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 licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in PW Medtech Group Limited (普华和顺集团公司), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was affected for transmission to the purchaser or the transferee.

PW MEDTECH GROUP LIMITED
普 华 和 顺 集 团 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

MAJOR TRANSACTION
ACQUISITION OF 58.2% EQUITY INTEREST IN THE TARGET COMPANY
AND
NOTICE OF EGM

A letter from the Board is set out on pages 4 to 26 of this circular. Notice convening the EGM to be held on Friday, March 11, 2022 at 10:00 a.m. at Building 1, No. 23 Panlong West Road, Pinggu District, Beijing, PRC is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you intend to attend the EGM, you are requested to complete the proxy form enclosed with the notice of the EGM in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, March 9, 2022) or the adjourned meeting (as the case may be). Completion and return of the proxy form will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

February 21, 2022

CONTENTS

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

"Board"	the board of directors of the Company
"Circular"	a circular to be despatched by the Company to the Shareholders in relation to, among others, the Share Transfer, the Share Subscription and the transactions contemplated thereunder
"Company"	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011
"Closing Date"	the date of the completion of the Share Transfer and Share Subscription
"connected person"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group, Sichuan Ruijian and the Target Company upon completion of the Share Transfer and the Share Subscription
"Group"	the Company and its subsidiaries from time to time
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Minority Investors"	Ningbo Fengkai Enterprise Management Partnership (Limited Partnership) (寧波豐楷企業管理合夥企業(有限合夥)) and Xi'an Jiaoda Siyuan Puhui Investment Partnership (Limited Partnership) (西安交大思源普惠投資合夥企業(有限合夥))
"Independent Valuer"	the independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited
"Individual Vendors"	Huaimin Yang (楊懷民), Wenquan Sun (孫文全), Xin Wang (王忻) and Luchan Ye (葉綠嬋)

"Infusion Set Business"	the R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc.
"Institutional Vendors"	Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥)) and Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥))
"Latest Practicable Date"	February 15, 2022
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"NMPA"	National Medical Products Administration (國家藥品監督管理局)
"PRC"	The People's Republic of China, which expression for the purpose of this circular, except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
"Purchaser"	Medfusion Investment Limited, a limited company incorporated under the laws of Hong Kong on September 9, 2021 (an indirect wholly-owned subsidiary of the Company)
"Remaining Target Company Shareholders"	Wenquan Sun (孫文全), Luchan Ye (葉綠嬋), Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥))
"RMB"	Renminbi, the lawful currency of the PRC
"R&D"	research and development
"Share Transfer"	the share transfer under the Share Transfer Agreement in relation to the Purchaser's acquisition of 51.5% equity interest in the Target Company (representing approximately 41.2% of the issued share capital of the Target Company as enlarged by the share subscription contemplated under the Share Subscription Agreement)
"Share Transfer Agreement"	the share transfer agreement entered into between the Purchaser, the Target Company and the Vendors on January 5, 2022 in relation to the Share Transfer

"Share Subscription"	the share subscription under the Share Subscription Agreement in relation to the Purchaser's subscription of 17% enlarged issued share capital of the Target Company
"Share Subscription Agreement"	the share subscription agreement entered into between the Purchaser, the Vendors, the Independent Minority Investors and the Target Company on January 5, 2022 in relation to the Share Subscription and the share subscription by the Independent Minority Investors
"Shareholder(s)"	shareholder(s) of the Company
"Shareholders' Agreement"	the shareholders' agreement entered into between the Purchaser, the Independent Minority Investors, the Remaining Target Company Shareholders and the Target Company
"Sichuan Ruijian"	Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司), a joint stock limited liability company established in PRC on August 6, 2013, the information of which is set out in the announcement of the Company dated November 30, 2021 and the circular of the Company dated December 31, 2021
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	Beijing Ruijian High-Tech Biological Technology Co., Ltd (北京瑞健高科生物科技有限公司), a limited liability company incorporated in the PRC on February 5, 2013
"Target Company Valuation"	the pre-money appraised value of the Target Company of approximately RMB808,000,000 as at the Valuation Date
"Valuation Date"	September 30, 2021
"Vendors"	Individual Vendors and Institutional Vendors, including Huaimin Yang (楊懷民), Wenquan Sun (孫文全), Xin Wang (王忻), Luchan Ye (葉綠嬋), Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥)), and Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥))
"%"	per cent

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

Executive Director:
Ms. Yue'e ZHANG

Non-executive Directors:
Mr. JIANG Liwei
Mr. LIN Junshan

Independent Non-executive Directors:
Mr. WANG Xiaogang
Mr. CHEN Geng
Ms. WANG Fengli

Registered Office:
The Grand Pavilion Commercial Centre
Oleander Way, 802 West Bay Road
P.O. Box 32052
Grand Cayman KY1-1208
Cayman Islands

Principal Place of Business in Hong Kong:
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

February 21, 2022

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF 58.2% EQUITY INTEREST IN THE TARGET COMPANY

1. INTRODUCTION

References are made to the announcement of the Company dated January 5, 2022 in relation to the acquisition of 58.2% equity interest in the Target Company.

The purpose of this circular is to provide you, among other things, (i) further information on the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder; and (ii) the notice of EGM.

On January 5, 2022 (after trading hours), the Purchaser (an indirectly wholly-owned subsidiary of the Company), the Vendors and the Target Company entered into the Share Transfer Agreement, pursuant to which the Purchaser agreed to purchase, and the Vendors agreed to sell 51.5% equity interest in the Target Company (representing approximately 41.2% of the issued share capital of the Target Company as enlarged by the share subscription contemplated under the Share Subscription Agreement), at the consideration of RMB412,000,000.

On January 5, 2022 (after trading hours), the Purchaser, the Independent Minority Investors, the Vendors and the Target Company entered into the Share Subscription Agreement, pursuant to which the Purchaser agreed to subscribe for, and the Target Company agreed to issue, 17% enlarged issued share capital of the Target Company at the consideration of RMB170,000,000, approximately RMB3,415,180 of which will be accounted for by the Target Company as registered capital and approximately RMB166,584,820 of which will be accounted for by the Target Company as capital reserve.

2. THE AGREEMENTS

The Share Transfer Agreement

A summary of the principal terms of the Share Transfer Agreement is set out below:

Date

January 5, 2022

Parties

A. the Purchaser;

B. the Vendors; and

C. the Target Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors, the Target Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the past twelve months, there has been, no material loan arrangement between (a) Huaimin Yang (楊懷民), Wenquan Sun (孫文全), Xin Wang (王忻), Luchan Ye (葉綠嬋), and Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥)) ("Hainan Ruijian"), and Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥)) ("Dongguan Gaohua"), the general partner and ultimate beneficial owner of Hainan Ruijian and Dongguan Gaohua who can exercise influence on the proposed Share Transfer and Share Subscription; and (b) the Company and its connected persons.

Subject matter

Pursuant to the Share Transfer Agreement, the Purchaser conditionally agreed to acquire 51.5% equity interest in the Target Company (representing approximately 41.2% of the issued share capital of the Target Company as enlarged by the share subscription contemplated under the Share Subscription Agreement) from the Vendors at a consideration of RMB412,000,000.

Consideration

The Purchaser shall make payment of the consideration, i.e. RMB46,963,200, to the Institutional Vendors within fifteen (15) working days after the Closing Date or after the date on which the Institutional Vendors have opened the bank account for the Share Transfer and sent such account information to the Purchaser, whichever is later.

