and sixty-five (365) calendar days) having been expired from the Completion Date;

(b) the conditions precedent for the Third Installment having been fulfilled or waived; and

(c) the matter in respect of a parcel of land and its related buildings of the Target Group have been settled in the manner satisfactory to the Purchasers, failing which and after the expiry of the one-year period from the Completion Date, the Purchasers are entitled to further adjust the Consideration downward by RMB30,000,000 (together with the related expenses and taxation, if any) or the Purchasers may elect to waive this condition precedent.

The Consideration shall be paid by Gamma Star Tech and Hygeia Hospital Management in proportion to their respective equity interest to be held in the Target Hospital.

As of the Latest Practicable Date, the First Payment had been paid by the Purchasers to the Vendor, and the Escrow Amount had been paid by the Purchasers into the Escrow Account, which were funded by the Net Proceeds which have been allocated for the purpose of acquiring hospitals. It is intended that the remaining balance of the Consideration will be paid in accordance with the payment terms under the Equity Transfer Agreement and funded by the Net Proceeds which have been allocated for the purpose of acquiring hospitals and external loan facilities provided under the Facility Agreement. As of the Latest Practicable Date, save as condition precedent (e) for the Second Installment, none of the conditions precedent for the Second Installment, the Third Installment and the Final Installment has been fulfilled.

Completion

Subject to the Registration Completion, the Completion shall take place on the date of the Properties Delivery.

Upon the Completion, the Target Hospital will be owned as to 70% and 29% by Gamma Star Tech and Hygeia Hospital Management, respectively, and the New Contractual Arrangements in respect of the 29% equity interest in the Target Hospital to be held by Hygeia Hospital Management will be entered into. For details of the New Contractual Arrangements, please refer to the section headed "The New Contractual Arrangements" below. As a result, the Target Hospital will become an indirect non-wholly-owned subsidiary of the Company and the financial results of the Target Hospital will be consolidated into the financial statements of the Group.

Non-competition and Non-solicitation Undertaking by the Vendor

For a period of five years from the Completion Date, the Vendor covenants and undertakes that it shall not, and procure that GF Xinde and the entities controlled or receiving management services provided by the Vendor and GF Xinde shall not, directly or indirectly, either on its own account or on behalf of any person, without the prior written consents of the Purchasers, (i) invest in or otherwise hold any interest in any person that engages in the same or similar business with the Target Group's principal business, or competes with the Target Group (the "**Competitor**"), in Hezhou City, Guangxi Zhuang Autonomous Region, the PRC; (ii) solicit business from any person that is a customer, agent, supplier and/or independent contractor of the Target Group, or induce any person that is a customer, agent, supplier and/or independent contractor of the Target Group to terminate its cooperation with the Target Group, for the benefits of the Competitors; and (iii) solicit, recruit, induce or encourage any person that is an existing employee of the Target Group to leave the Target Group, or employ or hire such employee, or solicit, recruit or encourage any person that is an existing or potential customer, consumer or supplier of the Target Group or any person that engages in business with the Target Group, to terminate or revise the business relationship with the Target Group, which may adversely affect the interests of the Target Group.

Termination

The Equity Transfer Agreement may be terminated:

(1) by mutual written consents of the Purchasers and the Vendor;

(2) by either party serving a written notice to the other parties upon occurrence of (a) any representations or warranties made by the other party being false, untrue in any material respect or contain material omissions, (b) any material breach by the other party and failing to cure to the reasonable satisfaction of the non-breaching party within fifteen (15) days after receiving a written notice from the non-breaching party, or (c) the other party entering any voluntary or compulsory bankruptcy proceedings (unless withdrawn within thirty (30) days after the commencement), or being declared bankruptcy or liquidation by a court or other governmental authority;

(3) by the Purchasers if the conditions precedent of the Second Installment have not been fulfilled or waived by July 20, 2021 (unless extended by the Purchasers); or

(4) by the Vendor if the Purchasers fail to pay any installment due and payable for more than fifteen (15) calendar days prior to the Completion.

Upon termination of the Equity Transfer Agreement and without prejudice to the rights and remedies of any party to indemnification or compensation thereunder, the Purchasers shall not be obliged to make any further payments and the Vendor shall (and the Target Group shall procure the Vendor shall), within five (5) calendar days from the termination, refund to the Purchasers or entities designated by the Purchasers the full amount of (i) the First Installment (together with all accrued interest of the Escrow Amount) paid by the Purchasers, (ii) other payments (if any) paid by the Purchasers and (iii) the related taxation (if any) as a result of such refund.

C. THE FACILITY AGREEMENT

In order to fund part of the Consideration, on May 26, 2021, Gamma Star Tech (as the borrower) entered into the Facility Agreement with a bank (as the lender), an Independent Third Party, which provides for a loan facility in an aggregate principal amount of up to RMB272,000,000. The drawdown period shall be within three (3) years from the date of signing of the Facility Agreement, of which the first drawdown period shall be within six (6) months from the date of signing the Facility Agreement. The maturity date shall be twelve (12) months after the first drawdown for 10% of the then accumulated principal drawdown amount, eighteen (18) months after the first drawdown for 10% of the then accumulated principal drawdown amount, twenty-four (24) months after the first drawdown for 10% of the then accumulated principal drawdown amount, thirty (30) months after the first drawdown for 20% of the then accumulated principal drawdown amount, and thirty-six (36) months after the first drawdown for the remaining principal drawdown amount. Interest shall be accrued on the outstanding drawdown amount from the drawdown date to the repayment date at 4.3% per annum and calculated on the basis of a 360-day per year.

Pursuant to the Facility Agreement, the Company shall provide guarantee for the loan under the Facility Agreement and after the Completion, the 70% equity interest to be held by Gamma Star Tech in the Target Hospital shall be pledged in favor of the lender within thirty (30) days after the first drawdown.

In addition, the following specific performance obligations are imposed on the Controlling Shareholders under the Facility Agreement:

(1) there shall be no investigations or restriction of personal freedom under applicable laws against the Controlling Shareholders for suspicion of any illegal or criminal behaviors, which had or may have a material adverse effect on Gamma Star Tech's performance of its obligations under the Facility Agreement; and

(2) there shall be no change of Controlling Shareholders of the Company.

Any breach of the above specific performance obligations will constitute an event of default under the Facility Agreement, and the lender shall have the power to take actions including without limitation ceasing the release of unreleased loan proceeds, requesting additional collaterals or guarantees, and/or declaring all outstanding amounts together with interest accrued and all other sums payable by the Company to be immediately due and payable.

As of the Latest Practicable Date, the Controlling Shareholders are deemed to be interested in approximately 45.35% of the issued share capital of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

D. GENERAL INFORMATION ON THE PARTIES

Information of the Target Hospital

As of the date of this circular, the Target Hospital was held by the Vendor and HZ Minority Shareholder as to 99% and 1%, respectively.

The Target Hospital is a private for-profit Class III general hospital located in Hezhou City, Guangxi Zhuang Autonomous Region, the PRC, and has been operating for over 70 years. It was previously a private not-for-profit hospital, known as Hezhou Guangji Hospital (賀州廣濟醫院), and has obtained a valid Medical Institution Practicing License (醫療機構執業許可證) as a for-profit hospital in June 2020. The Target Hospital provides healthcare services in a wide range of specialties, including but not limited to oncology, orthopedics, urology, gynecology and ICU (intensive care unit). As of December 31, 2020, it had 548 registered beds. The number of inpatient visits was approximately 30 thousand, and the number of outpatient visits was approximately 300 thousand for the year ended December 31, 2020.

Set out below is the audited financial information of the Target Hospital for the three years ended December 31, 2018, 2019 and 2020 or as of December 31, 2020 and the audited assets value of the Target Hospital as of the same dates as indicated.

	For the year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	323,123	374,528	362,329
Net profit before taxation	45,767	16,263	21,896
Net profit after taxation	44,529	12,546	18,422

	As of December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	205,745	281,510	338,087
Net assets	72,506	85,052	103,474

Information of the Vendor

The Vendor is an equity investment fund established in October 2013 in the PRC, the general partner of which is GF Xinde, holding approximately 18.09% partnership interest, and the limited partners of which include 12 institutional and individual investors with GF Asset Management (as trustee for the Guangfa Hengxin-Xinde Medical Collective Asset Management Plan (廣發恆信－信德醫療集合資產管理計劃)) holding the largest partnership interest (approximately 34.48%). GF Xinde and GF Asset Management are wholly-owned subsidiaries of GF Securities. The A shares and H Shares of GF Securities are listed on the Shenzhen Stock Exchange (stock code: 000776) and the Stock Exchange (stock code: 1776), respectively.

GF Securities mainly engages in private fund management business through GF Xinde, focusing on industries such as biomedicine, intelligent manufacturing and corporate services. As of the end of 2020, GF Xinde set up and managed over 40 private funds, the total size of customers' assets under management was more than RMB10 billion.

Information of the Group

As an oncology-focused healthcare group, the Group endeavors to make healthcare services more accessible and affordable (讓醫療更溫暖), addressing unmet demand of oncology patients in China. As of December 31, 2020, the Group (i) owned and operated seven private for-profit hospitals; (ii) managed three private not-for-profit hospitals; and (iii) provided services to 17 hospital partners for their radiotherapy centers.

E. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition will further enhance the Group's regional advantages in South China region and strengthen its brand influence in the following four aspects:

(1) the Target Hospital is located in Hezhou City, Guangxi Zhuang Autonomous Region, where the resident population amounted to 2.48 million as of the end of 2019. Hezhou City, situated at the juncture of Guangdong Province, Hunan Province and Guangxi Zhuang Autonomous Region, has convenient transportation and could cover a large population in the surrounding areas. There is large demand for oncology treatment, especially radiotherapy treatment, in Guangdong Province and Guangxi Zhuang Autonomous Region which are among the regions with high incidence rate of nasopharyngeal carcinoma in the world. The resources for oncology treatment, especially radiotherapy treatment, are relatively insufficient in Hezhou City and its surrounding areas, where the number of radiotherapy equipment per million population is below the average in the PRC. As such, the Acquisition provides the Group with a larger market for the development of its oncology business, and positioning in this region is in line with the Group's development strategies;

(2) the Target Hospital is a private for-profit Class III general hospital, which can be traced back to the Pinggui Workers' Hospital (平桂工人醫院) under Pinggui Mining Bureau (平桂礦務局). Since its establishment in 1951 and with decades of development, the Target Hospital has accumulated profound cultural resources and market influence, and trained an experienced and high-caliber professional medical team. The number of patients visits (including inpatient and outpatient visits) amounted to approximately 380 thousand and 330 thousand in 2019 and 2020, respectively. It has built a good reputation in Hezhou City and even in Guangxi Zhuang Autonomous Region;

(3) the Target Hospital currently has 548 registered beds and sufficient land resources for further construction. The Group will strengthen the oncology-related business of the Target Hospital after the Completion and develop the Target Hospital into an oncology-focused general hospital to satisfy the increasing needs of the local oncology patients and unleash its potential for further business expansion in Guangxi Zhuang Autonomous Region and in the whole South China region; and

(4) the Acquisition will further expand the healthcare service network of the Group, which is of great significance and value for increasing the oncology-related healthcare service revenue of the Group and its share in the oncology healthcare service market.

After the Completion, the Group will make the following integrating efforts to optimize the existing operations of the Target Hospital:

(1) introducing the oncology-focused feature of the Group into the Target Hospital to improve its oncology-related academic position, enrich its oncology treatment methods, highlight the oncology specialties, refine its treatment methods, and further enhance the core competitiveness of the Target Hospital;

(2) developing the Target Hospital's multi-disciplinary oncology diagnosis and treatment businesses covering radiotherapy, surgery, chemotherapy and other treatment methods and providing one-stop oncology treatment services to satisfy the increasing demand of oncology patients, so as to further expand its business model and increase its market share, and further increase its revenue and profit level;

(3) introducing the Group's standardized and refined management system to the Target Hospital to reduce its operational expenses and improve its overall operating efficiency.

In view of the above, the Directors are of the view that the terms of the Equity Transfer Agreement are on normal commercial terms and fair and reasonable, and the Acquisition is in the interests of the Company and its Shareholders as a whole.

F. THE NEW CONTRACTUAL ARRANGEMENTS

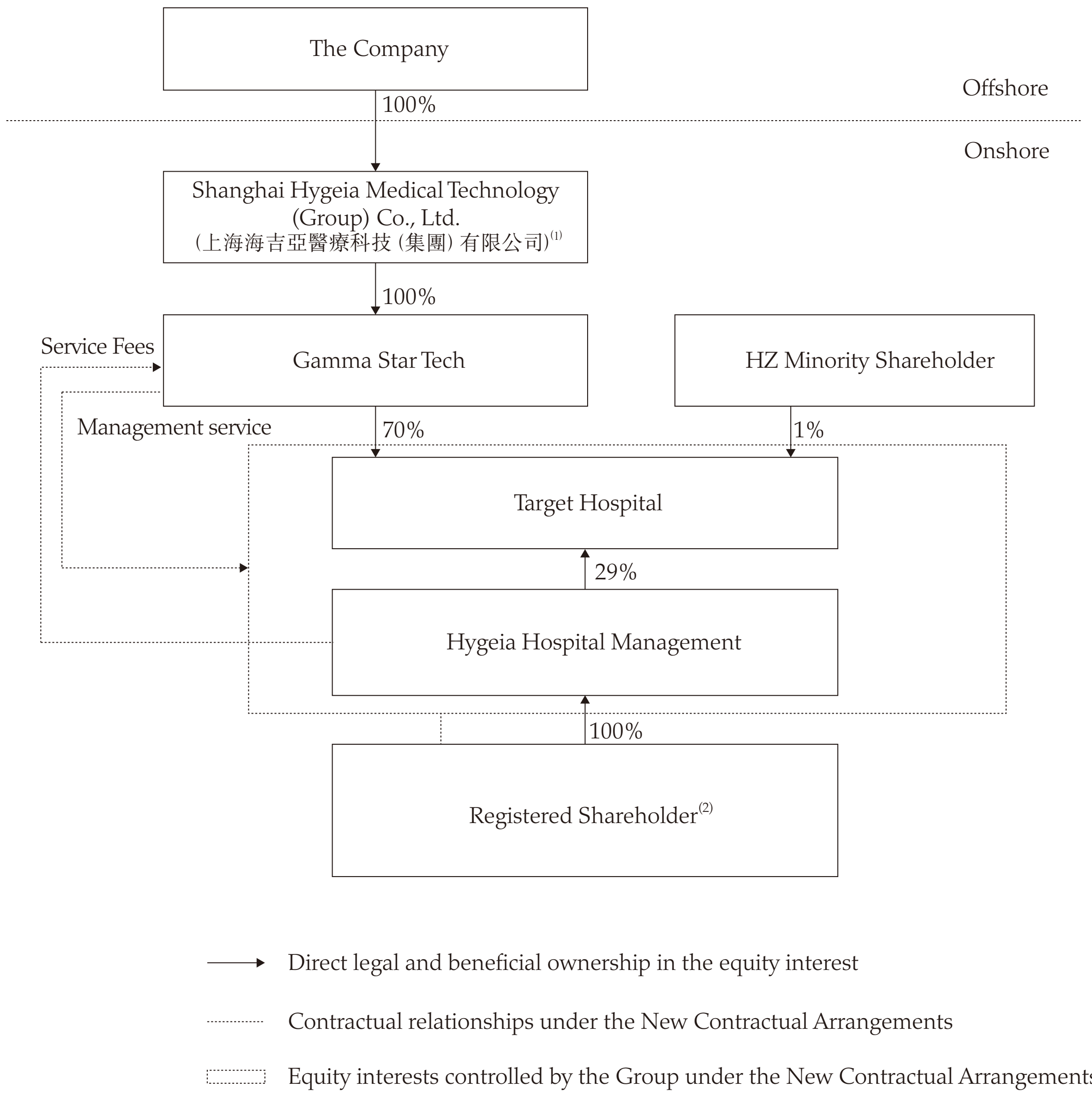
Reasons for the New Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" in the Prospectus, due to applicable laws and regulatory restrictions on foreign ownership, medical institutions may not be held 100% by foreign investors, and foreign investments are restricted to the form of Sino-foreign equity joint venture or cooperative joint venture. Furthermore, as advised by the PRC legal advisor of the Company, the competent authorities for foreign investment administration where the Group operate its hospitals are of the view that the Company, as a foreign entity, shall not directly or indirectly hold more than 70% equity interest in each of the hospitals in the PRC ("**Foreign Ownership Restriction**"). Therefore, the Group had in place the Existing Contractual Arrangements which are designed to allow the Company to prevent leakages of equity and values to the minority shareholders of the VIE Hospitals and to obtain the maximum economic benefits of these hospitals.