The consideration to be paid to the Individual Vendors for the Share Transfer will be settled in the following manner:

(a) the Purchaser shall make payment of 60% of the total consideration, i.e. RMB219,022,080, to the Individual Vendors within fifteen (15) working days after the Closing Date or after the date on which the Individual Vendors have opened the bank account for the Share Transfer and sent such account information to the Purchaser, whichever is later; and

(b) the Purchaser shall make payment of the remaining 40% of the total consideration, i.e. RMB146,014,720, to the Individual Vendors within fifteen (15) working days after the date on which the Individual Vendors have provided the Purchaser with the documentation evidencing that (i) the Individual Vendors have fully paid the applicable tax for the Share Transfer and (ii) the Individual Vendors have fully paid off all the loans owed to the Target Company and all the loans guaranteed by the Target Company.

The Company intends to finance the consideration from its internal resources.

The consideration for the Share Transfer was determined after arm's length negotiations between the Purchaser and the Vendors on normal commercial terms with reference to (i) the product pipeline, business prospects of the Target Company and the general market conditions of the medical materials industry in the PRC; and (ii) the pre-money appraised value of the 100% equity interest of the Target Company as at the Valuation Date as appraised by the Independent Valuer using the discounted cash flow method under the income approach, being approximately RMB808,000,000.

Conditions Precedent

The completion of the Share Transfer is conditional upon the satisfaction or waiver (where applicable) of the conditions precedent, including, among others:

(i) no PRC laws and no judgments, awards, rulings or injunctions by courts, arbitration institutions, or relevant government authorities that may restrict, prohibit or cancel the Share Transfer, and no pending or potential litigation, arbitration, judgment, order or injunction that has had or will have material adverse effects on the Share Transfer;

(ii) the Target Company having obtained or completed all permits, approvals, authorizations, registrations or filings necessary to conduct its business activities;

(iii) the passing of the resolutions by the Target Company's board of directors and shareholders approving the Share Transfer Agreement and the Share Transfer;

(iv) the Target Company having obtained all the third party consents (if necessary) for executing the Share Transfer Agreement and the Share Transfer, and the execution of the Share Transfer Agreement will not render the Target Company violate any relevant PRC laws and regulations;

(v) all parties having duly signed the Share Transfer Agreement, the Share Subscription Agreement, the Shareholders' Agreement and other documents necessary to complete the Share Transfer and the Share Subscription;

(vi) all approvals, registrations and filings required for the Share Transfer in the reasonable judgment of the Purchaser (including but not limited to the permit, consent, approval and authorisation of the relevant governmental authorities other than the filing with the local authority of Ministry of Commerce and the filing relating to foreign exchange) having been obtained;

(vii) no material adverse effect on the business and operation of the Target Company for the period from the date of the Share Transfer Agreement to the Closing Date;

(viii) the representations and warranties of the Vendors being true and correct, and the Vendors having fulfilled the obligations under the Share Transfer Agreement;

(ix) no events, facts, conditions, changes or other circumstances that have had or may be reasonably foreseen to have a material adverse effect on the Target Company's assets, financial structure, liabilities, technology, profit prospects, and operations for the period from the date of the Share Transfer Agreement to the Closing Date;

(x) the Share Transfer Agreement and the Share Transfer having been approved by the Shareholders at the EGM; and

(xi) the Share Transfer and the Share Subscription occurring at the same time.

Closing

Closing is scheduled to take place on the next working day upon the satisfaction of all the conditions precedent under the Share Transfer Agreement, provided that, the completion of the Share Transfer and the Share Subscription is inter-conditional and will occur at the same time.

Termination

The Share Transfer Agreement may be terminated by mutual consent of all the parties under the Share Transfer Agreement.

Either the Vendors (collectively, not individually) or the Purchaser are entitled to terminate the Share Transfer Agreement by written notice if the Share Transfer has not been completed within one year after the date of the Share Transfer Agreement.

The Purchaser is entitled to terminate the Share Transfer Agreement by written notice under any of the following circumstances:

(i) the filing for Administration for Market Regulation in relation to the Share Transfer cannot be completed within twenty working days upon the satisfaction of all the abovementioned conditions precedent (except for (vi)) under the Share Transfer Agreement; or

(ii) prior to the Closing Date, the representations or warranties made by the other parties pertaining to the Share Transfer Agreement are untrue or there is any omission therein in any material respect; or

(iii) prior to the Closing Date, the Target Company and/or the Target Company's shareholders intentionally or recklessly violate the obligations under the Share Transfer Agreement, and fail to take the effective remedial measures as agreed by the Purchaser within ten working days upon the Purchaser's written notice.

The Vendors (either collectively or individually) are entitled to terminate the Share Transfer Agreement by written notice in the event that prior to the Closing Date, the Purchaser intentionally or recklessly violates the obligations under the Share Transfer Agreement, and fails to take the effective remedial measures as agreed by the Vendors within ten working days upon the Vendors' written notice.

The Vendors (collectively, not individually) are entitled to terminate the Share Transfer Agreement by written notice in the event that the Purchaser fails to make payment of the total consideration for the Share Transfer to the Vendors in accordance with the Share Transfer Agreement and the Purchaser's payment obligation has still not been fulfilled within fifteen days upon the Vendors' written notice.

The Share Subscription Agreement

A summary of the principal terms of the Share Subscription Agreement is set out below:

Date

January 5, 2022

Parties

A. the Purchaser;

B. Independent Minority Investors;

C. the Vendors; and

D. The Target Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Company, the Independent Minority Investors, the Vendors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject matter

Pursuant to the Share Subscription Agreement, it has been conditionally agreed that the Purchaser will subscribe for, and the Target Company agreed to issue, 17% enlarged issued share capital of the Target Company at a consideration of RMB170,000,000, approximately RMB3,415,180 of which will be accounted for by the Target Company as registered capital and approximately RMB166,584,820 of which will be accounted for by the Target Company as capital reserve.

Pursuant to the Share Subscription Agreement, the Independent Minority Investors agreed to subscribe for, and the Target Company agreed to issue, 3% enlarged issued share capital of the Target Company at the total consideration of RMB30,000,000.

Consideration

The Purchaser shall make payment of the total consideration, i.e. RMB170,000,000, to the Target Company within fifteen (15) working days after the Closing Date or after the date on which the Target Company has opened the bank account for the Share Subscription and sent such account information to the Purchaser, whichever is later.

The consideration for the Share Subscription was determined after arm's length negotiations between the Purchaser and the Target Company on normal commercial terms with reference to (i) the product pipeline, business prospects of the Target Company and the general market conditions of the medical materials industry in the PRC; and (ii) the pre-money appraised value of the 100% equity interest of the Target Company as at the Valuation Date as appraised by the Independent Valuer using the discounted cash flow method under the income approach, being approximately RMB808,000,000.

Conditions Precedent

The completion of the Share Subscription is conditional upon the satisfaction or waiver (where applicable) of the conditions precedent, including, among others:

(i) no PRC laws and no judgments, awards, rulings or injunctions by courts, arbitration institutions, or relevant government authorities that may restrict, prohibit or cancel the Share Subscription, and no pending or potential litigation, arbitration, judgment, order, ruling or injunction that has had or will have material adverse effects on the Share Subscription;

(ii) the Target Company having obtained or completed all permits, approvals, authorizations, registrations or filings necessary to conduct its business activities;

(iii) the passing of the resolutions by the Target Company's board of directors and shareholders approving the Share Subscription Agreement and the Share Subscription;

(iv) the Target Company having obtained all the third party consents (if necessary) for executing the Share Subscription Agreement and the Share Subscription, and the execution of the Share Subscription Agreement will not render the Target Company violate any relevant PRC laws and regulations;

(v) all parties having duly signed the Share Subscription Agreement, the Share Transfer Agreement, the Shareholders' Agreement and other documents necessary to complete the Share Transfer and the Share Subscription;

(vi) all approvals, registrations and filings required for the Share Subscription in the reasonable judgment of the Purchaser (including but not limited to the permit, consent, approval and authorisation of the relevant governmental authorities other than the filing with the local authority of Ministry of Commerce and the filing relating to foreign exchange) having been obtained;

(vii) no material adverse effect on the business and operation of the Target Company for the period from the date of the Share Subscription Agreement to the Closing Date;

(viii) the representations and warranties of the Target Company and the Vendors being true and correct, and the Target Company and the Vendors having fulfilled the obligations under the Share Subscription Agreement;

(ix) no events, facts, conditions, changes or other circumstances that have had or may be reasonably foreseen to have a material adverse effect on the Target Company's assets, financial structure, liabilities, technology, profit prospects, and operations for the period from the date of the Share Subscription Agreement to the Closing Date;

(x) the Share Subscription Agreement and the Share Subscription having been approved by the Shareholders of the Company at the EGM; and

(xi) the Share Transfer and the Share Subscription occurring at the same time.

Closing

Closing is scheduled to take place on the next working day upon the satisfaction of all the conditions precedent under the Share Subscription Agreement, provided that, the completion of the Share Subscription and the Share Transfer is inter-conditional and will occur at the same time.

Termination

The Share Subscription Agreement may be terminated by mutual consent of all the parties under the Share Subscription Agreement. The Target Company or the Purchaser is entitled to terminate the Share Subscription Agreement by written notice if the Share Subscription has not been completed within one year after the date of the Share Subscription Agreement.

The Purchaser is entitled to terminate the Share Subscription Agreement by written notice under any of the following circumstances:

(i) the filing for Administration for Market Regulation in relation to the Share Subscription cannot be completed within twenty working days upon the satisfaction of all the abovementioned conditions precedent (except for (vi)) under the Share Subscription Agreement; or

(ii) prior to the Closing Date, the representations or warranties made by the other parties pertaining to the Share Subscription Agreement are untrue or there is any omission therein in any material respect; or

(iii) prior to the Closing Date, the Target Company and/or the Vendors intentionally or recklessly violate the obligations under the Share Subscription Agreement, and fail to take the effective remedial measures as agreed by the Purchaser within ten working days upon the Purchaser's written notice.

The Target Company and the Vendors are entitled to terminate the Share Subscription Agreement by written notice if the Purchaser intentionally or recklessly violates the obligations under the Share Subscription Agreement, and fails to take the effective remedial measures as agreed by other parties within ten working days upon other parties' written notice.

3. SHAREHOLDERS' AGREEMENT

As one of the conditions precedent of the completion of the Share Transfer and the Share Subscription, the Purchaser, the Independent Minority Investors, the Remaining Target Company Shareholders and the Target Company will enter into the Shareholders' Agreement, which sets out the following shareholder rights enjoyed by the Purchaser:

Entitlement to appoint board member and supervisor

Pursuant to the Share Subscription Agreement, the board of the Target Company shall consist of five members, of which the Purchaser shall be entitled to designate three members of the board of the Target Company upon the completion of the Share Subscription. The Purchaser shall also be entitled to designate the sole supervisor of the Target Company.

Pre-emptive rights

In the event the Target Company proposes to increase its registered capital, subject to customary exceptions, the Purchaser will have a pre-emptive right to subscribe for all or part of such increased registered capital on the same terms under the proposed increase of registered capital by the Target Company.

Right of First Refusal

In the event any shareholder of the Target Company other than the Purchaser proposes to transfer its equity interests in the Target Company, the Purchaser will have a right of first refusal to purchase such equity interests on the same terms under the proposed transfer by such shareholder.

Disposal or transfer of equity interest in the Target Company

The Purchaser shall have the right to transfer, sell or otherwise dispose of its equity interest in the Target Company in whole or in part and the Remaining Target Company Shareholders agreed to waive their right of first refusal in accordance with applicable PRC laws.

Liquidation preference

In the event that the Target Company is liquidated due to bankruptcy, to the extent permissible under the PRC laws, the Purchaser shall rank in priority to any other shareholders of the Target Company and shall be entitled to receive in cash, amounting to (a) the consideration of the Share Transfer and the Share Subscription (i.e. RMB582,000,000); plus (b) a compound interest of ten percent (10%) per annum of such consideration of the Share Transfer and the Share Subscription (the "Liquidation Preference Amount"). Following the distribution of the Liquidation Preference Amount in full, any remaining assets of the Target Company legally available for distribution shall be distributed pro rata among the shareholders of the Target Company.

4. INFORMATION ON THE PARTIES

The Company

The Company is an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011. The principal business activity of the Company is investment holding. The Group is principally engaged in the R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc. in the PRC.

The Purchaser

The Purchaser is a company incorporated in Hong Kong with limited liability on September 9, 2021. The principal business activity of the Purchaser is investment holding.

The Independent Minority Investors

Ningbo Fengkai Enterprise Management Partnership (Limited Partnership) (寧波豐楷企業管理合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on October 8, 2021 and is principally engaged in investment holding. Ningbo Fengkai Enterprise Management Partnership (Limited Partnership) was owned by (i) Ran Nianmo (冉年模) as to 99%, as the general partner, and (ii) Liao Wanfeng (廖晚鳳) as to 1%, as the limited partner.

Xi'an Jiaoda Siyuan Puhui Investment Partnership (Limited Partnership) (西安交大思源普惠投資合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on April 10, 2018 and is principally engaged in investment holding. Xi'an Jiaoda Siyuan Puhui Investment Partnership (Limited Partnership) was owned by (i) Ningbo Siyuan Puhui Assets Management Co., Ltd. (寧波思源普惠資產管理有限公司) as to 0.9804%, as the general partner, (ii) Xi'an Jiaotong University Education Foundation (西安交通大學教育基金會) as to 98.0392%, as a limited partner, and (iii) Junfu Likang (Shenzhen) Startup Investment Co., Ltd. (均富利康(深圳)創業投資有限公司) as to 0.9804%, as a limited partner. Ningbo Siyuan Puhui Assets Management Co., Ltd. was ultimately owned by Zhang Qi (張旗) as to 99% and He Yuanling (何元淩) as to 1%. Junfu Likang (Shenzhen) Startup Investment Co., Ltd. was ultimately owned by Ma Xiaohui (馬曉輝) as to 99% and Wen Xiaoying (文曉穎) as to 1%.

The Vendors

Huaimin Yang (楊懷民), Wenquan Sun (孫文全), Xin Wang (王忻) and Luchan Ye (葉綠嬋) are independent third parties to the Company.

Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥)) (previously known as Kashi Ruijiang Investment Management Partnership (Limited Partnership (喀什瑞健投資管理合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on July 7, 2016 and is principally engaged in investment holding. Hainan Ruijian Enterprise Management Partnership (Limited Partnership) was owned by (i) Wenquan Sun (孫文全) as to 17.0453%, as the general partner, and (ii) Huaixin Yang (楊懷欣) as to 61.405%, Ci Qu (曲詞) as to 8.9798%, Luchan Ye (葉綠嬋) as to 6.4132%, Xuying Yin (尹栩穎) as to 2.5652%, Zhijie Wang (王志潔) as to 1.924%, Zi Ye (葉孜) as to 1.2828% and Tianen Li (李天恩) as to 0.3847%, as limited partners.

Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on April 18, 2017 and is principally engaged in investment holding. Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) was owned by (i) Wei Feng (馮蔚) as to 17.83%, as the general partner, and (ii) Junxi Investment (Beijing) Co., Ltd. (君熙投資(北京)有限公司) as to 27.6667%, Mintao Li (李敏滔) as to 27.6667%, Weijun Bi (畢衛軍) as to 16.6% and Wei Li (李維) as to 10.2367%, as limited partners. Junxi Investment (Beijing) Co., Ltd. (君熙投資(北京)有限公司) was owned by Xiangnan Meng (孟祥男) and Yurong Chi (遲玉榮) as to 55% and 45%, respectively.

The Target Company

The Target Company is a limited liability company incorporated in the PRC on February 5, 2013. The Target Company is a biotechnology company, principally engaged in the R&D of the regenerative medical biomaterials.

The Target Company leases an (i) R&D pilot-scale clean rooms with approximately 700 sq.m of floor space, (ii) a physical and chemical testing laboratory with approximately 200 sq.m of floor space, and (iii) a microbiological test laboratory with approximately 80 sq.m of floor space (including positive, negative and sterility test rooms). The Target Company also owns R&D facilities and equipment, including but not limited to equipment for preparation of ultrapure water (超純水) and water for injection (注射用水), differential scanning calorimeter (差示掃描量熱儀), microplate reader (酶標儀), endotoxin detector (內毒素檢測儀), universal mechanical testing machine (萬能拉力機), centrifuges (離心機), liquid nitrogen cryomill for micronization ultra-low temperature injectable tissue particle preparation (液氮超低溫微粒製備儀), freeze dryer (凍乾機), layering and splitting machine (分層機). The laboratories and the facilities of the Target Company can meet the R&D needs of developing regenerative medical biomaterials (e.g., regenerative mesh, injectable tissue microparticles and tissue foam).

The following table set forth of the Target Company's breakdown of its number of employees by business function during the periods indicated.

Function	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020	As of September 30, 2021
R&D	27	27	17	17
Manufacture	14	14	8	8
Administration	8	7	5	4
Others	8	8	6	5
Total	**57**	**56**	**36**	**34**

The background of the Target Company's key employees are as follows:

Dr. Sun Wenquan (孫文全) is the chief scientist and general manager of the Target Company. Dr. Sun has over 30 years of research experience in the field of tissue repair and regeneration biomedical materials and cryobiology (tissue cell cryopreservation) and is the inventor of more than 80 registered domestic and foreign patents. Dr. Sun was appointed as the Distinguished Expert of the Beijing Overseas Talent Aggregation Project (北京海外人才聚集工程特聘專家) and the National Distinguished Expert of Innovation Category (國家創新類特聘專家). He is currently an editorial board member or associate editor of three academic journals, namely Biopreservation and Biobanking, Cryobiology and CryoLetters.

Dr. Sun obtained a doctoral degree of philosophy from Cornell University College of Agriculture and Life Sciences. Dr. Sun currently serves as a professor at School of Health Science and Engineering, University of Shanghai for Science and Technology (上海理工大學). Historically, Dr. Sun had served as a lecturer and associate professor at the National University of Singapore, a senior chief scientist at LifeCell Corporation in the United States, and a visiting professor at the University of Science and Technology of China (中國科學技術大學).

Ms. Ye Luchan (葉綠嬋) is the vice president of the Target Company. She has over 30 years of experience in comprehensive financial management of listed companies and joint ventures. She is familiar with the business characteristics and control processes of the manufacturing industry, especially the biotechnology industry. She is also familiar with clinical regulations for medical devices and proficient in fiscal and taxation laws. Ms. Ye is a senior accountant (高級會計師). She obtained a bachelor's degree from Yunnan University (雲南大學).

Ms. Huang Senli (黃森麗) is the director of technology department of the Target Company. Ms. Huang participated in the development of a number of new products of the Target Company, and assisted the chief scientist of the Target Company to implement product concept verification, production process design and formulation of key technical parameters, development of testing and inspection methods, and compilation of technical documents. As such, she is familiar with the Target Company's technology platform. She obtained a master's degree from Guangxi University (廣西大學).

Ms. Lu Jing (蘆淨) is the director of clinical department of the Target Company. Ms. Lu and has 14 years of experience in pharmaceutical and medical device companies. She is responsible for the daily management and supervision of the Target Company's clinical trials, submission of relevant clinical research documents according to registration requirements, and organization and coordination of preparations of on-site inspection of clinical trials by the drug regulatory department. Ms. Lu is familiar with business processes in relation to product registration and clinical trials, and relevant laws and regulations. She obtained a bachelor's degree from Beijing University of Chinese Medicine (北京中醫藥大學).

The Target Company has adopted several methods to retain its employees, including but not limited to the followings:

(i) the Target Company pays their technical employees competitive compensation. In order to make sure their compensation is competitive in the market, the Target Company also evaluates and adjusts salaries of employees periodically if necessary. In addition, there is no promotion bottleneck for the technical employees in the Target Company.

(ii) the Target Company has designed in-house corporate training and mentorship programs for employees to advance their professional development.

(iii) the Target Company implements reward system for the R&D projects. Under such reward system, the project manager of each R&D project will be awarded bonus based on the progress of the R&D of the pipeline products.

Financial information of the Target Company

The following table sets forth the financial information attributable to the Target Company for the two years ended December 31, 2019 and 2020 based on the audited financial statements prepared under HKFRS.

	For the years ended December 31, *(RMB'000)*	
	2019	**2020**
	(Audited)	(Audited)
Net loss before taxation	(6,863)	(11,763)
Net loss after taxation	(6,863)	(11,763)

	As of December 31, *(RMB'000)*	
	2019	**2020**
	(Audited)	(Audited)
Total assets	65,685	59,459
Net assets/(liabilities)	1,516	(8,370)

5. REASONS FOR AND BENEFITS OF THE SHARE TRANSFER AND THE SHARE SUBSCRIPTION

The Company considered the Share Transfer and Share Subscription are beneficial to the Company's business development for the following reasons:

- **Expansion into the regenerative medical biomaterials industry in the PRC.** By acquiring the Target Company, the Company will expand into the regenerative medical biomaterials industry in the PRC with fast-growing, high-margin and high-potential opportunities, which is in line with the Company's long-term strategies. According to China Insights Consultancy Limited, the size of the regenerative medical biomaterials market in China is estimated to be at RMB20.2 billion in 2020, and is expected to further increase to RMB44.9 billion by 2024, representing a CAGR of 22.2% during this period. In part due to its growth potential, the regenerative medical biomaterials sub-segment has been considered one of the most valuable areas of investment in the medical device sector in recent years. As such, the Group has identified the regenerative medical biomaterials sub- segment as an untapped opportunity for further growth in the coming years, and views the acquisition of the Target Company, including its product pipeline and R&D platform, to help the Group further accelerate its growth and evolution into a leading medical device company in China.

- **Regenerative medical biomaterials are clinically advantageous and commercially valuable.** Regenerative medical biomaterials refer to biomedical materials formed from natural biological tissues which are processed using special technologies like tissue engineering technology. The regenerative medical biomaterials have the following advantages:

  (i) Compared with ordinary biomedical materials, regenerative medical biomaterials that are implanted into the body can induce regeneration and repair of defective tissues and organs. Regenerative medical biomaterials have the advantages of good tissue inductivity, histocompatibility, degradation compliance, mechanical compliance with high standard of safety.