As advised by the PRC Legal Advisor, the Target Hospital is a medical institution in the PRC and is subject to the Foreign Ownership Restriction. Pursuant to the Equity Transfer Agreement, upon Completion, Gamma Star Tech and Hygeia Hospital Management will directly hold 70% and 29% equity interest in the Target Hospital, respectively. In order to control the Target Hospital to prevent leakages of equity and values to the minority shareholders of the Target Hospital, and to obtain the 29% economic benefits of the Target Hospital to be attributable to Hygeia Hospital Management, each of the Purchasers, the Target Hospital and Xiangshang Investment will enter into the New Contractual Arrangements upon Completion.

Details of the New Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefit from the Target Hospital to the Group under the New Contractual Arrangements:



Notes:

(1) Formerly known as Gamma Star Medical Technology Development (Shanghai) Co., Ltd. (伽瑪星醫療科技發展（上海）有限公司).

(2) The Registered Shareholder of Hygeia Hospital Management is Xiangshang Investment which is held by Mr. Zhu and Ms. Zhu as to 40% and 60%, respectively.

The principal terms of the New Contractual Arrangements to be entered into upon Completion which are on substantially the same terms and conditions as those of the Existing Contractual Arrangements, are summarized as follows:

(1) Exclusive Operation Services Agreement

Hygeia Hospital Management, Xiangshang Investment and Gamma Star Tech will collectively enter into an exclusive operation services agreement with the Target Hospital (the "**Exclusive Operation Services Agreement**"), pursuant to which, Hygeia Hospital Management, Xiangshang Investment and the Target Hospital agree to engage Gamma Star Tech as their exclusive service provider of technical support, consulting services and other services in exchange for a service fee.

Under the Exclusive Operation Services Agreement, the services to be provided include but are not limited to (i) business, financing and investment, (ii) medical technology related consultation, medical resources sharing and medical professionals training, (iii) human resources management, (iv) market research, (v) strategies for marketing and business expansion, (vi) supplier and inventory management, (vii) operation and marketing strategy formulation and monitoring, (viii) medical service quality control, (ix) internal management and (x) other services relating to management and operation of medical institutions and shareholder's rights and investment management. Gamma Star Tech has proprietary rights to all the intellectual properties developed or created by itself from the performance of these services. During the term of the Exclusive Operation Service Agreement, Gamma Star Tech may use the intellectual property rights owned by Hygeia Hospital Management and the Target Hospital free of charge and without any conditions. Hygeia Hospital Management and the Target Hospital may also use the intellectual property work created by Gamma Star Tech from the services performed by Gamma Star Tech in accordance with the Exclusive Operation Service Agreement.

Under the Exclusive Operation Services Agreement, the service fee shall be an amount equal to the annual distributable profits of Hygeia Hospital Management, consisting of 29% of the distributable net profit of the Target Hospital of a given audited financial year, after deducting the losses from the previous financial years (if any) and the statutory contributions (if applicable) subject to the applicable PRC laws and regulations.

In addition, without the prior written consent of Gamma Star Tech, during the term of the Exclusive Operation Services Agreement, Xiangshang Investment, Hygeia Hospital Management and the Target Hospital shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. Gamma Star Tech has the right to appoint any third party to provide any or all of the services, or to fulfill any of its obligations under the Exclusive Operation Services Agreement.

The Exclusive Operation Services Agreement will become effective from signing, and shall remain valid for three years. Subject to compliance with the Listing Rules, the Exclusive Operation Services Agreement shall be automatically renewed for a term of three years upon its expiration, unless terminated in accordance with the terms therein. The Exclusive Operation Services Agreement can only be terminated in the following events: (i) continued performance of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of Xiangshang Investment's equity interests in Hygeia Hospital Management and all of the assets of Hygeia Hospital Management have been transferred to Gamma Star Tech or its designated person(s) pursuant to applicable PRC laws and regulations, (iii) all of Hygeia Hospital Management's equity interests in the Target Hospital and all of the assets of the Target Hospital attributable to Hygeia Hospital Management have been transferred to Gamma Star Tech or its designated person(s) pursuant to applicable PRC laws and regulations, or (iv) Gamma Star Tech unilaterally terminates the agreements.

(2) Exclusive Option Agreements

Gamma Star Tech, Xiangshang Investment and Hygeia Hospital Management will enter into an exclusive option agreement, and Gamma Star Tech and Hygeia Hospital Management will collectively enter into an exclusive option agreement with the Target Hospital (collectively the "**Exclusive Option Agreements**").

Pursuant to the Exclusive Option Agreements, (i) Xiangshang Investment irrevocably and unconditionally grants an exclusive option to Gamma Star Tech which entitles Gamma Star Tech to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in Hygeia Hospital Management itself or through its designated person(s), (ii) Hygeia Hospital Management irrevocably and unconditionally grants an exclusive option to Gamma Star Tech which entitles Gamma Star Tech to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Hygeia Hospital Management itself or through its designated person(s), (iii) Hygeia Hospital Management irrevocably and unconditionally grants an exclusive option to Gamma Star Tech which entitles Gamma Star Tech to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests in the Target Hospital from Hygeia Hospital Management itself or through its designated person(s), and (iv) the Target Hospital irrevocably and unconditionally grant an exclusive option to Gamma Star Tech which entitles Gamma Star Tech to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the Target Hospital attributable to Hygeia Hospital Management itself or through its designated person(s).

The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC laws. Each of Hygeia Hospital Management and the Target Hospital undertake that it will, subject to applicable PRC laws, return in full any amount of the transfer price received to Gamma Star Tech or its designated person(s).

Xiangshang Investment and Hygeia Hospital Management undertake to develop the business of the Target Hospital and not to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Without the prior written consent of Gamma Star Tech, Xiangshang Investment and Hygeia Hospital Management shall not (i) transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon; and the Target Hospital shall not assist in transferring or otherwise disposing of any option under the Exclusive Option Agreements, or creating any encumbrances thereon; and (ii) directly or indirectly (by itself or through the entrustment of any other natural person or legal entity) carry out, own or acquire any business that competes or is likely to compete with the business of Gamma Star Tech.

Xiangshang Investment, Hygeia Hospital Management and the Target Hospital further undertake that, upon Gamma Star Tech issuing the notice to exercise the option in accordance with the Exclusive Option Agreements, they will take necessary actions to affect the transfer and relinquish the pre-emptive right (if any). Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of Hygeia Hospital Management and the Target Hospital under the PRC laws, all the residual assets attributable to Xiangshang Investment and Hygeia Hospital Management shall be transferred to Gamma Star Tech or its designated person(s) at the minimum purchase price permitted under PRC laws, and each of Xiangshang Investment, Hygeia Hospital Management and the Target Hospital undertakes that they will, subject to applicable PRC laws, return in full any amount of the transfer price received to Gamma Star Tech or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of Hygeia Hospital Management or Xiangshang Investment or any other event which affects Xiangshang Investment's shareholding in Hygeia Hospital Management and Hygeia Hospital Management's shareholding in the Target Hospital, the successor of the Xiangshang Investment's equity interest in Hygeia Hospital Management and the successor of Hygeia Hospital Management's equity interests in the Target Hospital shall be bound by the New Contractual Arrangements, and (iii) any disposal of shareholding in Hygeia Hospital Management and the Target Hospital shall be governed by the New Contractual Arrangements unless otherwise with the prior written consent of Gamma Star Tech.

The Exclusive Option Agreements will become effective from signing and have an indefinite term unless terminated in the following events: (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of Xiangshang Investment's equity interests in Hygeia Hospital Management, all of the Hygeia Hospital Management's equity interests in the Target Hospital are transferred to Gamma Star Tech or its designated person(s) pursuant to the applicable PRC laws and regulations, (iii) all of the assets of Hygeia Hospital Management and all of the assets of the Target Hospital attributable to Hygeia Hospital Management are transferred to Gamma Star Tech or its designated person(s) pursuant to the applicable PRC laws and regulations, or (iv) Gamma Star Tech unilaterally terminates the agreements.

(3) Entrustment Agreements and Powers of Attorney

Gamma Star Tech, Xiangshang Investment and Hygeia Hospital Management will enter into a shareholders' rights entrustment agreement, and Gamma Star Tech and Hygeia Hospital Management collectively will enter into a shareholders' rights entrustment agreement with the Target Hospital (collectively the "**Entrustment Agreements**") and the powers of attorney (collectively the "**Powers of Attorney**") will be executed by each of Xiangshang Investment and Hygeia Hospital Management in favor of Gamma Star Tech (the "**Attorney**").

Pursuant to the Entrustment Agreements and the Powers of Attorney, (i) Xiangshang Investment irrevocably authorizes the Attorney to exercise all of its rights and powers as a shareholder of Hygeia Hospital Management, and (ii) Hygeia Hospital Management irrevocably authorizes the Attorney to exercise all of its rights and powers as a shareholder of the Target Hospital, including without limitation:

- to attend shareholders' meetings of Hygeia Hospital Management and the Target Hospital and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;

- to file documents with the relevant companies registry;

- to exercise all shareholder's rights and shareholder's voting rights in accordance with PRC laws and the constitutional documents of Hygeia Hospital Management and the Target Hospital, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in Hygeia Hospital Management and the Target Hospital; and

- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of Hygeia Hospital Management and the Target Hospital.

As Gamma Star Tech is an indirect wholly-owned subsidiary of the Company, the terms of the Entrustment Agreements and the Powers of Attorney give the Company full control over all corporate decisions made by such Attorney and exercise management control over Hygeia Hospital Management and the Target Hospital.

The Entrustment Agreements and Powers of Attorney will become effective from signing and have an indefinite term unless terminated in the following events: (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of Xiangshang Investment's equity interests in Hygeia Hospital Management and all of the Hygeia Hospital Management's equity interests in the Target Hospital are transferred to Gamma Star Tech or its designated person(s) pursuant to the applicable PRC laws and regulations, (iii) all of the assets of Hygeia Hospital Management and all of the assets of the Target Hospital attributable to Hygeia Hospital Management are transferred to Gamma Star Tech or its designated person(s) pursuant to the applicable PRC laws and regulations, or (iv) Gamma Star Tech unilaterally terminates the agreements.

(4) Equity Pledge Agreements

Gamma Star Tech, Hygeia Hospital Management and Xiangshang Investment will enter into an equity pledge agreement, and Gamma Star Tech and Hygeia Hospital Management will collectively enter into an equity pledge agreement with the Target Hospital (collectively the "**Equity Pledge Agreements**"), pursuant to which, (i) Xiangshang Investment agrees to pledge all of its equity interest in Hygeia Hospital Management, and (ii) Hygeia Hospital Management agrees to pledge all of its equity interest in the Target Hospital, in favor of Gamma Star Tech to secure performance of the contractual obligations and payment of outstanding debts under the New Contractual Arrangements.

If the Target Hospital and Hygeia Hospital Management declare any dividend during the term of the equity pledge, Gamma Star Tech is entitled to receive all dividends or other income arising from the equity interests pledged (if any). In the event of any breach of obligations by Hygeia Hospital Management, Xiangshang Investment or the Target Hospital, Gamma Star Tech, upon issuing a written notice to the pledgors, will be entitled to all remedies available under PRC laws and the New Contractual Arrangements, including but not limited to disposing of the equity interests pledged in its favor.

Pursuant to the Equity Pledge Agreements, each of Xiangshang Investment and Hygeia Hospital Management undertakes to Gamma Star Tech, among others, not to transfer their equity interests pledged and not to create or allow any pledge or encumbrance thereon that may affect the right and interest of Gamma Star Tech without its prior written consent. Hygeia Hospital Management and the Target Hospital further undertakes to Gamma Star Tech not to consent to any transfer the equity interests pledged or to create or allow any pledge or encumbrance thereon without Gamma Star Tech's prior written consent.

The pledges in respect of Hygeia Hospital Management and the Target Hospital take effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of Xiangshang Investment, Hygeia Hospital Management and the Target Hospital under the New Contractual Arrangements have been fully performed and all the outstanding debts of Xiangshang Investment, Hygeia Hospital Management and the Target Hospital under the New Contractual Arrangements have been fully paid.

The Company will register the equity pledges contemplated under the Equity Pledge Agreements with the relevant PRC legal authority pursuant to PRC laws and regulations.

(5) Spousal Undertakings

The spouses of each of the shareholders of Xiangshang Investment (namely, Mr. Zhu and Ms. Zhu) will sign an undertaking (the "**Spousal Undertakings**") to the effect that (i) the respective interests of Mr. Zhu and Ms. Zhu in Xiangshang Investment (together with any other interests therein) do not fall within the scope of joint possession; (ii) the respective interests of Xiangshang Investment in Hygeia Hospital Management (together with any other interests therein) do not fall within the scope of joint possession, (iii) the respective interests of Hygeia Hospital Management in the Target Hospital (together with any other interests therein) do not fall within the scope of joint possession, and (iv) each of the spouses will not have any claim on such interests.

The PRC Legal Advisor is of the view that (i) the above arrangements provide protection to the Group even in the event of death or divorce of Mr. Zhu and Ms. Zhu and (ii) the death or divorce of such shareholders would not affect the validity of the New Contractual Arrangements, and Gamma Star Tech or the Company can still enforce their rights under the New Contractual Arrangements against Xiangshang Investment and its successors.

Common terms of the New Contractual Arrangements

Dispute Resolution

Each of the agreements under the New Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the New Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai Arbitration

Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of Hygeia Hospital Management and the Target Hospital or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Hygeia Hospital Management and the Target Hospital; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company), the PRC and the places where the principal assets of Gamma Star Tech or Hygeia Hospital Management or the Target Hospital are located for interim remedies or injunctive relief.

However, the PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Hygeia Hospital Management and the Target Hospital pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that Hygeia Hospital Management, the Target Hospital or Xiangshang Investment breach any terms of the New Contractual Arrangements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert fully effective control over Hygeia Hospital Management and the Target Hospital and to conduct its business could be materially and adversely affected.

Succession

As advised by the PRC Legal Advisor, the provisions set out in the New Contractual Arrangements are also binding on any successor(s) of Xiangshang Investment as if such successors were a signing party to the New Contractual Arrangements. As such, any breach by the successors would be deemed to be a breach of the New Contractual Arrangements. In the case of a breach, Gamma Star Tech can enforce its rights against the successors. Pursuant to the New Contractual Arrangements, in the event of changes in the shareholding of Hygeia Hospital Management, any successor(s) of Hygeia Hospital Management shall assume any and all rights and obligations of Hygeia Hospital Management under the New Contractual Arrangements as if such successor was a signing party to the relevant agreements.