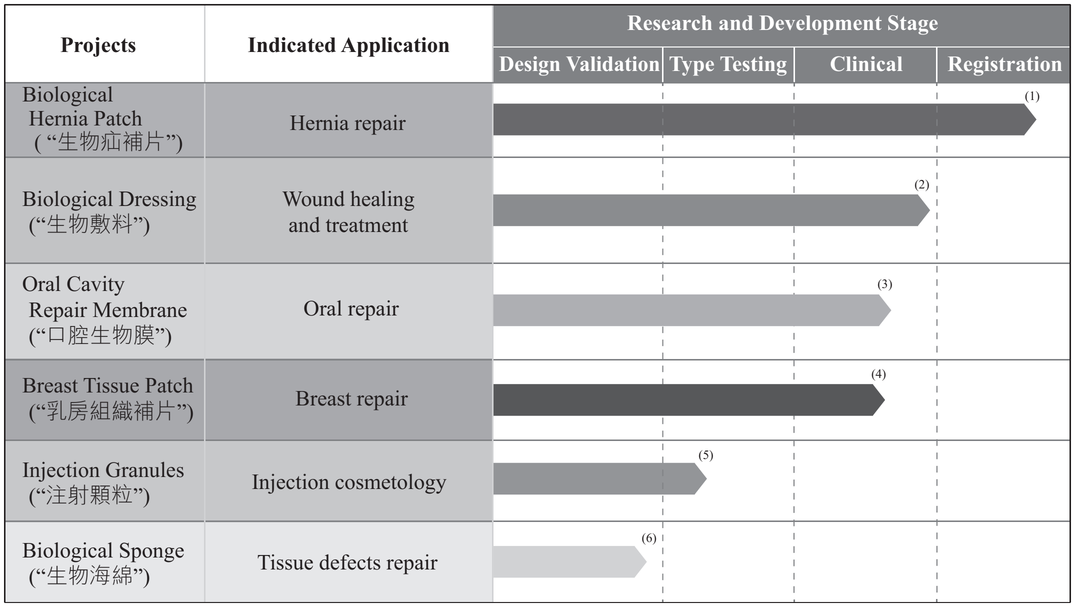
  (ii) Compared with biological synthetic materials and metallic materials whose tissue structure is quite different from human tissue, regenerative medical biomaterials are made by animal tissues such as pigs and cattle, and their composition and structure are very similar to human tissue, thus artificial organs and tissue made from regenerative medical biomaterials that implanted into human body through tissue engineering technology on the premise of retaining animal tissue structure is highly acceptable to human body and can effectively avoid the occurrence of immune rejection and discomfort, which can significantly improve the life quality of patients.

  (iii) Regenerative medical biomaterials are highly biogenic and have been modified by immune rejection and surface activity, so they have excellent biocompatibility and can grow together with host cells to induce tissue regeneration.

  (iv) Regenerative medical biomaterials also have excellent mechanical compliance and degradation compliance. Good mechanical compliance enables the biomechanical requirements of various applications to be met by biomechanical modification of biomaterials at the molecular level.

- **Growth potential of the Target Company in the PRC.** The Target Company possesses a strong product pipeline that covers several R&D stages, including but not limited to biological hernia patch, biological dressing, oral cavity repair membrane, breast tissue patch, injection granules and biological sponge.

The following chart summarizes the product pipeline of the Target Company as of the date of this circular:



Notes:

(1) Biological hernia patch is a tissue remodeling and regenerative medical device that is used in hernia treatment to provide additional support to weakened or damaged tissue. The Target Company submitted the application for the NMPA registration for hernia patch in March 2021. As of the Latest Practicable Date, the product is under the technical review by the NMPA.

(2) Biological dressing is mainly used to repair skin defects of patients with burns and scalds. The clinical trial patient enrollment and follow-up evaluation for biological dressing have been completed. The Target Company expects to submit the NMPA registration application for biological dressing in February 2022.

(3) Oral cavity repair membrane using biomedical materials in clinical treatment of stomatology is mainly used for repairing soft tissue defects in oral cavity. The clinical trial patient enrollment for oral cavity repair membrane has been completed and approximately 65% patient follow-up evaluation has been completed. The Target Company expects to submit the NMPA registration application for oral cavity repair membrane in May 2022.

(4) Breast tissue patch is mainly used in breast reconstruction and repairing. The clinical trial patient enrollment for breast tissue patch has been completed and approximately 65% patient follow-up evaluation has been completed. The Target Company expects to submit the NMPA registration application for breast tissue patch in December 2022.

(5) Injection granules are mainly used for injecting cosmetics and are a kind of micronized heterogeneous acellular dermal matrix. The Target Company submitted the type testing (型式檢驗) for injection granules in November 2021.

(6) Biological sponge is mainly used to fill tissue defects. The product has been basically finalized, and the Target Company expects to submit a type testing (型式檢驗) for the biological sponge in June 2022.

(7) Upon completion of the NMPA registration, the Target Company also needs to obtain the medical device manufacture license (醫療器械生產許可證) to allow the products to be manufactured and put on sale in the market.

(8) As a manufacturer of Class III implantable medical devices, the registration certificate and medical device manufacture license are prerequisite for production and sales. Save as the abovementioned registration or certificate, the Target Company has obtained all the requisite licenses and approvals from the government or relevant authorities necessary for its business and operation.

The amount of capital necessary for the development of the pipeline products of the Target Company is estimated to be approximately RMB40 million. The Target Company will fund the abovementioned capital requirement of its projects through the Share Subscription and the subscription of the shares of the Target Company by the Independent Minority Investors**.**

- **Potential synergy between the businesses of the Company and the Target Company.** As a leading medical device company with strong R&D capabilities and well-established distribution networks, the Company is committed to exploring fast-growing and high-margin segments of China's medical device and related industries in order to maintain the competitive edge in the market in the present and future.

In particular, the Target Company will complement and benefit the Company's business as set out below:

(i) As an innovative biotechnology company specializing in the R&D of regenerative medical biomaterials in China, the experience and expertise of the Target Company's current R&D team is deemed a valuable complement to the Company's current R&D capacities and product pipelines. The R&D team of the Target Company is led by Dr. Wenquan Sun (孫文全), who has more than 30 years of medical device research and development experience and is the inventor of more than 80 patents. For the details of the background of Dr. Wenquan Sun, please refer to the section headed "Information on the Parties — the Target Company".

(ii) The Target Company's technology would enhance the Company's R&D capability. The Target Company possesses the enzyme-assisted tissue precision modification technology (酶輔組織精准修飾技術), which can be used in R&D of acellular dermal matrix (異種脱細胞真皮基質) ("ADM") materials containing complete extracellular matrix (細胞外基質). ADM materials have the characteristic of low immunogenicity and low rejection and can be widely used in oral diseases, breast reconstruction, abdominal wall reconstruction, burns, cosmetology, tissue repair after tumor surgery, etc. The Company would leverage such technology to explore the possibility of R&D on more potential product lines.

(iii) The Share Transfer and the Share Subscription could diversify the product portfolio of the Group and enable the Group to expand its business into the regenerative medical biomaterials industry.

As the Company is a leading medical device company in the PRC, the Company believes that the acquisition of the Target Company could create a synergic momentum for the Company to consolidate the resources of the Target Company in order to maintain the Company's leading market positions and realize rapid growth in the future. In particular, the Company would be able to expand its core business by leveraging the Target Company's existing R&D capacities to develop and offer one or more new pipelines of medical device. At the same time, the combined scale of the Company and the Target Company could help reduce costs, optimize spending, broaden market exposure and improve bargaining power with distributors, customers and suppliers.