Conflicts of Interests

Xiangshang Investment, Hygeia Hospital Management and Target Hospital undertake that, as long as the New Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Gamma Star Tech or Gamma Star Tech's direct or indirect shareholders. If there is any conflict of interest, Gamma Star Tech shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. Xiangshang Investment, Hygeia Hospital Management and the Target Hospital will unconditionally follow the instructions of Gamma Star Tech to take any action to eliminate such conflict of interest.

Loss Sharing

Under the relevant PRC laws and regulations, none of the Company and Gamma Star Tech is legally required to share the losses of, or provide financial support to Hygeia Hospital Management and the Target Hospital. Further, Hygeia Hospital Management and the Target Hospital are limited liability companies and shall be solely liable for its own debts and losses with assets and properties owned by them. In addition, given that the Group conducts a substantial portion of its business operations in the PRC through Hygeia Hospital Management and the Target Hospital, which hold the requisite PRC operational licenses and approvals, and that its financial position and results of operations are consolidated into the Group's financial statements under the applicable accounting principles, the Company's business, financial position and results of operations would be adversely affected if Hygeia Hospital Management and the Target Hospital suffer losses.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the relevant shareholders of Hygeia Hospital Management and the Target Hospital shall, upon the request of Gamma Star Tech, give the proceeds they received from liquidation as a gift to Gamma Star Tech or its designee(s) to the extent permitted by PRC laws.

Accordingly, in the event of a winding-up of Hygeia Hospital Management and the Target Hospital, Gamma Star Tech shall be entitled to the liquidation proceeds of Hygeia Hospital Management and the Target Hospital based on the New Contractual Arrangements for the benefit of the Company's creditors and shareholders.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the New Contractual Arrangements.

Legality of the New Contractual Arrangements

The PRC Legal Advisor of the Company, following completion of reasonable due diligence steps, are of the following legal opinion:

(1) each of Gamma Star Tech, Hygeia Hospital Management and the Target Hospital is duly established and validly existing under the PRC Laws;

(2) each of Gamma Star Tech, Hygeia Hospital Management and the Target Hospital has authority and authorizations to execute and perform the New Contractual Arrangements;

(3) the New Contractual Arrangements, taken individually and collectively, will not violate the mandatory provisions of the existing PRC laws and regulations and constitutes legal, valid and binding obligations of the parties thereto except that (a) the Shanghai Arbitration Commission has no power to grant injunctive relief, nor will it be able to order the winding-up of Hygeia Hospital Management and the Target Hospital pursuant to the current PRC laws; and (b) interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognized or enforceable in the PRC;

(4) the New Contractual Arrangements will not, individually or collectively, violate the mandatory provisions of the Civil Code and other applicable PRC laws and regulations and shall not be deemed as "concealing illegal intentions with a lawful form" resulting in the invalidity of the agreements under the New Contractual Arrangements;

(5) none of the agreements under the New Contractual Arrangements will violate any provisions of the existing articles of association of each of Gamma Star Tech, Hygeia Hospital Management and the Target Hospital; and

(6) the execution and performance of the New Contractual Arrangements do not require any approvals from any PRC governmental agency, except that the Equity Pledge Agreements are subject to registration requirements with the relevant administration for market regulation and the exercising of the exclusive options by Gamma Star Tech according to the Exclusive Option Agreements shall be subject to the then effective PRC laws and regulations and relevant approving procedures (if applicable).

The Board's view on the New Contractual Arrangements

Based on the above, the Board is of the view that the New Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in industries that are subject to Foreign Ownership Restriction in the PRC. Upon the Completion, the Company owns 70% equity interests in the Target Hospital directly and as a result of the New Contractual Arrangements, the Company has obtained control of the remaining 29% equity interest of the Target Hospital through Gamma Star Tech. As such, the Company can receive substantially all of the economic interest returns generated by the Target Hospital.

The New Contractual Arrangements also provide that the Group could partially unwind the New Contractual Arrangements and hold (directly or indirectly) equity interest in the Target Hospital up to the maximum percentage prescribed by any measures promulgated by MOFCOM and/or other relevant governmental authorities, or fully unwind the New Contractual Arrangements and directly hold the 99% equity interest in the Target Hospital if there is no prescribed limit on the percentage of equity interest permitted to be held by foreign investors.

Compliance with the New Contractual Arrangements

The Group will adopt the following measures to ensure the effective operation with the implementation and compliance of the New Contractual Arrangements:

(1) major issues arising from the implementation and compliance with the New Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(2) the Board will review the overall performance of and compliance with the New Contractual Arrangements at least once a year;

(3) the Company will disclose the overall performance and compliance with the New Contractual Arrangements in its annual reports and interim reports to update the Shareholders and potential investors; and

(4) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the New Contractual Arrangements and the legal compliance of Gamma Star Tech, Hygeia Hospital Management and the Target Hospital to deal with specific issues or matters arising from the New Contractual Arrangements.

In addition, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently under the following measures:

(1) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, among others, that in the event of conflict of interest in any contract or transaction calling for vote, the Director who is so interested shall declare the nature of his or her interest at the earliest time before or at meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

(2) each of the Directors is aware of his or her fiduciary duties as a Director which requires, among others, that he or she acts for the benefits and in the best interests of the Group;

(3) the Company has appointed three independent non-executive Directors, comprising one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and the Shareholders as a whole; and

(4) the Group will disclose in its announcements, circulars and annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Risk relating to the New Contractual Arrangements

If the PRC government deems that the New Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, the Group could be subject to severe penalties or be forced to relinquish the Groups' interests received through the New Contractual Arrangements.

Foreign ownership of certain businesses in PRC is subject to restrictions under current PRC laws and regulations. For example, except for qualified service providers from Hong Kong, Macao and Taiwan, foreign investors are not allowed to own 100% of the equity interest in medical institutions.

The Company is an exempted company incorporated in the Cayman Islands, as such, the Company is classified as a foreign enterprise under PRC laws and regulations. Through the Group's indirect wholly-owned PRC subsidiary, Gamma Star Tech, the Group will enter into a series of New Contractual Arrangements with each of Xiangshang Investment (which holds 100% equity interest in Hygeia Hospital Management), Hygeia Hospital Management and the Target Hospital. Please see the section headed "The New Contractual Arrangements" for a detailed description of the New Contractual Arrangements. Through the Group's shareholdings and the New Contractual Arrangements, the Company controls the Target Hospital through Gamma Star Tech and, at the Company's sole discretion, can receive substantially all of the economic interest returns generated by the Target Hospital.

As advised by the PRC Legal Advisor, save as disclosed in the section headed "Legality of the New Contractual Arrangements" in this circular, the New Contractual Arrangements are legal, valid, enforceable and binding upon the parties thereto under the current laws and regulations. Please see the section headed "Legality of the New Contractual Arrangements" for more details. However, the PRC Legal Advisor has also advised the Group that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. In addition, certain PRC court rulings invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Civil Code. Accordingly, there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of the Group's PRC Legal Advisor.

The Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) the "**FIL**") has became effective on January 1, 2020. According to the FIL, the "foreign investment" refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as "**Foreign Investors**"), including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or guidelines of the State Council of the PRC (中華人民共和國國務院) ("**State Council**"). However, the interpretation and application of the FIL remain uncertain. In addition, the FIL stipulates that foreign investment includes "Foreign Investors investing in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council." The Group cannot assure the investors that the New Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the New Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the New Contractual Arrangements.

If the Group's ownership structure, New Contractual Arrangements and business or that of Gamma Star Tech, Hygeia Hospital Management or the Target Hospital are found to be in violation of any existing or future PRC laws or regulations, or the Group fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violations, including:

- levying fines on the Group;
- confiscating the Group's income or the income of Gamma Star Tech, Hygeia Hospital Management or the Target Hospital;
- revoking the Group's business licenses and/or operating licenses;
- shutting down the Group's institutions;
- discontinuing or placing restrictions or onerous conditions on the Group's operations, requiring the Group to undergo a costly and disruptive restructuring; and

- taking other regulatory or enforcement actions that could be harmful to the Group's business.

Any of these actions could cause significant disruption to the Group's business operations and severely damage the Group's reputation, which would result in us failing to receive a portion of the economic benefits from Hygeia Hospital Management and the Target Hospital, which in turn may materially and adversely affect the Group's business, financial condition and results of operations.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to the Group's corporate structure and the New Contractual Arrangements.

In addition, if any equity interest held by Xiangshang Investment in Hygeia Hospital Management and any equity interest held by Hygeia Hospital Management in the Target Hospital is held in the court custody in connection with its litigation, arbitration or other judicial or dispute resolution proceedings, the Group cannot assure the investors that the equity interest will be disposed of to the Group in such proceedings in accordance with the New Contractual Arrangements. The occurrence of any of these events could adversely affect the Group's business, financial condition and results of operations.

The New Contractual Arrangements may result in adverse tax consequences to the Group.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Group could face material and adverse tax consequences if the PRC tax authorities determine that the New Contractual Arrangements were not made on an arm's length basis and adjust the income and expenses of the Group for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could materially and adversely affect us by (i) increasing the tax liabilities of the Target Hospital without reducing the tax liability of Gamma Star Tech and Hygeia Hospital Management, which could further result in late payment fees and other penalties to the Target Hospital for underpaid taxes; or (ii) limiting the ability of the Target Hospital to obtain or maintain preferential tax treatments and other financial incentives.

The shareholder of Hygeia Hospital Management may have potential conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial condition.

The Group's control over Hygeia Hospital Management as well as the 29% equity interest in the Target Hospital to be held by Hygeia Hospital Management is based upon the New Contractual Arrangements with, among others, Hygeia Hospital Management and Xiangshang Investment. Xiangshang Investment may potentially have a conflict of interest with the Group, and it may breach its agreements with the Group or if it otherwise acts in bad faith, if it believes the New Contractual Arrangements would adversely affect its own interests. The Group cannot assure the investors that when conflicts of interest arise between the Group and Xiangshang Investment, Xiangshang Investment will act completely in the Group's interests or that the conflicts of interest will be resolved in the Group's favor. If Xiangshang Investment does not act completely in the Group's interests or the conflicts of interest between the Group and it are not resolved in the Group's favor, the Group's business and financial condition may be materially and adversely affected.

Currently, the Group do not have arrangements to address the potential conflicts of interest faced by the ultimate beneficial owners of Hygeia Hospital Management in their dual capacity as beneficial owners of the Group. The Group rely on the ultimate beneficial owners of Hygeia Hospital Management to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to the Group and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to the Group's best interests. However, the legal frameworks of the PRC and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime.

In addition, Xiangshang Investment may breach or refuse to renew, or cause Hygeia Hospital Management to breach or refuse to renew, the New Contractual Arrangements with the Group. If Hygeia Hospital Management or Xiangshang Investment breaches its agreements with the Group or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly distract the Group management's attention, adversely affect the Group ability to control Hygeia Hospital Management as well as the 29% equity interest in the Target Hospital to be held by Hygeia Hospital Management and otherwise result in negative publicity and adversely affect the reputation of the Group's in-network hospitals. The Group cannot assure the investors that the outcome of any such dispute or proceeding will be in the Group's favor.

The New Contractual Arrangements may not be as effective in providing operational control as direct ownership. Hygeia Hospital Management and Xiangshang Investment may fail to perform their obligations under the New Contractual Arrangements.

The Group has 70% equity ownership interests in the Target Hospital and rely on the New Contractual Arrangements with the Target Hospital, Hygeia Hospital Management and Xiangshang Investment to control the remaining equity ownership interests in the Target Hospital, except for the 1% equity ownership interest held by an independent third party.

Although the Group is advised by the PRC Legal Advisor that save as disclosed in this circular, the New Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, the New Contractual Arrangements may not be as effective in providing us with control over Hygeia Hospital Management as direct ownership. Direct ownership would allow the Group, for example, to directly or indirectly exercise the Group's rights as a shareholder to effect changes in the board of directors of Hygeia Hospital Management, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level.

If Hygeia Hospital Management or Xiangshang Investment fails to perform its respective obligations under the New Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce the Group's rights. All of the New Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from the New Contractual Arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit the Group's ability to enforce the New Contractual Arrangements. The New Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Hygeia Hospital Management or the Target Hospital, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

In the event the Group is unable to enforce the New Contractual Arrangements or the Group's experience significant delays or other obstacles in the process of enforcing the New Contractual Arrangements, the Group may not be able to exert effective control over Hygeia Hospital Management and may not prevent leakage of equity and values to the minority shareholder of the Target Hospital or obtain the full economic benefits of the same. The Group's ability to conduct the business may be negatively affected.

The Group may lose control over Hygeia Hospital Management and may not enjoy 99% economic benefits of the Target Hospital if Hygeia Hospital Management declares bankruptcy or become subject to a dissolution or liquidation proceeding.

Hygeia Hospital Management will hold 29% equity interest in the Target Hospital upon Completion. The New Contractual Arrangements contain terms that specifically provide that Hygeia Hospital Management may not be voluntarily liquidated without the written consent of Gamma Star Tech. However, if Xiangshang Investment or Hygeia Hospital Management breaches this obligation and voluntarily liquidates Hygeia Hospital Management or if Hygeia Hospital Management declares bankruptcy, all or part of its assets may become subject to liens or rights of third-party creditors and we may be unable to continue to control Hygeia Hospital Management and may not enjoy the 99% economic benefits of the Target Hospital, which could adversely affect the Group's business, financial condition and results of operations.

If Xiangshang Investment was to attempt to voluntarily liquidate Hygeia Hospital Management without obtaining the Group's prior consent, the Group could effectively prevent such unauthorized voluntary liquidation by exercising the Group's right to request Xiangshang Investment to transfer all of its equity ownership interests in Hygeia Hospital Management to an entity or individual designated by the Group in accordance with the exclusive option agreement with Hygeia Hospital Management and Xiangshang Investment. In addition, under the New Contractual Arrangements, Xiangshang Investment does not have the right to issue dividends to itself or otherwise distribute the retained earnings or other assets of Hygeia Hospital Management without the Group's prior consent. In the event that Xiangshang Investment initiates a voluntary liquidation proceeding without the Group's authorization or attempts to distribute the retained earnings or assets of Hygeia Hospital Management without the Group's prior consent, the Group may need to resort to legal proceedings to enforce the terms of the New Contractual Arrangements. Any such legal proceeding may be costly and may divert the Group management's time and attention away from the operation of the Group's business, and the outcome of such legal proceeding will be uncertain.

If the Group exercise the option to acquire equity ownership of Hygeia Hospital Management, the ownership transfer may subject the Group to certain limitations and substantial costs.

Pursuant to the New Contractual Arrangements, Gamma Star Tech or its designated person(s) has the exclusive right to purchase all or any part of the equity interest in Hygeia Hospital Management from Xiangshang Investment at the minimum consideration permitted under then applicable PRC laws.

The equity transfer may be subject to approvals from and filings with the MOFCOM or its local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. Hygeia Hospital Management will be subject to PRC enterprise income tax on the difference between the equity interest transfer price and the amount Hygeia Hospital Management has paid to obtain the equity interest in the Target Hospital. Hygeia Hospital Management will pay the remaining amount to Gamma Star Tech under the New Contractual Arrangements. The amount to be received by Gamma Star Tech may also be subject to enterprise income tax. Such tax amounts could be substantial and the Group's financial condition may be adversely affected as a result.

G. FINANCIAL EFFECT OF THE ACQUISITION

Upon completion of the Acquisition, the Target Hospital will become a subsidiary of the Company and the financial results of the Target Hospital will be consolidated into the financial statements of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix IV to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that the Completion had taken place on December 31, 2020, the total assets of the Group would have increased from approximately RMB4,701.3 million to approximately RMB5,345.6 million on a pro forma basis, whereas the total liabilities of the Group would have increased from approximately RMB359.9 million to approximately RMB1,006.7 million on a pro forma basis.

Earnings

As set out in the accountant's report on historical financial information of the Target Hospital in Appendix II to this circular, the revenue and net profit of the Target Hospital for the year ended December 31, 2020 were approximately RMB362.3 million and RMB18.4 million, respectively.

Following the Completion, the Target Hospital becomes a subsidiary of the Company and the financial results, including but not limited to the revenue, costs and profit of the Target Hospital, will be consolidated into the consolidated financial statements of the Group.

With reference to the historical financial performance of the Target Hospital, the Directors are of the view that the Acquisition would have a positive impact on the future earnings of the Enlarged Group in a long run.

H. LISTING RULES IMPLICATIONS

The Acquisition

As the highest applicable percentage ratio in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the

Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisition, and therefore, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. Pursuant to Rule 14.44 of the Listing Rules, the Company may apply the written shareholders' approval in lieu of holding a general meeting of the Company to approve the Acquisition.

The Company has obtained a written approval from a closely allied group of Shareholders (details of their respective shareholding is set out below), who together held a total of 347,373,856 Shares, representing approximately 56.21% of the total number of the Shares in issue as of the date of the Equity Transfer Agreement. As such, the Company is not required to convene a general meeting to consider and approve the Acquisition.

Name of Shareholder	**Number of Shares held**	**Approximate percentage of shareholding**
Century River(1)	111,668,436	18.07%
Red Palm(2)	82,774,691	13.39%
Amber Tree(2)	82,774,691	13.39%
Spruce Wood Investment Holdings Limited(3)	2,400,000	0.39%
Fountain Grass(4)	67,756,038	10.96%
Total	**347,373,856**	**56.21%**

Notes:

(1) Century River is indirectly wholly-owned by Mr. Zhu, the founder of the Group.

(2) Red Palm and Amber Tree are indirectly wholly-owned by Ms. Zhu, the daughter of Mr. Zhu.

(3) Spruce Wood Investment Holdings Limited is wholly-owned by Mr. Ren Ai, the spouse of Ms. Zhu and son-in-law of Mr. Zhu and an executive Director.

(4) Fountain Grass is one of the Company's pre-IPO investors and an affiliate of Warburg Pincus LLC.

The New Contractual Arrangements

Xiangshang Investment is owned by Mr. Zhu, a non-executive Director, the vice chairman of the Board and a Controlling Shareholder, and Ms. Zhu, a Controlling Shareholder, as to 40% and 60%, respectively, and therefore, Xiangshang Investment is a connected person of the Company by virtue of it being an associate of Mr. Zhu and Ms. Zhu pursuant to the Listing Rules. Accordingly, the transactions contemplated under the New Contractual Arrangements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In preparation for the Listing, the Company has sought, and the Stock Exchange has granted, the IPO Waiver from strict compliance with the applicable reporting, announcement and independent shareholders' approval requirements relating to the annual caps, three years term and fee terms of Chapter 14A of the Listing Rules in connection with the continuing connected transactions involving the Group in the form of the Existing Contractual Arrangements. The IPO Waiver is subject to certain conditions including, among others, on the basis that the Existing Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on one hand, Hygeia Hospital Management, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Existing Contractual Arrangements.

Since the New Contractual Arrangements will be reproduced from the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Contractual Arrangements would fall within the scope of the IPO Waiver and be exempt from strict compliance with: (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the New Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the terms of the New Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the shares of the Company are listed on the Stock Exchange, subject to compliance with the same conditions of the IPO Waiver as disclosed in the section headed "Connected Transactions" in the Prospectus.

I. RECOMMENDATION

The Directors are of the opinion that the terms of the Equity Transfer Agreement are on normal commercial terms and fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. If a general meeting were to be convened for the approval of the Acquisition, the Board would recommend the Shareholders to vote in favor of the resolution to approve the Acquisition at such general meeting.

J. ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to the circular.

Yours faithfully,
For and on behalf of the Board
Hygeia Healthcare Holdings Co., Limited
Mr. Fang Min
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the two years ended December 31, 2018 and 2019 are disclosed in the Prospectus of the Company dated June 16, 2020, which has been published and is available on the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0616/2020061600025.pdf) and the website of the Company (http://www.hygeia-group.com.cn/UploadFiles/ProspectusType/20200616081805807.pdf).

The audited consolidated financial statements of the Group for the year ended December 31, 2020 are set out from pages 84 to 165 in the annual report of the Company for the year ended December 31, 2020 (the "**2020 Annual Report**") published on April 29, 2021. The 2020 Annual Report is also published and available on the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042901731.pdf) and the website of the Company (http://www.hygeia-group.com.cn/UploadFiles/FinancialReportType/20210607180046558.pdf).

2. INDEBTEDNESS

Borrowings

As of the close of business on April 30, 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had outstanding current bank borrowings of RMB1,110.8 million, among which, unsecured and unguaranteed bank borrowings amounted to RMB124.0 million, and secured and unguaranteed bank borrowings amounted to RMB986.8 million. The securities provided by the Enlarged Group included equity pledge of certain subsidiaries of the Enlarged Group.

Lease liabilities

As of the close of business on April 30, 2021, the Enlarged Group had lease liabilities of approximately RMB2.1 million.

Financial guarantee

As of the close of business on April 30, 2021, the Enlarged Group had financial guarantee of RMB74.9 million issued to some banks in respect of banking facilities granted to certain ex-fellow subsidiaries. Under the guarantees, the Target Hospital and other third parties are jointly and severally liable for all or any of the borrowings of each of them from the banks upon failure of the guaranteed entity to make payments when due.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as of the close of business on April 30, 2021, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, mortgages, charges, debentures, obligations under hire purchase contracts or finance leases or guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2020, being the date on which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As an oncology-focused healthcare group, the Group endeavors to make healthcare services more accessible and affordable (讓醫療更溫暖), addressing unmet demand of oncology patients in China. The Group will continue to expand its nationwide hospital network to non-tier-one cities with sizable population and high demand for oncology healthcare services to further enhance the core value of the Group.

Given the historical profitability of the Target Hospital and the promising prospect of healthcare services industry in China, the Company considers that the Acquisition represents a good opportunity for the Enlarged Group to broaden its income source, and it is currently expected that the Acquisition will bring positive impact on the overall earnings of the Enlarged Group in the short, medium and long run.

6. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Since December 31, 2020, being the date to which the latest audited accounts of the Group were made up, the Group has completed the following acquisition whose profits or assets make or will make a material contribution to the figures in the next published audited consolidated financial statements of the Group for the year ending December 31, 2021.

On April 25, 2021, the Company entered into a share purchase agreement with Ascendent Healthcare (Cayman) Limited (the "**Vendor**"), an Independent Third Party, pursuant to which the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the entire equity interest in Etern Group Ltd., at the consideration of USD267,132,781, being the USD equivalent of RMB1,734,600,000 (subject to the post-completion adjustment). Etern Group Ltd. is a limited company incorporated under the laws of the BVI and is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Suzhou Yongding Hospital Co., Ltd. (蘇州永鼎醫院有限公司) ("**Suzhou Yongding Hospital**"). Suzhou Yongding Hospital has commenced its operation as a general hospital since 2007 in Suzhou City, Jiangsu Province, the PRC and is currently a private for-profit Class II general hospital providing extensive healthcare services. The aforementioned acquisition was completed on April 28, 2021. For further details on the acquisition of Etern Group Ltd., please refer to the announcement of the Company dated April 25, 2021 and the circular of the Company dated May 14, 2021.

The aggregate of the remuneration payable to and benefits in kind received by the Directors will not be varied in consequence of the acquisition of Etern Group Ltd.

Save as disclosed above, since December 31, 2020 (the date which the latest published audited consolidated financial statements of the Group have been made up), no member of the Group has acquired or agreed to be acquired or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published accounts of the Group.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

29th Floor Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HYGEIA HEALTHCARE HOLDINGS CO., LIMITED

Introduction

We report on the historical financial information of the Hezhou Guangji Hospital ("**Guangji Hospital**") owned by Hezhou Guangji Hospital Co., Ltd. (the "**Target Company**") set out on pages II-4 to II-40, which comprises the statements of financial position as at December 31, 2018, 2019 and 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-40 forms an integral part of this report, which has been prepared for inclusion in the circular of Hygeia Healthcare Holdings Co., Limited (the "**Company**") dated June 25, 2021 (the "**Circular**") in connection with the proposed acquisition of the Target Hospital by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 2 to the Historical Financial Information.

The financial statements of the Target Hospital for the Relevant Periods ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the director of the Target Hospital based on the previously issued financial statements of the Target Hospital for the Relevant Periods. The director of the Target Company is responsible for the preparation and fair presentation of the previously issued financial statements of the Target Hospital in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Hospital as at December 31, 2018, 2019 and 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Notes 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

RSM Hong Kong
Certified Public Accountants
Hong Kong

June 25, 2021

HISTORICAL FINANCIAL INFORMATION OF THE TARGET HOSPITAL

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements of the Target Hospital for the Relevant Periods, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*8*	323,123	374,528	362,329
Cost of revenue		(248,159)	(305,958)	(302,782)
Gross profit		74,964	68,570	59,547
Other income	*9*	633	410	1,662
Other losses - net	*10*	(9,100)	(27,661)	(20,579)
Selling expenses		(1,182)	(165)	(283)
Administrative expenses		(19,845)	(25,457)	(19,268)
Operating profit		45,470	15,697	21,079
Finance income	*11*	297	566	1,108
Finance costs	*11*	–	–	(291)
Finance income – net		297	566	817
Profit before tax	*12*	45,767	16,263	21,896
Income tax expense	*13*	(1,238)	(3,717)	(3,474)
Profit and total comprehensive income for the year attributable to owners of the Target Hospital		44,529	12,546	18,422

B. STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31, 2018	2019	2020
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*18*	90,415	112,386	152,469
Financial assets at fair value through profit and loss	*19*	7,312	6,527	6,203
Prepayments for non-current assets	*21*	4,880	821	–
Deferred tax assets	*27*	397	1,650	5,343
Total non-current assets		103,004	121,384	164,015
Current assets				
Inventories	*20*	6,755	18,014	15,243
Trade, other receivables and prepayments	*21*	43,277	50,457	53,611
Amounts due from related parties	*34(a)*	20,000	20,000	–
Restricted bank balances	*22*	–	22,407	22,407
Cash and cash equivalents	*23*	32,709	49,248	82,811
Total current assets		102,741	160,126	174,072
TOTAL ASSETS		205,745	281,510	338,087
EQUITY AND LIABILITIES				
Equity attributable to owners of the Target Hospital				
Share capital	*24*	59,201	59,201	59,201
Capital reserve	*25*	71,613	71,613	71,613
Accumulated losses		(58,308)	(45,762)	(27,340)
Total equity		72,506	85,052	103,474
LIABILITIES				
Non-current liabilities				
Bank borrowings	*26*	–	–	22,000
Total non-current liabilities		–	–	22,000
Current liabilities				
Trade and other payables	*28*	62,812	98,834	120,912
Contract liabilities	*29*	1,090	1,691	1,146
Current tax liabilities		592	5,562	2,831
Financial guarantee contracts	*30*	68,745	90,371	87,724
Total current liabilities		133,239	196,458	212,613
Total liabilities		133,239	196,458	234,613
TOTAL EQUITY AND LIABILITIES		205,745	281,510	338,087

C. STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At January 1, 2018	59,201	71,613	(102,837)	27,977
Total comprehensive income and change in equity for the year	–	–	44,529	44,529
At December 31, 2018 and January 1, 2019	59,201	71,613	(58,308)	72,506
Total comprehensive income and change in equity for the year	–	–	12,546	12,546
At December 31, 2019 and January 1, 2020	59,201	71,613	(45,762)	85,052
Total comprehensive income and change in equity for the year	–	–	18,422	18,422
At December 31, 2020	59,201	71,613	(27,340)	103,474

D. STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		45,767	16,263	21,896
Adjustments for:				
Dividend income from financial assets at fair value through profit or loss	9	(267)	–	–
Interest income	11	(297)	(566)	(1,108)
Finance costs	11	–	–	291
Depreciation of property, plant and equipment	18	13,455	15,495	18,186
Loss on disposal of property, plant and equipment	10	59	112	21
Fair value loss on financial assets at FVTPL	10	2,281	785	324
Impairment of other receivables	10	528	441	967
Impairment of amounts due from related parties	10	–	2,600	20,172
Impairment/(Reversal of impairment) of financial guarantee contracts	10	3,733	21,626	(2,647)
Operating profit before working capital changes		65,259	56,756	58,102
(Increase)/decrease in inventories		(476)	(11,259)	2,771
Increase in trade, other receivables and prepayments		(8,412)	(3,562)	(3,300)
Increase in trade and other payables		9,462	36,022	22,078
(Decrease)/increase in contract liabilities		(919)	601	(545)
Cash generated from operations		64,914	78,558	79,106
Income taxes paid		–	–	(9,898)
Interest received		297	566	1,108
Net cash generated from operating activities		65,211	79,124	70,316

	Note	2018	2019	2020
		Year ended December 31,		
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment	18	(27,165)	(37,582)	(58,296)
Proceeds from disposal of property, plant and equipment		28	4	6
Restricted bank balances		–	(22,407)	–
Dividend income from financial assets at FVTPL		267	–	–
Net advance to related parties		(20,000)	(2,600)	(172)
Net cash used in investing activities		(46,870)	(62,585)	(58,462)
CASH FLOWS FROM FINANCING ACTIVITIES				
Inception of bank borrowings		–	–	31,500
Repayment of bank borrowings		–	–	(9,500)
Interest paid		–	–	(291)
Net cash generated from financing activities		–	–	21,709
NET INCREASE IN CASH AND CASH EQUIVALENTS		18,341	16,539	33,563
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		14,368	32,709	49,248
CASH AND CASH EQUIVALENTS AT END OF YEAR		32,709	49,248	82,811
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	23	32,709	49,248	82,811

E. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET HOSPITAL

1. GENERAL INFORMATION AND REORGANIZATION

The Target Company was established in the People's Republic of China (the "**PRC**") on March 4, 2020 with limited liability. The address of its registered office and principal place of business is No.33 ChengXi Road, Hezhou, GuangXi, PRC. GF Xinde (Zhuhai) Medical Industrial Investment Center L.P. ("**GF Xinde**") and Wuzhou Baoshiyuan Construction Development Co., Ltd. ("**Wuzhou Baoshiyuan**") held 99% and 1% of total registered capital.

In the opinion of the director of the Target Company, as at December 31, 2020, GF Xinde is the immediate and ultimate holding company of the Target Company.

Guangji Hospital was registered as a non-public not-for-profit general hospital in Hezhou City ("**Predecessor Hospital**"). The Predecessor Hospital and Target Company (collectively named as "**The Target Hospital**") are engaged in the operation of Guangji Hospital during the Relevant Periods. Pursuant to the agreement of conversion from not-for-profit to for-profit hospital signed by Health Bureau of Hezhou in Guangxi, the PRC and Guangji Hospital on December 24, 2019, all the assets and legal relations were succeeded by the Target Company after the conversion, and the Target Hospital was not required to pay any taxes in relation to the retained earnings succeeded (the "**Conversion**"). The shareholding, key management and staff remain unchanged. In addition, the Target Company has not been involved in any other business prior to the Conversion. On June 29, 2020, Guangji Hospital obtained the Medical Institution Practicing Licenses as a for-profit hospital.

The statutory audited financial statements of the Target Company for the year ended December 31, 2020 and the statutory audited financial statements of the Predecessor Hospital for the years ended December 31, 2018 and 2019 were audited by GuangXi YongXing Certified Public Accountants Co., Limited with an unqualified opinion issued.