Based on the above, the Directors believe that the terms of the Share Transfer Agreement and Share Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

The shareholding structure of the Target Company (i) as at the Latest Practicable Date, and (ii) immediately upon the completion of the Share Transfer and the Share Subscription (assuming there is no change in the issued share capital of the Target Company before the completion of the Share Transfer and the Share Subscription) is as follows:

Name of shareholder of the Target Company	**Percentage of shareholding in the Target Company**	
	As at the Latest Practicable Date	*Immediately after the completion of the Share Transfer and the Share Subscription*
The Vendors		
Huaimin Yang (楊懷民)	39.2080%	—
Wenquan Sun (孫文全)	23.3347%	16.5238%
Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥))	20.7920%	15.1372%
Luchan Ye (葉綠嬋)	10.1267%	7.1390%
Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥))	4.0000%	—
Xin Wang (王忻)	2.5386%	—
The Purchaser	—	58.2000%

Name of shareholder of the Target Company	Percentage of shareholding in the Target Company	
	As at the Latest Practicable Date	*Immediately after the completion of the Share Transfer and the Share Subscription*
The Independent Minority Investors		
Ningbo Fengkai Enterprise Management Partnership (Limited Partnership) (寧波豐楷企業管理合夥企業(有限合夥))	—	2.0000%
Xi'an Jiaoda Siyuan Puhui Investment Partnership (Limited Partnership) (西安交大思源普惠投資合夥企業(有限合夥))	—	1.0000%
Total	100.00%	100.00%

7. FINANCIAL EFFECT OF SHARE TRANSFER AND THE SHARE SUBSCRIPTION

Upon the completion of the Share Transfer and the Share Subscription, the Target Company will become a non-wholly owned subsidiary of the Company, and the results, assets and liabilities of the Target Company will be consolidated into the financial statements of the Group. Please refer to Appendix IV to this circular for the unaudited pro forma consolidated financial information of the Enlarged Group.

8. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Share Transfer and the Share Subscription is more than 25% and less than 100%, the Share Transfer and the Share Subscription constitute major transactions of the Company under Rule 14.06 of the Listing Rules and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Share Transfer and the Share Subscription and none of them is required to abstain, or has abstained, from voting on the relevant board resolutions approving the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder. The EGM will be convened for the Shareholders to consider and, if thought fit, to approve the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder. Voting by the Shareholders at the EGM will be taken by poll. To the Directors' best knowledge and belief, no Shareholder is required to abstain from voting in respect of the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder at the EGM.

9. BASIS OF THE DETERMINATION OF THE CONSIDERATION AND THE TARGET COMPANY VALUATION

In preparing the pre-money appraised value of the 100% equity interest of the Target Company, the Independent Valuer has applied the discounted cash flow method under the income approach and based on certain assumptions, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, and the requirements under Rule 14.62 of the Listing Rules are therefore applicable.

Details of the principal assumptions of the Target Company Valuation are as follows:

- The Target Company Valuation was primarily based on the financial projections prepared by the Target Company with reference to the market research reports compiled by the reputable market consultants and latest historical financial information made available to the Valuer. It is assumed that the financial projections provided are prepared on a reasonable basis, reflecting aspects of the individual R&D projects, including but not limited to, market conditions, economic fundamentals, expected success rates, market shares to be achieved, selling prices, and costs of sales and operations of each of the R&D projects after their respective commercialization, and that they will materialize;

- The Target Company have, or will have, sufficient capital, competent management and sufficient personnel, as well as sufficient facilities and systems for future expansion, to achieve or contribute to ongoing R&D and future commercialization;

- There will be no material change in the core operations of the Target Company from what is present and/or expected;

- All relevant laws, statutes, ordinances and regulations pertaining to the Target Company are complied with and where applicable, renewable upon expiry;

- The operational and contractual terms stipulated in the contracts and agreements associated with the R&D projects and/or the Target Company will be honored;

- There are no hidden or unexpected conditions associated with the R&D projects and/or the Target Company that might adversely affect the reported values; and

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions from present and/or from what is expected, which might adversely affect the business of the Target Company.

The Independent Valuer also assumed the accuracy of the financial and operational information provided by the Company and relied to a considerable extent on such information in arriving at their conclusion of value.

The Board has reviewed the key assumptions upon which the profit forecast was based and is of the view that the profit forecast was made after due and careful enquiry.

BDO Limited has been engaged by the Company to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the Target Company Valuation prepared by the Independent Valuer was based.

Directors' due diligence on the valuation of the Target Company

The Directors are of the view that the valuation prepared by the Independent Valuer has been made after due and careful enquiry, based on the followings:

(1) The Directors have discussed with the Independent Valuer about different aspects including the bases and assumptions based upon which the valuation has been prepared, and reviewed the valuation for which the Independent Valuer is responsible. The Directors have also considered the report from BDO Limited regarding whether the profit forecasts, so far as the calculations are concerned, have been properly complied with the bases and assumptions set out in the valuation report. The Directors noted that the profit forecasts in the valuation are mathematically accurate and the discounted cash flows will not be affected by accounting policies.

(2) The Independent Valuer is independent and has no conflict of interest with regard to the Company or the Target Company, is suitably qualified and of sufficient reputation and has the relevant expertise and adequate resources to perform its role.

(3) The valuation report prepared by the Independent Valuer is relevant and useful in aiding the Directors to determine the fair and reasonable consideration for the Target Company.

(4) In making the decision of the Share Transfer and the Share Subscription and assess the valuation of the Target Company, the Directors has carried out the following independent investigation and due diligence:

(i) The Directors have understood the nature of the business of the Target Company through (a) review of the data of clinical study, the application materials for NMPA registration and management due diligence report, and (b) on-site visit of the laboratories and facilities of the Target Company. The Directors have also conducted independent market research to verify the accuracy and reasonableness of the information provided by the Target Company, such as the market prospects of the pipeline products of the Target Company.

(ii) The Directors have reviewed the legal due diligence report prepared by the Company's PRC legal advisor to understand the legal compliance of the Target Company. The Directors did not identify any material red flag during legal due diligence.

(iii) The Directors have reviewed the financial information of the Target Company which was audited by the Company's auditor, BDO Limited. The Directors did not identify any material red flag during financial due diligence.

(iv) The Directors have engaged the Independent Valuer to appraise the valuation of the Target Company. The Directors have maintained an engaged and critical attitude towards the basis of calculation, scope of review, assumptions, limitations and qualifications and methodologies of the valuation of the Target Company prepared by the Independent Valuer. The Directors have also analyzed the valuation report and enquired with the Independent Valuer about certain assumptions and calculation in the valuation report.

(v) The Directors have reviewed the market research reports prepared by China Insights Consultancy Limited (commissioned by the Company) and IQVIA Holdings Inc. (commissioned by the Company), containing market information which has been quoted in the valuation report. The Directors have discussed with the Independent Valuer on such market information and conducted market research from public sources to assess the reasonableness and fairness of information provided.

10. EGM AND PROXY ARRANGEMENT

The EGM will be held on Friday, March 11, 2022 at 10:00 a.m., at Building 1, No. 23 Panlong West Road, Pinggu District, Beijing, PRC, at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder. Notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pwmedtech.com). Whether or not you are able to attend the EGM, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time scheduled for holding the EGM (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, March 9, 2022) or any adjournment thereof (as the case may be). Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish and in such event, your proxy form shall be deemed to be revoked.

11. CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, March 8, 2022 to Friday, March 11, 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates are lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Monday, March 7, 2022.

12. RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the terms of the Share Transfer Agreement and the Share Subscription Agreement, and the transactions contemplated therein are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the terms of the Share Transfer Agreement and the Share Subscription Agreement, and the transactions contemplated therein.

13. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
PW Medtech Group Limited
普华和顺集团公司
Yue'e Zhang
Chairman

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for the three years ended December 31, 2020, 2019 and 2018, respectively, had been set out in the annual reports of the Company for the three years ended December 31, 2018 (from pages 62 to 148), December 31, 2019 (from pages 69 to 148) and December 31, 2020 (from pages 69 to 148).

The unaudited financial information of the Group for the six months ended June 30, 2021 had been set out in the 2021 interim report of the Company (from pages 20 to 44).

All of the abovementioned annual reports, interim report and quarterly report of the Company had been published on the respective websites of Company (http://www.pwmedtech.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) through the links below:

- annual report of the Company for the year ended December 31, 2018:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0424/ltn20190424372.pdf

- annual report of the Company for the year ended December 31, 2019:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042800700.pdf

- annual report of the Company for the year ended December 31, 2020:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300729.pdf

- interim report of the Company for the six months ended June 30, 2021:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0923/2021092300685.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business on December 31, 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

Other Borrowings

The Target Company had unsecured other borrowings of approximately RMB87,957,000.

Lease liabilities

The Group had lease liabilities of approximately RMB2,442,000.

The Sichuan Ruijian Medical Technology Co. Ltd. and its subsidiaries had lease liabilities of approximately RMB272,000.

The Target Company had lease liabilities of approximately RMB816,000.

Contingent liabilities

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on December 31, 2021, any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there had been no material adverse changes in the financial or trading prospects of the Group since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

4. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry and after taking into account the financial resources available to the Enlarged Group as at the Latest Practicable Date, including the internally generated funds, other financing facilities available and the effects of the acquisition of 58.2% equity interest in the Target Company, are of the opinion that the Enlarged Group will have sufficient working capital to satisfy the Enlarged Group's requirements for at least the twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

As a leading medical device company in China, the Company focuses on the fast-growing and highly profitable medical device market in China. Currently, it is mainly engaged in the Infusion Set Business. The Company has been committed to expanding new markets with great potentials for development and seizing every opportunity in the market to maintain its leading position in the industry.

In the first half of 2021, China achieved steady economic growth. After eliminating the shortcomings of the national public healthcare system, the medical consumables industry was benefitted with more growth space. In addition, the sector gradually consolidated towards major players with economies of scale, well-established technology and strong innovation capability. Domestic medical consumables with substantial room for import substitution and better value for money will have a large growth potential at home and abroad. The Company has been focusing on China's fast-growing and high-margin medical device market. The Group keeps tabs on the latest industry development and gains in-depth insights into the future trend. It actively promotes industrial upgrade, enhances product innovation and R&D capabilities, and expands the mix of production capacity.

The Group will continue to leverage its leading position in China's medical device industry. In addition to its main businesses of infusion set and intravenous cannula, it will further expand the business in the diabetes therapy sector, actively facilitate the marketing and promotion of insulin injection needles and pens, and conduct R&D of medical devices in other therapy sectors so as to expand revenue sources, give play to business synergies and further optimize business coverage.

Emphasis on Innovation and R&D

As an industry leader in the development of innovative products, the Group has an R&D team consisting of experienced members. The team closely cooperates with surgeons, hospitals (especially Class III Grade A hospitals), first-class university research centers and other research institutions.

As of June 30, 2021, the Group had commenced a number of R&D projects. It supported the expansion and further R&D of new products in the diabetes therapy sector through substantial investment. In the first half of 2021, it advanced the project in relation to the smart cap and supporting application for insulin injection pens, where it designed a new cap structure for the advantages of accurate data transformation and low cost. With the help of the supporting application, the pen cap could connect with smart terminals to record and analyze the dosage of insulin injection and blood sugar level. Meanwhile, these records could also be uploaded to the cloud for checking by medical professionals.

Apart from diabetes products, the Group stepped up its R&D efforts in business lines such as its intravenous cannula products. Currently, it is developing a new kind of disposable dialysis cannulas that allows the users to remove the steel needle after injection. The new product minimizes damage to blood vessels by leaving only the flexible polymer cannula inside. Unlike traditional cannulas, there are asymmetrical side holes at the duct tip of the new product, which are uniquely designed to prevent insufficient blood flow due to contact with the vascular wall. The new dialysis cannula developed by the Group is expected to be launched in the second half of 2022. It aims to provide better treatment experience and safety assurance for patients with kidney failure, while promoting import substitution. This project facilitates the transformation of the Group from intravenous to intraarterial treatment, marking its first step to the hemodialysis market with promising prospects.

The Group will continue its investment in product innovation and R&D. Following the R&D strategy of "produce and focus our R&D efforts for a leading next generation of products", the Group will focus on the safety and effectiveness as well as R&D and innovation of medical devices so as to enhance its overall competitiveness in the industry.

Expansion of Distribution Network

The Group has an experienced, strong and dedicated team of professional sales and marketing staff to support and consolidate its distribution networks in 31 provinces, municipalities and autonomous regions in China, and enhance the promotion of products from all business segments. The Group continued to optimize its sales channels and expand its distribution network, actively promoted the Company's strategic product layout in centralized procurement market and non-centralized procurement market, and closely monitored national medical policies to timely adjust the bidding strategies. In the first half of 2021, the Group won the bids for its products in regions such as Jiangsu, Henan, Hebei and Xinjiang. Adhering to the strategic approach of "low cost, high quality" continuously, it conducted a comprehensive review of daily management and corporate strategy to introduce innovative plans and measures.

Meanwhile, the Group extended the sales network in multiple channels and sectors to cover hospitals in key provinces. The Group will strive to develop new business sectors that could bring synergy to existing businesses in terms of clinical application and sales channels, thereby promoting business growth and network expansion.

Set out below is the text of a report received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, which has been prepared for the purpose of incorporation in this circular.

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Fax: +852 2815 2239
www.bdo.com.hk

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香港干諾道中111號
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PW MEDTECH GROUP LIMITED

Introduction

We report on the historical financial information of Beijing Ruijian High-Tech Biological Technology Co., Ltd 北京瑞健高科生物科技有限公司 (the "Target Company") set out on pages II-5 to II-48, which comprises the statements of financial position as at 31 December 2018, 2019 and 2020 and 30 September 2021, and 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 31 December 2018, 2019 and 2020 and the nine months ended 30 September 2021 (the "Track Record Period") 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-5 to II-48 forms an integral part of this report, which has been prepared for inclusion in the circular of PW Medtech Group Limited (the "Company") dated 21 February 2022 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determines are necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 ("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 accountants' judgement, 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 accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation 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 director, 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 accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2018, 2019 and 2020 and 30 September 2021 and of the Target Company's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative historical financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2021 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 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 and the Companies (Winding up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the "Track Record Period".

BDO Limited
Certified Public Accountants
Ng Wai Man
Practising Certificate Number: P05309
Hong Kong
21 February 2022

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

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

The financial statements of the Target Company for the Track Record Period (also referred to as the "Relevant Period"), on which the Historical Financial Information is based, were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA ("Underlying Financial Statements") and were audited by BDO Limited in accordance with Hong Kong standards on Auditing issued by the HKICPA.