On May 26, 2021, the Company and GF Xinde entered into Equity Transfer Agreement, pursuant to which the Company conditionally agreed to purchase, and GF Xinde agreed to sell, an aggregate of 99% equity interest in the Target Company.

2. BASIS OF PRESENTATION AND PREPARATION

The Conversion is merely a change in legal form of the Target Hospital and does not result in any changes in the business substance, nor in management of the Target Hospital. Accordingly, the Historical Financial Information of the company now comprising the Target Hospital is presented using the carrying values of the Target Hospital for all periods presented.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board.

As at December 31, 2018, 2019 and 2020, the Target Hospital had net current liabilities of RMB30,498,000, RMB36,332,000 and RMB38,541,000 respectively. The ultimate holding company has confirmed its intention to provide continuing financial support to the Target Business so as to enable the Target Hospital to meet its liabilities as and when they fall due and to carry on its business without any significant curtailment of operations. Accordingly, the Financial Information has been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of new and revised IFRSs

The Target Hospital adopted all of the new standards, amendments to standards and interpretations that have been issued and effective during the Relevant Periods consistently throughout the Relevant Periods, including IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

(b) New and revised IFRSs in issue but not yet effective

The Target Hospital has not applied the new and revised IFRSs that have been issued but are not yet effective for the Relevant Periods. These new and revised IFRSs include the following which may be relevant to the Target Hospital.

		Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
Amendment to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Annual improvements to IFRS standards 2018-2020		January 1, 2022

The Target Hospital is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Target Hospital's financial performance and position.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial assets that are measured at fair value).

The preparation of Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Hospital's accounting policies. The areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of the Target Hospital are measured using the currency of the primary economic environment in which the Target Hospital operates (the "**functional currency**"). The Historical Financial Information is presented in RMB, which is the Target Hospital's functional and presentation currency.

(ii) Transactions and balances in the Historical Financial Information

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognized in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(b) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land, held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Hospital and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Shorter of the term of remaining title to the land or estimated useful life
Medical equipment	5 years
Transportation equipment	5 years
Office equipment and furniture	5 years
Right-of-use for lands	Remaining lease term
Leasehold improvements	Shorter of remaining lease term or estimated useful life

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in profit or loss.

Construction-in-progress (the "**CIP**") represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost is transferred to relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

(c) Leases

At inception of a contract, the Target Hospital assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Target Hospital as a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Hospital has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Hospital recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months. When the Target Hospital enters into a lease in respect of a low-value asset, the Target Hospital decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Target Hospital is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Hospital's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Hospital will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Hospital presents right-of-use assets and lease liabilities separately in the statements of financial position.

(ii) The Target Hospital as a lessor

When the Target Hospital acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(e) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Target Hospital recognizes the related revenue. A contract liability would also be recognized if the Target Hospital has an unconditional right to receive consideration before the Target Hospital recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(f) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized in the statements of financial position when the Target Hospital becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Target Hospital derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Hospital neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Hospital recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Hospital retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Hospital continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

The Target Hospital derecognizes financial liabilities when, and only when, the Target Hospital's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(g) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Target Hospital are classified into the amortized cost measurement category, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

Equity investments

An investment in equity securities is classified as FVTPL unless equity investment is not held for trading purposes and on initial recognition of the investment the Target Hospital makes an election to designate the investment at fair value through other comprehensive income ("**FVTOCI**") (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognized in profit or loss as other income.

(h) Trade and other receivables

A receivable is recognized when the Target Hospital has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Target Hospital has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Hospital's cash management are also included as a component of cash and cash equivalents for the purpose of the statements of cash flows. Cash and cash equivalents are assessed for expected credit losses ("**ECL**").

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Hospital after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Hospital has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the ECL model under HKFRS 9; and

– the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

(m) Trade and other payables

Trade and other payables are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Target Hospital after deducting all of its liabilities.

(o) Revenue and other income

Revenue is recognized when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Target Hospital is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from ancillary medical services is recognized when the related services have been rendered and includes out-patient and in-patient services. The subsequent agreement on the government approved annual quota for the medical fees to be recovered from the relevant public medical insurance program have been treated as changes in variable considerations. The Target Hospital estimates the variable considerations based on the most likely amount, which is based on historical practice and all reasonably available information, and adjusts to the actual amount for the satisfied ancillary medical services in the period when the annual quota is agreed.

(i) Out-patient services

For out-patient services, the patient normally receives out-patient treatment which contains various treatment components. Out-patient services contain more than one performance obligations, including (I) provision of consultation services and (II) sale of pharmaceutical products. The Target Hospital allocates the transaction price to each performance obligation on relative stand-alone selling price basis. Both (I) provision of consultation services and (II) sale of pharmaceutical products for which the control of services or pharmaceutical products is transferred at a point in time, revenue is recognized when the customer obtains the control of the completed services or pharmaceutical products and the Target Hospital has satisfied its performance obligations with present right to payment and the collection of the consideration is probable.

(ii) In-patient services

For in-patient services, the customers normally receive in-patient treatment which contains various treatment components. In-patient services contain more than one performance obligations, including (I) provision of consultation services and (II) provision of in-patient healthcare services and (III) sale of pharmaceutical products. The Target Hospital allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

For revenue from (I) provision of consultation services and (III) sale of pharmaceutical products for which control of services or pharmaceutical products is transferred at a point in time, revenue is recognized when the customer obtains the control of the completed services or pharmaceutical products and the Target Hospital has satisfied its performance obligations with present right to payment and the collection of the consideration is probable.

For revenue from (II) provision of in-patient healthcare services, the corresponding revenue is recognized over the service period when customers simultaneously receives the services and consumes the benefits provided by the Target Hospital's performance as the Target Hospital performs.

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset.

Dividend income is recognized when the shareholders' rights to receive payment are established.

Rental income receivable under operating leases is recognized in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are earned.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(ii) Pension obligations

In accordance with the rules and regulations in the PRC, the employees of the Target Hospital based in the PRC participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Target Hospital and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees based in the PRC payable under the plans described above. Other than the monthly contributions, the Target Hospital has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Target Hospital in an independent fund managed by the PRC government. The Target Hospital's contributions to these plans are expensed as incurred.

(iii) Housing funds, medical insurances and other social insurances

The employees of the Target Hospital based in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Target Hospital contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Target Hospital's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these funds are expensed as incurred.

(iv) Termination benefits

Termination benefits are recognized at the earlier of the dates when the Target Hospital can no longer withdraw the offer of those benefits, and when the Target Hospital recognized restructuring costs and involves the payment of termination benefits.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Hospital that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(r) Government grants

A government grant is recognized when there is reasonable assurance that the Target Hospital will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognized in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Hospital with no future related costs are recognized in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognized in profit or loss on a straight-line basis over the useful lives of the related assets.

(s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognized in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Hospital's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Hospital expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Target Hospital recognizes the right-of-use assets and the related lease liabilities, the Target Hospital first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Hospital applies IAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not realized at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Hospital intends to settle its current tax assets and liabilities on a net basis.

(t) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statements of profit or loss and other comprehensive income to its estimated recoverable amount unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated pro rata amongst the assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(u) Impairment of financial assets

The Target Hospital recognizes a loss allowance for ECL on trade and other receivables, as well as on financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Hospital always recognizes lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Target Hospital's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Target Hospital recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Target Hospital measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Hospital compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Target Hospital considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered various external sources of actual and forecast economic information that relate to the Target Hospital's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor; and

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Hospital presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Target Hospital has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target Hospital assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default;

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Target Hospital considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Target Hospital becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Target Hospital considers the changes in the risk that the specified debtor will default on the contract.

The Target Hospital regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Hospital considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Hospital, in full (without taking into account any collaterals held by the Target Hospital).

Irrespective of the above analysis, the Target Hospital considers that default has occurred when a financial asset is more than 90 days past due unless the Target Hospital has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Hospital writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Hospital's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Hospital's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Hospital in accordance with the contract and all the cash flows that the Target Hospital expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Target Hospital is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Target Hospital expects to receive from the holder, the debtor or any other party.

If the Target Hospital has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Hospital measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Hospital recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(v) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Target Hospital has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(w) Events after the reporting period

Events after the reporting period that provide additional information about the Target Hospital's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information.

5. CRITICAL JUDGMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Target Hospital determines the estimated useful lives, residual values and related depreciation charges for the Target Hospital's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Target Hospital will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amounts of property, plant and equipment at each reporting date are disclosed in Note 18.

(b) Income taxes

The Target Hospital is subject to income taxes in the PRC. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The income tax charged to profit or loss based on the estimated profit for years ended December 31, 2018, 2019 and 2020 were disclosed in Note 13.

(c) Impairment of trade and other receivables

The management of the Target Hospital estimates the amount of impairment loss for ECL on trade and other receivables based on the credit risk of trade and other receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Hospital in accordance with the contract and all the cash flows that the Target Hospital expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

The impairment loss made during the Relevant Periods was disclosed in Note 6(a).

(d) Financial guarantee contracts

For the fair value of the financial guarantee contracts provided to the counterparties, assumptions are made by the Target Hospital at date of initial recognition, based on the guaranteed amount, the credit spread of the guaranteed counterparties and the estimated default probability with reference to their credit ratings. The credit spread and risk of default were, therefore, of significant estimation uncertainty. If the risk of default was significantly different from the estimated default probability, the fair value of the financial guarantee contracts at the date of initial recognition would be significantly changed. Financial guarantee contracts are subsequently measured at the higher of the amount of loss allowance determined based on the measurement of ECL and the amount initially recognized less, where appropriate, cumulative amortization over the guarantee period.

The carrying amount of financial guarantee contracts at each reporting date are disclosed in Note 30.

6. FINANCIAL RISK MANAGEMENT

The Target Hospital's activities expose it to a variety of financial risks: credit risk, price risk, liquidity risk and interest rate risk. The Target Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Hospital's financial performance.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Target Hospital is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks, other financial instruments. The Target Hospital's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies, for which the Target Hospital considers to have low credit risk.

Except for the financial guarantee given by the Group as set out in Note 30, the Target Hospital does not provide any other guarantees which would expose the Target Hospital to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of each reporting period are disclosed in Note 6(c).

Trade receivables

Customer credit risk is managed by each business unit subject to the Target Hospital's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Target Hospital does not obtain collateral from customers.

The Target Hospital measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Hospital's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Business' different customer bases. Since the actual loss rates for each type of the trade receivables and the adjustments for forward looking macroeconomic data did not have significant change during the years ended December 31, 2018, 2019 and 2020, the director of the Target Hospital considers that the change in the expected credit loss rate is insignificant.

The following table provides information about the Target Hospital's exposure to credit risk and ECLs for trade receivables as at December 31, 2018, 2019 and 2020:

	Within 90 days past due	91 to 180 days past due	181 to 365 days past due	Over 1 year past due	Total
At December 31, 2018					
Gross carrying amount (RMB'000)	30,438	7,818	1,272	70	39,598
– Expected credit loss rate	0%	0%	0%	0%	
– Allowance of impairment loss (RMB'000)	–	–	–	–	–
At December 31, 2019					
Gross carrying amount (RMB'000)	38,743	9,367	65	–	48,175
– Expected credit loss rate	0%	0%	0%	0%	
– Allowance of impairment loss (RMB'000)	–	–	–	–	–
At December 31, 2020					
Gross carrying amount (RMB'000)	27,198	16,574	7,993	329	52,094
– Expected credit loss rate	0%	0%	0%	0%	
– Allowance of impairment loss (RMB'000)	–	–	–	–	–

Expected loss rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Hospital's view of economic conditions over the expected lives of the receivables.

Financial assets at amortized cost

All of the Target Hospital's investments at amortized cost are considered to have low credit risk, and the loss allowance recognized during the Relevant Periods was therefore limited to 12-month expected losses. These instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets at amortized cost include other receivables and amounts due from related parties.

Movement in the impairment of other receivables during the Relevant Periods is as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	11,368	11,896	14,937
Charge for the year	528	3,041	21,139
At end of year	11,896	14,937	36,076

(b) Price risk

The Target Hospital is exposed to equity price risk mainly through its investment in equity securities.

The sensitivity analyzes below have been determined based on the exposure to equity price risk at the end of each reporting period.

If equity prices had been 10% higher/lower, profit and loss for the years ended December 31, 2018, 2019 and 2020 would increase/decrease by RMB731,000, RMB653,000 and RMB620,000, respectively, as a result of the changes in fair value of financial assets at FVTPL.

(c) Liquidity risk

The Target Hospital's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Target Hospital's financial liabilities is as follows:

	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2018					
Trade and other payables	62,812	–	–	–	62,812
Financial guarantee contracts	66,297	–	–	–	66,297
	129,109	–	–	–	129,109
At December 31, 2019					
Trade and other payables	98,834	–	–	–	98,834
Financial guarantee contracts	64,623	–	–	–	64,623
	163,457	–	–	–	163,457
At December 31, 2020					
Trade and other payables	120,912	–	–	–	120,912
Bank borrowings	848	848	22,707	–	24,403
Financial guarantee contracts	73,732	–	–	–	73,732
	195,492	848	22,707	–	219,047

(d) Interest rate risk

The Target Hospital's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interest at variable rates that vary with the then prevailing market condition.

At December 31, 2020, if interest rates had been 100 basis points lower/higher with all other variables held constant, profit after tax for the year would have been approximately RMB220,000 higher/lower, arising mainly as a result of lower/higher interest expense on bank borrowings.

(e) Categories of financial instruments

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Financial assets at amortized cost	93,112	141,568	158,381
Financial assets at FVTPL	7,312	6,527	6,203
	100,424	148,095	164,584
Financial liabilities:			
Financial liabilities at amortized cost	62,812	98,834	142,912
Financial guarantee contracts	68,745	90,371	87,724
	131,557	189,205	230,636

(f) Fair values

The carrying amounts of the Target Hospital's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Target Hospital can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Target Hospital's policy is to recognize transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at the end of each reporting period

	Fair value measurements using: Level 3 As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL	7,312	6,527	6,203

(b) Reconciliation of assets measured at fair value based on Level 3:

	Fair value measurements using: Level 3 As at December 31, 2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	9,593	7,312	6,527
Losses recognized in profit and loss	(2,281)	(785)	(324)
At end of year	7,312	6,527	6,203

Total gain or loss recognized in profit or loss are presented in other losses in the Historical Financial Information.

(c) Disclosure of valuation process used by the Target Hospital and valuation techniques and inputs used in fair value measurements at the end of each reporting period:

The Target Hospital's director is responsible for the fair value measurements of assets required for financial reporting purposes, including Level 3 fair value measurements.

Level 3 fair value measurements

Valuation technique	Significant unobservable inputs	Effect on fair value for increase of inputs	Assets As at December 31, 2018	2019	2020
			RMB'000	*RMB'000*	*RMB'000*
Financial assets at FVTPL					
Market approach	Discount for lack of marketability	The higher the discount, the lower the fair value	7,312	6,527	6,203

8. REVENUE AND SEGMENT INFORMATION

An analysis of the Target Hospital's revenue for the Relevant Periods is as follows:

	Year ended December 31, 2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Products and services transferred at a point in time			
Out-patient services	83,877	97,014	103,347
In-patient services	235,030	269,902	247,416
	318,907	366,916	350,763
Products and services transferred over time			
In-patient services	4,216	7,612	11,566
	323,123	374,528	362,329

No segment information is presented for the Relevant Periods as the Target Hospital only engages in the operation of a hospital in the PRC and all revenue, expenses, results, assets and liabilities are predominately attributable to this single operating segment.

None of the Target Hospital's customers contributed 10% of or more of the Target Hospital's revenue during the Relevant Periods, and accordingly, no major customers information is presented.

9. OTHER INCOME

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Dividend income from financial assets at FVTPL	267	–	–
Government subsidies *(Note)*	–	–	1,129
Rental income	80	157	185
Sundry income	286	253	348
	633	410	1,662

Note:

Government subsidies received mainly represent unconditional financial subsidies received from various local government authorities in the PRC.

10. OTHER LOSSES – NET

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Loss on disposal of property, plant and equipment	(59)	(112)	(21)
Impairment of other receivables	(528)	(441)	(967)
Impairment of amounts due from related parties	–	(2,600)	(20,172)
Impairment/(Reversal of impairment) of financial guarantee contracts	(3,733)	(21,626)	2,647
Fair value loss on financial assets at FVTPL	(2,281)	(785)	(324)
Insurance claims	(457)	1,111	249
Penalties	(1,937)	(2,998)	(582)
Others	(105)	(210)	(1,409)
	(9,100)	(27,661)	(20,579)

11. FINANCE INCOME – NET

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Finance income:			
Interest income	297	566	1,108
Finance costs:			
Interest expense on bank borrowings	–	–	(291)
Finance income – net	297	566	817

12. PROFIT BEFORE TAX

The Target Hospital's profit before tax is stated after charging the following:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Auditors' remuneration	78	26	65
Depreciation of property, plant and equipment	13,455	15,495	18,186
Cost of inventories sold	127,162	185,171	179,242
Expenses relating to short-term leases	773	724	392
Employee benefit expenses *(Note 14)*	106,798	110,341	108,957

13. INCOME TAX EXPENSE

Income tax has been recognized in profit or loss as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Current tax – PRC enterprise income tax ("**EIT**")	592	4,970	7,167
Deferred tax *(Note 27)*	646	(1,253)	(3,693)
	1,238	3,717	3,474

EIT was made on the estimated assessable profits of the entities operating the Target Hospital established in the PRC and was calculated in accordance with the relevant tax rules and regulations of the PRC after considering the available tax refunds and allowances. The general EIT rate is 25% for the years ended December 31, 2018, 2019, and 2020.

Pursuant to the relevant laws and regulations, the Target Hospital is subject to a tax concession rate of 15% from 2018 to 2020.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC EIT rate is as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	45,767	16,263	21,896
Tax at the PRC EIT rate of 25%	11,442	4,066	5,474
Tax effect of income that is not taxable	(189)	–	–
Tax effect of expenses that are not deductible	934	233	1,926
Tax effect of temporary differences not recognized	(5,841)	2,899	1,438
Tax effect of utilization of tax losses not previously recognized	(2,916)	–	–
Tax preference	(2,192)	(3,481)	(5,364)
	1,238	3,717	3,474

14. EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and bonuses	84,264	85,913	88,785
Retirement benefit scheme contributions	8,712	8,321	2,266
Allowances and benefits in kind	13,822	16,107	17,906
	106,798	110,341	108,957

Five highest paid individuals

During the years ended December 31, 2018, 2019 and 2020, the five highest paid individuals in the Target Hospital did not included any directors. The emoluments of the five highest paid individuals are set out below:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and bonuses	2,908	2,664	2,676
Retirement benefit scheme contributions	129	118	34
Allowances and benefits in kind	149	152	105
	3,186	2,934	2,815

The emoluments fell within the following band:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
HK$500,001 to HK$1,000,000	5	5	5

15. BENEFITS AND INTERESTS OF DIRECTOR

(a) Director's emoluments

None of the director of the Target Hospital received or will receive any emoluments, retirement benefits or termination benefits during the Relevant Periods.

During the Relevant Periods, no remunerations were paid by the Target Hospital to the director as an inducement to join or upon joining the Target Hospital or as compensation for loss of office. No director of the Target Hospital waived or agreed to waive any remunerations during the Relevant Periods.

(b) Director's material interests in transactions, arrangements and contracts

No significant transactions, arrangements and contracts in relation to the Target Hospital to which the Target Hospital was a party and in which a director of the Target Hospital and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

16. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

17. DIVIDEND

No dividend has been paid or declared by the Target Hospital for the years ended December 31, 2018, 2019 and 2020.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Right-of-use for lands	Medical equipment	Transportation equipment	Office equipment and furniture	Leasehold improvements	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost								
At January 1, 2018	55,673	13,228	62,255	3,447	12,707	–	136	147,446
Additions	1,173	–	9,979	260	1,465	1,400	12,888	27,165
Transfer	2,733	–	–	22	6,430	–	(9,185)	–
Disposal	–	–	(1,638)	–	(338)	–	–	(1,976)
At December 31, 2018 and January 1, 2019	59,579	13,228	70,596	3,729	20,264	1,400	3,839	172,635
Additions	227	–	16,677	–	4,837	–	15,841	37,582
Transfer	2,652	–	–	–	–	–	(2,652)	–
Disposal	–	–	(4,918)	(59)	(775)	–	–	(5,752)
At December 31, 2019 and January 1, 2020	62,458	13,228	82,355	3,670	24,326	1,400	17,028	204,465
Additions	–	20,742	5,917	370	276	560	30,431	58,296
Transfer	394	–	–	–	501	–	(895)	–
Disposal	–	–	(805)	(343)	(338)	–	–	(1,486)
At December 31, 2020	62,852	33,970	87,467	3,697	24,765	1,960	46,564	261,275
Accumulated depreciation and impairment								
At January 1, 2018	17,141	3,412	39,476	1,674	8,951	–	–	70,654
Charge for the year	2,007	261	9,076	387	1,518	206	–	13,455
Disposals	–	–	(1,575)	–	(314)	–	–	(1,889)
At December 31, 2018 and January 1, 2019	19,148	3,673	46,977	2,061	10,155	206	–	82,220
Charge for the year	2,344	257	8,953	403	3,044	494	–	15,495
Disposals	–	–	(4,811)	(58)	(767)	–	–	(5,636)
At December 31, 2019 and January 1, 2020	21,492	3,930	51,119	2,406	12,432	700	–	92,079
Charge for the year	2,664	603	10,462	444	3,395	618	–	18,186
Disposals	–	–	(795)	(332)	(332)	–	–	(1,459)
At December 31, 2020	24,156	4,533	60,786	2,518	15,495	1,318	–	108,806
Carrying amount								
At December 31, 2018	40,431	9,555	23,619	1,668	10,109	1,194	3,839	90,415
At December 31, 2019	40,966	9,298	31,236	1,264	11,894	700	17,028	112,386
At December 31, 2020	38,696	29,437	26,681	1,179	9,270	642	46,564	152,469

Depreciation of the Target Hospital's property, plant and equipment has been recognized in the statements of profit and loss and comprehensive income as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	12,054	12,841	14,783
Selling expenses	9	–	–
Administrative expenses	1,392	2,654	3,403
	13,455	15,495	18,186

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity securities	7,312	6,527	6,203

The unlisted equity securities represented the Target Hospital's 0.968%, 0.847% and 0.847% interest held as at December 31, 2018, 2019 and 2020 in GuangXi HeZhou GuiDong Rural Cooperative Bank.

20. INVENTORIES

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Pharmaceuticals	5,633	10,963	7,724
Medical supplies	765	6,698	7,213
Spare parts	357	353	306
	6,755	18,014	15,243

21. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Included in current assets			
Trade receivables	39,598	48,175	52,094
Other receivables	805	1,738	1,069
Prepayments	2,874	544	448
	43,277	50,457	53,611
Included in non-current assets			
Prepayments for property, plant and equipment	4,880	821	–
	48,157	51,278	53,611

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	30,438	38,743	27,199
91 – 180 days	7,818	9,367	16,574
181 – 365 days	1,272	65	7,993
Over 365 days	70	–	328
	39,598	48,175	52,094

22. RESTRICTED BANK BALANCES

At December 31, 2019 and 2020, bank balances of RMB22.4 million were frozen due to one of the pending litigations (details of which are set out in Note 30). The Target Company is negotiating with the banks to settle these litigations.

23. CASH AND CASH EQUIVALENTS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	32,709	49,248	82,811

The conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. SHARE CAPITAL

The share capital as at December 31, 2018, 2019 and 2020 comprised the paid-in capital of Hezhou Guangji Hospital and the Target Company.

		As at December 31,		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
At beginning of year		59,201	59,201	59,201
Incorporation of the Target Company	*(i)*	–	–	59,201
Deregistration of not-for-profit entity upon Conversion	*(ii)*	–	–	(59,201)
At end of year		59,201	59,201	59,201

Note:

(i) The Target Company was incorporated on March 4, 2020 with paid-in capital of RMB59,201,000.

(ii) Upon the completion of the Conversion, the not-for-profit entity was deregistered in June 2020.

The Target Hospital's objectives when managing capital are to safeguard the Target Hospital's ability to continue as a going concern and to maximize the return to the shareholders through the optimization of the debt and equity balance.

The Target Hospital sets the amount of capital in proportion to risk. The Target Hospital manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Target Hospital may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

25. CAPITAL RESERVE

Capital reserve arose from the capital investment injection in excess of the increase in the registered capital.

26. BANK BORROWINGS

The bank borrowings are repayable as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	–
More than one year, but not exceeding two years	–	–	–
More than two years, but not more than five years	–	–	22,000
Amount due for settlement after 12 months	–	–	22,000

The bank borrowings are unsecured and repayable on November 5, 2023.

The weighted average effective interest rates per annum as at December 31, 2020 is 3.86%.

The bank borrowings are arranged at floating interest rate and expose the Target Hospital to cash flow interest rate risk.

27. DEFERRED TAX

The following are the deferred tax assets/(liabilities) recognized by the Target Hospital.

	Unrealized gain on financial assets at FVTPL	**Accelerated tax depreciation**	**Employee benefit**	**Impairment on receivables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018	(1,139)	–	477	1,705	1,043
Credit/(Charge) profit or loss for the year *(Note 13)*	342	(1,692)	625	79	(646)
At December 31, 2018 and January 1, 2019	(797)	(1,692)	1,102	1,784	397
Credit/(Charge) profit or loss for the year *(Note 13)*	118	138	541	456	1,253
At December 31, 2019 and January 1, 2020	(679)	(1,554)	1,643	2,240	1,650
Credit/(Charge) to profit or loss for the year *(Note 13)*	49	157	316	3,171	3,693
At December 31, 2020	(630)	(1,397)	1,959	5,411	5,343

The following is the analysis of the deferred tax balances (after offset) for statements of financial position purposes:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	2,886	3,883	7,370
Deferred tax liabilities	(2,489)	(2,233)	(2,027)
	397	1,650	5,343

28. TRADE AND OTHER PAYABLES

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	35,908	64,028	84,849
Accrued employee benefits	20,543	23,152	24,634
Accrued expenses	4,635	5,215	4,762
Other tax payables	266	282	713
Others	1,460	6,157	5,954
	62,812	98,834	120,912

The aging analysis of trade payables, based on the invoice date, is as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	28,407	46,534	54,698
91 – 180 days	2,313	8,306	25,497
181 – 365 days	3,595	5,558	2,325
Over 365 days	1,593	3,630	2,329
	35,908	64,028	84,849

29. CONTRACT LIABILITIES

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
Billings in advance of performance obligation			
In-patient services	1,090	1,691	1,146

Contract liabilities relating to in-patient services are receipts in advance from customers.

There were no significant changes in the contract liabilities balances during the Relevant Periods.

All of the balances are expected to be recognized within one year. These amounts are included in current liabilities as the Target Hospital expects to realize these within its normal operating cycle.

All hospital business contracts are for periods of one year or less. Hence, the transaction prices allocated to these unsatisfied performance obligations are not disclosed.

30. FINANCIAL GUARANTEE CONTRACTS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Expected credit losses of financial guarantee contracts	68,745	90,371	87,724

The Target Hospital provided corporate guarantees to various banks and financial institutions for loan facilities granted to several related parties.

Subsequently, the related parties were in default in respect of outstanding loan. Pursuant to the terms of the guarantees, the Target Hospital is liable for the payment to the banks and financial institutions of the outstanding loan, plus interest and costs. The banks and financial institutions took legal actions against the respective borrowers and the guarantors to recover the loan balances and interests thereon.

According to the court's judgments, the compensation amount to be borne by the Target Hospital shall be half of the outstanding loans (plus interests and costs) after deducting the amount which will be paid by the borrowers.

The director had estimated the expected credit losses for the above guarantees as a result at each of the reporting period. These financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. After initial recognition, such a contract shall subsequently measure it at the higher of: (i) the amount of the loss allowance determined and, (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

31. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Hospital's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Hospital's statements of cash flows as cash flows from financing activities.

	Bank borrowings
	RMB'000
At January 1, 2018	–
Cash flows	–
At December 31, 2018 and January 1, 2019	–
Cash flows	–
At December 31, 2019 and January 1, 2020	–
Cash flows	22,000
At December 31, 2020	22,000

(b) Total cash flow for leases

All cash outflow for leases are related to lease rental payments. The total cash outflow for leases was RMB773,000, RMB724,000, and RMB392,000 for the years ended December 31, 2018, 2019 and 2020, respectively, and included in operating cash flows.

32. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of each reporting period but not yet incurred are as follows:

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	96,632	80,791	50,246

33. OPERATING LEASE ARRANGEMENTS

The Target Hospital as lessor

Minimum lease payments receivable on leases are as follows:

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	12
In the second year	–	–	16
	–	–	28

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this report, the director of the Target Hospital is of the view that the following parties/companies were related parties that had transactions or balances with the Target Hospital during the years ended December 31, 2018, 2019 and 2020:

Name of related parties	Relationship with the Target Hospital
GF Xinde (廣發信德(珠海)醫療產業投資中心(有限合夥))	Holding company
Wuzhou Baoshiyuan (梧州寶石園建設開發有限公司)	Shareholder
Wuhan GF Oncology Hospital (武漢廣發腫瘤醫院有限責任公司)	Fellow subsidiaries

(a) Balances with related parties

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties			
Non-trade			
– GF Xinde	20,000	20,000	–
– Wuhan GF Oncology Hospital	–	–	–
– Wuzhou Baoshiyuan	–	–	–
	20,000	20,000	–

As at December 31, 2018, 2019 and 2020, the balances were unsecured, interest-free, and collectable on demand and are denominated in RMB.

(b) Compensation of key management personnel of the Target Hospital

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and bonuses	3,167	2,564	2,724
Retirement benefit scheme contributions	90	108	40
Allowances and benefits in kind	128	159	169
	3,385	2,831	2,933

35. EVENTS AFTER THE RELEVANT PERIODS

Save as disclosed above, no significant events took place subsequent to December 31, 2020 and up to date of this report.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any entity comprising the Target Hospital in respect of any period subsequent to December 31, 2020 and up to the date of report.

*Set out below is the management discussion and analysis on the Target Hospital for the three financial years ended December 31, 2018, 2019 and 2020 (the "**Track Record Period**"). The following financial information is based on the financial information of the Target Hospital as set out in Appendix II to this circular.*

BUSINESS REVIEW

The Target Hospital is a private for-profit Class III general hospital located in Hezhou City, Guangxi Zhuang Autonomous Region, the PRC, and has been operating for over 70 years. It was previously a private not-for-profit hospital, known as Hezhou Guangji Hospital (賀州廣濟醫院), and has obtained a valid Medical Institution Practicing License (醫療機構執業許可證) as a for-profit hospital in June 2020. The Target Hospital provides healthcare services in a wide range of specialties, including but not limited to oncology, orthopedics, urology, gynecology and ICU (intensive care unit). As of December 31, 2020, it had 548 registered beds. The number of inpatient visits was approximately 30 thousand, and the number of outpatient visits was approximately 300 thousand for the year ended December 31, 2020.

FINANCIAL REVIEW

Revenue

During the Track Record Period, revenue of the Target Hospital was generated from one single segment, namely the provision of healthcare services. For the years ended December 31, 2018, 2019 and 2020, revenue of the Target Hospital amounted to RMB323.1 million, RMB374.5 million and RMB362.3 million, respectively. Revenue of the Target Hospital decreased by 3.3% in 2020 as compared to that in 2019, mainly due to the impact of the COVID-19 epidemic at the beginning of 2020.

Cost of Revenue

During the Track Record Period, cost of revenue of the Target Hospital primarily consisted of cost of pharmaceuticals, medical consumables and other inventories, employee benefits expenses, consultancy and professional service fees, depreciation and amortization and other related expenses. For the years ended December 31, 2018, 2019 and 2020, cost of revenue of the Target Hospital amounted to RMB248.2 million, RMB306.0 million and RMB302.8 million, respectively.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020, gross profit of the Target Hospital amounted to RMB75.0 million, RMB68.6 million and RMB59.5 million, respectively, and gross profit margin of the Target Hospital was 23.2%, 18.3% and 16.4%, respectively, for the same years.

Selling Expenses

During the Track Record Period, selling expenses of the Target Hospital primarily consisted of marketing and promotion expenses. For the years ended December 31, 2018, 2019 and 2020, selling expenses of the Target Hospital amounted to RMB1.2 million, RMB0.2 million and RMB0.3 million, respectively.

Administrative Expenses

During the Track Record Period, administrative expenses of the Target Hospital primarily consisted of employee benefits expenses, depreciation and amortization, traveling expenses, utilities expenses and other expenses. For the years ended December 31, 2018, 2019 and 2020, administrative expenses of the Target Hospital amounted to RMB19.8 million, RMB25.5 million and RMB19.3 million, respectively.

Other Income

During the Track Record Period, other income of the Target Hospital primarily consisted of government subsidies and sundry income. For the years ended December 31, 2018, 2019 and 2020, other income of the Target Hospital amounted to RMB0.6 million, RMB0.4 million and RMB1.7 million, respectively.

Other Losses – Net

During the Track Record Period, other losses - net of the Target Hospital primarily consisted of losses from financial guarantee, impairment losses, penalty losses, fair value losses on financial assets at fair value through profit and loss and insurance claims. For the years ended December 31, 2018, 2019 and 2020, other losses – net of the Target Hospital amounted to RMB9.1 million, RMB27.7 million and RMB20.6 million, respectively.

Finance Income and Costs

During the Track Record Period, finance income of the Target Hospital consisted of interest income on its bank savings. For the years ended December 31, 2018, 2019 and 2020, finance income of the Target Hospital amounted to RMB0.3 million, RMB0.6 million and RMB1.1 million, respectively.

During the Track Record Period, finance costs of the Target Hospital primarily consisted of its interest expenses on bank borrowings and interest expenses on lease liabilities. For the years ended December 31, 2018 and 2019, finance costs of the Target Hospital were nil. For the year ended December 31, 2020, finance costs of the Target Hospital amounted to RMB0.3 million.

Income Tax Expense

For the years ended December 31, 2018, 2019 and 2020, income tax expense of the Target Hospital amounted to RMB1.2 million, RMB3.7 million and RMB3.5 million, respectively.

Profit for the Year Attributable to Owners of the Target Hospital

For the years ended December 31, 2018, 2019 and 2020, the Target Hospital recorded profit for the year attributable to owners of the Target Hospital of RMB44.5 million, RMB12.5 million and RMB18.4 million, respectively.

Property, Plant and Equipment

Property, plant and equipment of the Target Hospital primarily consisted of right-of-use for lands, buildings, medical equipment and office equipment and furniture. As of December 31, 2018, 2019 and 2020, property, plant and equipment of the Target Hospital amounted to RMB90.4 million, RMB112.4 million and RMB152.5 million, respectively.

Capital Structure, Liquidity and Financial Resources

The Target Hospital mainly finances its operations and capital expenditure by cash generated from its operations and borrowings.

Funding and treasury policies

The finance department of the Target Hospital closely monitors its cash flow position to ensure that the Target Hospital has sufficient working capital available to meet its operational needs. To manage the liquidity risk, the Target Hospital has adopted a prudent financial management approach and thus maintained a healthy liquidity position.

Borrowings

The total amount of borrowings of the Target Hospital as of December 31, 2018 and 2019 was nil, and the total amount of borrowings of the Target Hospital as of December 31, 2020 amounted to RMB22.0 million.

All bank borrowings of the Target Hospital are long-term bank borrowings. The bank borrowings are denominated in RMB. The carried floating rate and the weighted average effective interest rate on such borrowings as of December 31, 2020 was 3.86% per annum.

Cash and cash equivalents, current assets and non-current assets

As of December 31, 2020, the Target Hospital had cash and cash equivalents of RMB82.8 million, which are denominated in RMB. As of December 31, 2020, the Target Hospital had current assets of RMB174.1 million and net current liabilities of RMB38.5 million. As of December 31, 2020, the Target Hospital had non-current assets of RMB164.0 million, primarily including (i) plant, property and equipment of RMB152.5 million; (ii) financial assets at fair value through profit or loss of RMB6.2 million; and (iii) deferred tax assets of RMB5.3 million.

Gearing ratio

The total equity of the Target Hospital as of December 31, 2018, 2019 and 2020 amounted to RMB72.5 million, RMB85.1 million and RMB103.5 million, respectively. Gearing ratio of the Target Hospital was calculated as net debt/(cash) (i.e. total bank borrowings and lease liabilities less cash and cash equivalents) divided by total equity. The gearing ratio of the Target Hospital was not applicable due to its net cash position (namely, cash and cash equivalents exceeding total bank borrowings and lease liabilities) as of December 31, 2018, 2019 and 2020.

Trade and Other Payables

As of December 31, 2018, 2019 and 2020, trade and other payables of the Target Hospital amounted to RMB62.8 million, RMB98.8 million and RMB120.9 million, respectively.

Pledge of Assets

As of December 31, 2018, 2019 and 2020, the Target Hospital had no pledged assets.

Contract Liabilities

Contract liabilities of the Target Hospital represented advance payments from its customers while the underlying services had not been provided. As of December 31, 2018, 2019 and 2020, contract liabilities of the Target Hospital amounted to RMB1.1 million, RMB1.7 million and RMB1.1 million, respectively.

Financial Guarantee

Financial guarantee of the Target Hospital represented the fair value of financial guarantee the Target Hospital has issued to some banks in respect of banking facilities granted to certain ex-fellow subsidiaries. Under the guarantees, the Target Hospital and other third parties are jointly and severally liable for all or any of the borrowings of each of them from the banks upon failure of the guaranteed entity to make payments when due. As of December 31, 2018, 2019 and 2020, financial guarantee of the Target Hospital amounted to RMB68.7 million, RMB90.4 million and RMB87.7 million, respectively.

Capital Commitments

Capital commitments that were contracted but not provided for mainly represented commitments arising out of a contractual relationship where the relevant property, plant and equipment or intangible assets were not provided as of the relevant dates. As of December 31, 2018, 2019 and 2020, capital commitments of the Target Hospital amounted to RMB96.6 million, RMB80.8 million and RMB50.2 million, respectively. Capital commitments of the Target Hospital as of December 31, 2020 mainly represented (i) construction and decoration of hospitals; and (ii) purchase of large equipment.

Contingent Liabilities

As of December 31, 2018, 2019 and 2020, save as disclosed in "Financial Guarantee" section above, the Target Hospital had no contingent liabilities.

Significant Investments, Material Acquisitions and Disposals

During the Track Record Period, the Target Hospital did not make any significant investment, or material acquisitions or disposals of subsidiaries, associates or joint ventures.

Future Plan for Material Investments and Capital Assets

As of December 31, 2020, the Target Hospital did not have any future plan for material investments and capital assets.

Material Related Party Transactions

During the Track Record Period, balance with related parties of the Target Hospital primarily consisted of amounts due from GF Xinde, the holding company of the Target Hospital. For details of the related party transactions, please see Note 34 to the accountants' report on historical financial information of the Target Hospital as set out in Appendix II to this circular.

Foreign Exchange Risk

During the Track Record Period, the Target Hospital had no significant foreign currency risk as all of its operations, assets and liabilities are denominated in RMB which is also its functional currency.

Remuneration Policies and Employees

The remuneration policies adopted by the Target Hospital are similar to those of peers in the industry and are reviewed regularly. The remuneration payable to employees is determined with reference to their qualification, experience, responsibilities and prevailing market practice. As of December 31, 2018, 2019 and 2020, the number of employees of the Target Hospital was 777, 788 and 759, respectively. For the years ended December 31, 2018, 2019 and 2020, the employee benefit expenses amounted to RMB106.8 million, RMB110.3 million and RMB109.0 million, respectively, which primarily consisted of salaries, wages and bonuses, contribution to retirement benefit plan, as well as allowances and benefits in kind.

The accompanying unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared to illustrate the effect of the Acquisition on the financial information of the Group as if the Acquisition had taken place on December 31, 2020.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition taken place as at December 31, 2020 or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT DECEMBER 31, 2020

	The Group as at December 31, 2020	The Target Hospital as at December 31, 2020	Pro-forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
ASSETS					
Non-current assets					
Property, plant and equipment	1,365,850	152,469	56,093		1,574,412
Intangible assets	382,940		456,965		839,905
Prepayments for non-current assets	17,885				17,885
Financial assets at fair value through profit or loss	–	6,203			6,203
Deferred income tax assets	12,289	5,343			17,632
Total non-current assets	1,778,964				2,456,037
Current assets					
Inventories	50,957	15,243			66,200
Trade, other receivables and prepayments	276,530	53,611	38,546		368,687
Amounts due from related parties	12,824				12,824
Financial assets at fair value through profit or loss	2,196,926				2,196,926
Restricted bank balances	–	22,407			22,407
Cash and cash equivalents	385,104	82,811	(241,256)	(4,136)	222,523
Total current assets	2,922,341				2,889,567
Total assets	4,701,305				5,345,604

	The Group as at December 31, 2020	The Target Hospital as at December 31, 2020	Pro-forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
LIABILITIES					
Current liabilities					
Trade and other payables	237,268	120,912	64,157		422,337
Contract liabilities	11,456	1,146			12,602
Financial guarantee liabilities	–	87,724			87,724
Current income tax liabilities	30,551	2,831			33,382
Lease liabilities	1,677				1,677
Borrowings	–		27,200		27,200
Total current liabilities	280,952				584,922
Non-current liabilities					
Trade and other payables	–		64,157		64,157
Deferred income tax liabilities	43,599		11,804		55,403
Deferred revenue	26,690				26,690
Lease liabilities	807				807
Other non-current liabilities	7,880				7,880
Borrowings	–	22,000	244,800		266,800
Total non-current liabilities	78,976				421,737
Total liabilities	359,928				1,006,659
Net assets	4,341,377				4,338,945

Note:

1. The amounts have been extracted from the audited statement of financial position of the Group as at December 31, 2020 included in the published annual report of the Company for the year ended December 31, 2020.

2. The amounts have been extracted from the audited statement of financial position of the Target Hospital as at December 31, 2020 as set out in the accountants' report as set out in Appendix II to this Circular.

3. Upon the completion of the Acquisition, the Target Hospital will become a 99% owned subsidiary of the Company, and the identifiable assets and liabilities of the Target Hospital will be accounted for by the Group at their fair values in accordance with International Financial Reporting Standard ("**IFRS**") 3 (Revised) "Business Combination".

   For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Hospital as at December 31, 2020 based on a valuation report dated May 25, 2021 prepared by an independent qualified professional valuer and does not take into accounts of the dividend that may be, or will be distributed by the Target Hospital to the Vendor, with a maximum amount of RMB25,000,000. The fair value adjustments and the calculation of goodwill are presented as follows:

		RMB'000
Carrying amounts of net assets of the Target Hospital as at December 31, 2020		103,474
Fair value adjustments on:		
Medical license	*(i)*	22,600
Property, plant and equipment		12,719
Land use right		43,374
Recognition of deferred tax liabilities arising from the fair value adjustments	*(ii)*	(11,804)
Total fair values of identifiable net assets of the Target Hospital		170,363
Non-controlling interests	*(iii)*	(1,704)
Total fair value of identifiable net assets of the Target Hospital attributable to the 99% equity interest acquired by Hygeia Healthcare Holdings Co., Limited		168,659
Consideration	*(iv)*	641,570
Less: Indemnification assets	*(vii)*	38,546
Goodwill attributable to:		
Owners of the Company	*(v)*	434,365

(i) The fair values of medical license arising from the Acquisition as at December 31, 2020 were determined by using multi-period excess earnings method.

Key assumptions adopted in estimating the fair value of the medical license are as follows:

Discount rate	14.7%
Amortization period	30 years
Long-term growth rate	3%

(ii) The corresponding deferred tax liabilities of RMB11,804,000 are measured at the tax rate that is expected to apply when the related taxable temporary difference are settled, which is from 15%, as applicable to the Target Hospital.

(iii) The amount of non-controlling interests represents 1% of the fair value of identifiable net assets of a subsidiary of the Target Hospital, after taking up the fair value adjustments as at December 31, 2020.

(iv) Pursuant to the Equity Transfer Agreement, the maximum consideration shall be RMB641,569,500, which shall be satisfied by cash.

The payment of consideration will be settled in four installments. The Directors of the Group considered the first two installments will be settled upon completion date and the third installment, representing 10% of the adjusted consideration, will be settled within twelve months after the completion date and the final installment, representing the remaining 10% of the adjusted consideration, shall be paid to the vendor after one year from the completion date.

The consideration will be funded by the unutilized net proceeds, external loan facilities provided under the Facility Agreement and to the extent that there is any shortfall due to the appreciation of RMB against HK$, the internal resources of the Group.

In order to fund part of the consideration, on May 26, 2021, Gamma Star Tech (as the borrower) entered into the Facility Agreement with a bank (as the lender), an independent third party, which provides for a loan facility in an aggregate principal amount of up to RMB272,000,000. The maturity date for the 10% drawdown amount will be after 12 months from the first drawdown date, which will be within 12 months after the completion date. The remaining outstanding loan amount will be repaid after 12 months from the completion date.

(v) Goodwill arising from the Acquisition is derived from the difference between the fair value of consideration and estimated fair value of the identifiable assets and liabilities of the Target Hospital attributable to owners of the Company, assuming the Acquisition had taken place on December 31, 2020. The fair values and carrying amounts of the identifiable net assets of the Target Hospital as at the completion date of the Acquisition may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information. Accordingly, the actual amounts of the fair values of the identifiable net assets and goodwill to be recorded in the consolidated financial statements of the Group upon the completion of the Acquisition may be materially different from the amounts presented above and the differences may be significant.

For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of goodwill arising from the Acquisition with reference to IAS 36 "Impairment of Assets". The Directors have taken into consideration the recoverable amount based on value-in-use calculations and synergy effect to the business of the Enlarged Group as key parameters for the assessment. Based on the assessment results, there is no impairment in the value of goodwill.

(vi) Pursuant to the Equity Transfer Agreement, the purchasers are entitled to review or engage an accounting firm to review the assets and liabilities of the Target Group as of the completion date, and the consideration shall be adjusted downward by the relevant amount in the certain events.

For illustration purpose of Unaudited Pro Forma Financial Information, the Company does not adjust any amount of the downward adjustment on the consideration to be paid by the Group for the acquisition as the Directors of the Group considered the impact of downward adjustment will not be significant.

(vii) As at December 31, 2020, the fair value of Historical Guarantees was RMB87,724,000. Pursuant to the terms as set out in the Equity Transfer Agreement, the amount exceeding the Liability Cap of RMB49,178,000, which is RMB38,546,000, will be borne by the vendor. Accordingly, an indemnification asset is recognized by the purchaser. The Directors of the Group estimated the settlement of Historical Guarantees will be within twelve months after the Completion Date.

4. The adjustment represents the estimated professional fees and transaction costs in connection with the Acquisition.

5. No other adjustment has been made to the unaudited pro forma statement of assets and liabilities of the Enlarged Group to reflect any trading results or other transactions entered into by the Group or the Target Hospital subsequent to December 31, 2020. In particular, no adjustment in relation to the acquisition of Etern Group Ltd. was made. Details of the acquisition were set out in the announcement of the Company dated April 25, 2021 and the circular of the Company dated May 14, 2021.

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hygeia Healthcare Holdings Co., Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hygeia Healthcare Holdings Co., Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), and Hezhou Guangji Hospital Co., Ltd (the "**Target Hospital**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at December 31, 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-6 of the Company's circular dated June 25, 2021 (the "**Circular**"), in connection with the proposed acquisition of the Target Hospital (the "**Acquisition**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-6 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at December 31, 2020 as if the Acquisition had taken place at December 31, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended December 31, 2020, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at December 31, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, June 25, 2021

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that, as of the Latest Practicable Date, to the best of their knowledge and belief, the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

(1) Interest of Directors and Chief Executive

As of the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporation(s) (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the Shares and Underlying Shares of the Company

Name of Director/ chief executive	Nature of interest	Number of Shares held	Approximate percentage of total issued Shares (1)
Mr. Zhu (2)(3)	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Mr. Ren Ai (3)(4)(5)	Interest in a controlled corporation/Interest of spouse/Beneficial interest	280,260,415 (L)	45.35%
Mr. Zhang Wenshan	Beneficial interest	32,235 (L)	0.01%
Ms. Jiang Hui	Beneficial interest	62,027 (L)	0.01%

Notes:

(1) As of the Latest Practicable Date, the total number of issued shares of the Company was 618,000,000.

(2) Century River is wholly-owned by Century River Investment, which is in turn wholly-owned by Mr. Zhu. Therefore, Mr. Zhu and Century River Investment are deemed to be interested in the Shares directly held by Century River. See the section headed "Interests of Substantial Shareholders and Other Persons in the Company" in this circular for further details.

(3) Pursuant to the concert party confirmation, Mr. Zhu and Ms. Zhu have confirmed that they had and would continue to, for so long as they remain interested in the Shares, directly or indirectly, act in concert by aligning their votes at the Shareholders' meetings of the Company. As such, Mr. Zhu and Ms. Zhu, together with Century River, Century River Investment, Red Palm, Amber Tree and Red Palm Investment, are all deemed to be interested in the total Shares directly held by Century River, Red Palm and Amber Tree. See the section headed "Interests of Substantial Shareholders and Other Persons in the Company" in this circular for further details.

(4) Mr. Ren Ai wholly owns Spruce Wood Investment Holdings Limited, and is therefore deemed to be interested in the Shares directly held by Spruce Wood Investment Holdings Limited. See the section headed "Interests of Substantial Shareholders and Other Persons in the Company" in this circular for further details.

(5) Mr. Ren Ai is the spouse of Ms. Zhu, and is therefore deemed to be interested in the Shares which are interested by Ms. Zhu. See the section headed "Interests of Substantial Shareholders and Other Persons in the Company" in this circular for further details.

(6) The letter "L" denotes the entity's long position in the Shares.

(b) *Interests in the Associated Corporation of the Company*

Name of Director/ Chief Executive	Nature of interest	Name of associated corporation	Approximate percentage of total issued shares
Mr. Zhu	Interest in a controlled corporation	Hygeia Hospital Management [(1)]	100% [(2)]
		VIE Hospitals (other than Shanxian Hygeia Hospital)[(3)]	30% [(4)]
		Shanxian Hygeia Hospital[(3)]	11.56% [(5)]
		Managed Hospitals[(6)]	30% [(7)]
		Kaiyuan Jiehua Hospital[(7)]	30%[(8)]
Mr. Ren Ai	Interest of spouse	Hygeia Hospital Management [(1)]	100% [(2)(9)]
		VIE Hospitals (other than Shanxian Hygeia Hospital)[(3)]	30% [(4)(9)]
		Shanxian Hygeia Hospital[(3)]	11.56% [(5)(9)]
		Managed Hospitals[(6)]	30% [(7)(9)]
		Kaiyuan Jiehua Hospital[(7)]	30%[(9)]

Notes:

(1) Hygeia Hospital Management is a subsidiary of the Company by virtue of the Contractual Arrangements and therefore, is an associated corporation of the Group.

(2) Mr. Zhu and Ms. Zhu holds 40% and 60% equity interest, respectively, in Xiangshang Investment which in turn holds 100% equity interest in Hygeia Hospital Management, and therefore, Mr. Zhu and Ms. Zhu is deemed to be interested in the equity interest in Hygeia Hospital Management held by Xiangshang Investment.

(3) Each of the VIE Hospitals is a subsidiary of the Company and therefore, is an associated corporation of the Group.

(4) Hygeia Hospital Management holds 30% equity interest in each of the VIE Hospitals (other than Shanxian Hygeia Hospital), and therefore, Mr. Zhu and Ms. Zhu are deemed to be interested in the equity interest of the VIE Hospitals (other than Shanxian Hygeia Hospital) held by Hygeia Hospital Management.

(5) Hygeia Hospital Management holds 11.56% equity interest in Shanxian Hygeia Hospital, and therefore, Mr. Zhu and Ms. Zhu are deemed to be interested in the equity interest of Shanxian Hygeia Hospital held by Hygeia Hospital Management.

(6) The organizer's interest of each of the Managed Hospitals was held by the Company and Xiangshang Investment as to 70% and 30%, respectively, and therefore each of the Managed Hospitals is an associated corporation of the Group. The changes of 30% organizer's interest in Handan Renhe Hospital and Handan Zhaotian Orthopedics Hospital have not been filed with the competent authorities due to practical difficulties. Handan Renhe Hospital and Handan Zhaotian Orthopedics Hospital will complete such filings as soon as practicable under applicable laws.

(7) Xiangshang Investment holds 30% organizer's interest in each of the Managed Hospitals, and therefore, Mr. Zhu and Ms. Zhu are deemed to be interested in the organizer's interest in the Managed Hospitals held by Xiangshang Investment.

(8) Xiangshang Investment holds 30% equity interest in Kaiyuan Jiehua Hospital, and therefore, Mr. Zhu and Ms. Zhu are deemed to be interested in the equity interest of Kaiyuan Jiehua Hospital held by Xiangshang Investment.

(9) Mr. Ren Ai is the spouse of Ms. Zhu and therefore, is deemed to be interested in the equity interest which is interested by Ms. Zhu.

Save as disclosed above, as of the Latest Practicable Date, so far as it was known to the Directors or chief executive of the Company, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which was required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(2) Interests of Substantial Shareholders and Other Persons in the Company

As of the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who were or were expected, directly or indirectly, interested in 5% or more of the issued share capital of the Company were as follows:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Century River Investment (1)(3)	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Century River (1)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Ms. Zhu (2)(3)(4)	Interest in a controlled corporation/Interest of concert parties/Interest of spouse	280,260,415 (L)	45.35%
Red Palm Investment (2)(3)	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Amber Tree (2)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Red Palm (2)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Fountain Grass (5)	Beneficial interest	47,756,038 (L)	7.73%

Notes:

(1) Century River is wholly-owned by Century River Investment, which is in turn wholly-owned by Mr. Zhu. Therefore, Mr. Zhu and Century River Investment are deemed to be interested in the Shares directly held by Century River.

(2) Each of Red Palm and Amber Tree is wholly-owned by Red Palm Investment, which is in turn wholly-owned by Ms. Zhu. Therefore, Ms. Zhu and Red Palm Investment are deemed to be interested in the total Shares directly held by Amber Tree and Red Palm.

(3) Pursuant to the concert party confirmation, Mr. Zhu and Ms. Zhu have confirmed that they had and would continue to, for so long as they remain interested in the Shares, directly or indirectly, act in concert by aligning their votes at the shareholders' meetings of the Company. As such, Mr. Zhu and Ms. Zhu, together with Century River, Century River Investment, Red Palm, Amber Tree and Red Palm Investment, are all deemed to be interested in the total Shares directly held by Century River, Red Palm and Amber Tree.

(4) Spruce Wood Investment Holdings Limited is wholly-owned by Mr. Ren Ai. Therefore, Mr. Ren Ai is deemed to be interested in the Shares directly held by Spruce Wood Investment Holdings Limited. Ms. Zhu is the spouse of Mr. Ren Ai, and is therefore deemed to be interested in the Shares which are interested by Mr. Ren Ai by virtue of the SFO.

(5) Fountain Grass is 100% held by Ruby Gem Holdings Limited, which in turn is held by Warburg Pincus Private Equity XI, L.P. as to approximately 60.49%. The general partner of Warburg Pincus Private Equity XI, L.P. is Warburg Pincus XI, L.P., the general partner of which is WP Global LLC. The managing member of WP Global LLC is Warburg Pincus Partners II, L.P., the general partner of which is Warburg Pincus Partners GP LLC. Warburg Pincus & Co is the managing member of Warburg Pincus Partners GP LLC.

(6) The letter "L" denotes the entity's long position in the Shares.

Save as disclosed above, as of the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who were or were expected, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

3. LITIGATION

The Target Hospital was previously involved in several Cases concerning its obligation as a guarantor for loan facilities granted to the relevant parties of the historical shareholders of the Target Hospital, which were disclosed under the Equity Transfer Agreement as Historical Guarantees. As of the Latest Practicable Date, such cases are all concluded and pending for settlement. According to the court's rulings, the compensation amount to be borne by the Target Hospital shall be half of the outstanding loans (plus interests and costs) after deducting the amount which will be paid by the borrowers. For details, please refer to Note 30 to the accountants' report of the Target Hospital as set out in Appendix II to this circular.

Pursuant to the Equity Transfer Agreement, the amount exceeding the Liability Cap of the Historical Guarantees of RMB49,178,000 will be borne by the Vendor and the following arrangements have been agreed for the purpose of reducing the material adverse impact on the Target Hospital and the Enlarged Group after Completion: (i) the Company may apply the Third Installment and/or Final Installment, to settle any additional amount exceeding the Liability Cap; and (ii) the Vendor shall be responsible for any additional amount which may not be sufficiently covered by the Third Installment and/or Final Installment.

As revealed by public search and to the best knowledge of the Directors, as at the Latest Practicable Date, the Vendor did not have any bad credit record in the PRC.

Based on the expected credit losses of the Historical Guarantees as at December 31, 2020 as set out in Note 30 to the accountants' report of the Target Hospital in Appendix II to this Circular, the amount exceeding the Liability Cap is approximately RMB38.5 million, which could be fully covered by the Third Installment and the Final Installment with an aggregate amount of approximately RMB128 million. In the unlikely event that the amount exceeding the Liability Cap is not sufficiently covered by the Third Installment and the Final Installment, and the Vendor is unable to repay such amount, GF Xinde, as the general partner of the Vendor, shall bear unlimited joint and several liabilities for the Vendor's debt according to the relevant requirements of the PRC laws, thus will be liable for indemnification.

GF Xinde is a wholly-owned subsidiary of GF Securities, with a registered capital of RMB2.8 billion. The A shares and H shares of GF Securities are listed on the Shenzhen Stock Exchange (stock code: 000776) and the Stock Exchange (stock code: 1776), respectively. As revealed by public search and to the best knowledge of the Directors, as at the Latest Practicable Date, GF Xinde did not have any bad credit record in the PRC.

Based on the above, the Board is satisfied with the credibility and repayment ability of the Vendor.

On the basis of above, the Board believes that the Cases do not have any material adverse impact on the Enlarged Group upon completion of the Acquisition.

As of the Latest Practicable Date, save as disclosed above, none of the members of the Enlarged Group were engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACT

As of the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which will not expire or may not be terminable by the relevant member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As of the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in businesses which competes or is likely to compete, whether directly or indirectly, with the business of the Enlarged Group.

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

Save for the connected transactions in relation to the for-profit reform of Kaiyuan Jiehua Hospital (開遠解化醫院) as disclosed in the announcement of the Company dated April 16, 2021 and May 31, 2021, as of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

Save for the contractual arrangements and continuing connected transactions as disclosed in the sections headed "Contractual Arrangement" and "Connected Transactions" in the Prospectus and the section headed "Connected Transactions" in the 2020 Annual Report of the Company published on April 29, 2021, and the connected transactions in relation to the for-profit reform of Kaiyuan Jiehua Hospital (開遠解化醫院) as disclosed in the announcement of the Company dated April 16, 2021 and May 31, 2021, as of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at such date and which was significant in relation to the business of the Enlarged Group.

7. QUALIFICATION AND CONSENTS OF EXPERTS

The following are the qualification of the experts who had given opinion contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
RSM Hong Kong	Certified Public Accountants under the Professional Accountants Ordinance

As of the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective reports, letters and/or opinion(s) and the reference to its name in the form and context in which it is respectively included.

As of the Latest Practicable Date, none of the above experts was interested beneficially or otherwise in any Shares or securities in any of subsidiaries or associated corporation (within the meaning of Part XV of the SFO) of the Company or had any rights, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or securities in any of subsidiaries or associated corporations of the Company nor did it has any interests, either direct or indirect, in any assets which have been, since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Enlarged Group within two years immediately preceding the issue of this circular and are material:

(1) the share purchase agreement entered into between the Company and Ascendent Healthcare (Cayman) Limited on April 25, 2021 in relation to the purchase and sale of the entire equity interest in Etern Group Ltd., details of which were set out in the announcement of the Company dated April 25, 2021 and the circular of the Company dated May 14, 2021;

(2) the loan facility agreement entered into between the Company (as the borrower) and Ping An Bank Co., Ltd. Shanghai Branch (as the lender) on April 25, 2021, details of which were set out in the announcement of the Company dated April 25, 2021 and the circular of the Company dated May 14, 2021;

(3) the Equity Transfer Agreement; and

(4) the Facility Agreement.

Save as disclosed in this circular and the Prospectus of the Company, no contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Enlarged Group within two years immediately preceding the issue of this circular and are material.

9. GENERAL

(1) The registered office of the Company is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

(2) The principal place of business of the Company in Hong Kong is at 40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

(3) The Hong Kong share registrar of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(4) The joint company secretaries of the Company are Mr. Ren Ai and Mr. Lau Kwok Yin. Mr. Lau Kwok Yin is a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charter holder, and a fellow of the Chartered Governance Institute and the Hong Kong Institute of Chartered Secretaries.

(5) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the following business hours (i.e. from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m.) on any weekday (Saturdays and public holidays excepted) unless (i) a tropical cyclone warning signal number 8 or above is hoisted; or (ii) a black rainstorm warning signal is issued at the Company's principal place of business in Hong Kong at 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong, for 14 days from the date of this circular:

(1) the memorandum and articles of association of the Company;

(2) the accountants' report on the historical financial information of the Target Hospital as set out in Appendix II to this circular;

(3) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(4) the written consents as set out in the section headed "Qualification and Consents of Experts" in this Appendix;

(5) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;

(6) the prospectus of the Company dated June 16, 2020 including the financial information of the Group for the two years ended December 31, 2018 and 2019;

(7) the annual report of the Company for the year ended December 31, 2020;

(8) the circular in relation to the major transaction in relation to the acquisition of entire equity interest in Etern Group Ltd. dated May 14, 2021; and

(9) this circular.