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Years ended 31 December			Nine months ended 30 September	
	Notes	**2018**	**2019**	**2020**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*7*	—	—	—	—	—
Other income, gains and losses, net	*8*	1,134	2,323	301	226	107
Administrative expenses		(2,613)	(4,612)	(3,899)	(2,974)	(2,213)
Research and development costs		(5,540)	(2,762)	(7,301)	(2,729)	(4,755)
Finance costs	*9*	(1,423)	(1,812)	(864)	(634)	(1,014)
Loss before taxation	*10*	(8,442)	(6,863)	(11,763)	(6,111)	(7,875)
Income tax expense	*12*	—	—	—	—	—
Loss and other comprehensive income for the year/period attributable to owners of the Company		(8,442)	(6,863)	(11,763)	(6,111)	(7,875)

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	As at 30 September 2021 RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Plant and equipment	*14*	4,185	3,922	3,384	3,274
Intangible assets	*15*	22,192	42,589	49,323	54,255
Right-of-use assets	*16*	—	762	1,172	856
		26,377	47,273	53,879	58,385
Current assets					
Inventories	*17*	3,063	3,240	2,211	2,147
Other receivables, deposits and prepayments	*18*	2,411	2,508	2,322	2,745
Financial assets at fair value through profit or loss	*19*	43,200	—	—	13,500
Cash and cash equivalents		53	12,664	1,047	145
		48,727	18,412	5,580	18,537
Current liabilities					
Other payables and accruals	*20*	62,725	11,790	2,154	917
Other borrowings	*21*	—	47,611	60,483	87,341
Lease liabilities	*16*	—	602	331	199
		62,725	60,003	62,968	88,457
Net current liabilities		(13,998)	(41,591)	(57,388)	(69,920)
Total assets less current liabilities		12,379	5,682	(3,509)	(11,535)
Non-current liabilities					
Other payables and accruals	*20*	4,000	4,000	4,000	4,000
Lease liabilities	*16*	—	166	861	710
		4,000	4,166	4,861	4,710
Net assets/(liabilities)		8,379	1,516	(8,370)	(16,245)
EQUITY					
Share capital	*22*	2,238	2,238	4,115	4,115
Reserves/(deficit)		6,141	(722)	(12,485)	(20,360)
Total equity/(capital deficiency)		8,379	1,516	(8,370)	(16,245)

STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	2,238	28,762	(14,179)	16,821
Loss and other comprehensive income for the year	—	—	(8,442)	(8,442)
Balance at 31 December 2018 and 1 January 2019	2,238	28,762	(22,621)	8,379
Loss and other comprehensive income for the year	—	—	(6,863)	(6,863)
Balance at 31 December 2019 and 1 January 2020	2,238	28,762	(29,484)	1,516
Issuance of share	1,877	—	—	1,877
Loss and other comprehensive income for the year	—	—	(11,763)	(11,763)
Balance at 31 December 2020 and 1 January 2021	4,115	28,762	(41,247)	(8,370)
Loss and other comprehensive income for the period	—	—	(7,875)	(7,875)
Balance at 30 September 2021	4,115	28,762	(49,122)	(16,245)
Balance at 31 December 2019 and 1 January 2020	2,238	28,762	(29,484)	1,516
Issuance of share	1,877	—	—	1,877
Loss and other comprehensive income for the period	—	—	(6,111)	(6,111)
Balance at 30 September 2020 (unaudited)	4,115	28,762	(35,595)	(2,718)

STATEMENTS OF CASH FLOWS

	Years ended 31 December			Nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Cash flows from operating activities					
Loss before taxation	(8,442)	(6,863)	(11,763)	(6,111)	(7,875)
Adjustments for:					
Depreciation of plant and equipment	900	1,099	749	562	582
Amortisation of intangible assets	987	900	681	511	76
Depreciation of right-of-use assets	—	926	706	606	316
Interest expenses on other borrowings	—	165	773	580	920
Interest expenses on lease liabilities	—	147	91	54	94
Interest expenses on deposits received	1,423	1,500	—	—	—
Bank interest income	—	(39)	(3)	(2)	(2)
Loss on write off of plant and equipment	26	—	—	—	—
Change in fair value of financial assets at fair value through profit or loss	(218)	(1,937)	(22)	(17)	(92)
Operating loss before working capital changes	(5,324)	(4,102)	(8,788)	(3,817)	(5,981)
(Increase)/decrease in other receivables, deposits and prepayments	(1,273)	(97)	186	112	(423)
Increase/(decrease) in other payables and accruals	4,976	(29)	1,094	477	(1,237)
Net cash used in operating activities	(1,621)	(4,228)	(7,508)	(3,228)	(7,641)

	Years ended 31 December			Nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cash flows from investing activities					
Purchase of plant and equipment	(1,463)	(836)	(211)	(74)	(472)
Additions to intangible assets	(13,532)	(20,068)	(6,145)	(3,992)	(4,067)
(Increase)/decrease in inventories	(1,884)	(177)	1,029	(792)	64
Proceeds from disposal of financial assets at fair value through profit or loss	102,618	141,537	4,702	1,157	24,092
Acquisition of financial assets at fair value through profit or loss	(145,600)	(96,400)	(4,680)	(4,680)	(37,500)
Interest received	—	39	3	2	2
Net cash (used in)/generated from investing activities	(59,861)	24,095	(5,302)	(8,379)	(17,881)
Cash flows from financing activities					
Proceeds from other payables and accruals	60,000	—	—	—	—
Repayment of other payables and accruals	—	(53,635)	(10,730)	(10,730)	—
Proceeds from other borrowings	300	47,446	14,659	11,394	25,089
Repayments of other borrowings	(300)	—	(3,830)	(2,730)	(92)
Proceeds of issuance of shares	—	—	1,877	1,877	—
Capital element of lease rentals paid	—	(920)	(692)	(609)	(283)
Interest element of lease rentals paid	—	(147)	(91)	(54)	(94)
Net cash generated from/(used in) financing activities	60,000	(7,256)	1,193	(852)	24,620
Net (decrease)/increase in cash and cash equivalents	(1,482)	12,611	(11,617)	(12,459)	(902)
Cash and cash equivalents at beginning of year/period	1,535	53	12,664	12,664	1,047
Cash and cash equivalents at end of year/period	53	12,664	1,047	205	145

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the People's Republic of China (the "PRC") as a limited liability company on 5 February 2013. Its registered office is located at Room 102, 202, Building 15, No. 1 Chaoqian Road, Changping District, Beijing, the PRC.

The Target Company is principally engaged in the research and development of the regenerative medical biomaterials in the PRC.

2. BASIS OF PREPARATION AND PRESENTATION

(a) Statement of compliance

The Historical Financial Information set out in this report has been prepared in conformity with HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the HKICPA and the applicable disclosure requirements of the Listing Rules.

The HKICPA has issued a number of new and revised HKFRS. For the purpose of preparing this Financial Information, the Target Company has adopted all applicable new and revised HKFRS during the Relevant Periods, except for any new or revised standards or interpretations that are not yet effective for and have not been early adopted by the Target Company, details of which are set out in Note 3.

The Target Company incurred a net loss of approximately RMB7,875,000 during the nine months ended 30 September 2021 and, as of that date, the Target Company had net current liabilities and net liabilities of approximately RMB69,920,000 and RMB16,245,000 respectively. The Target Company finances its operations principally by obtaining funding from its shareholders and interest-bearing borrowings.

The Historical Financial Information has been prepared by the Target Company's director under the going concern concept because in the opinion of the Target Company's director, the Target Company will have adequate fund for its current operations in the foreseeable future. The lenders of other borrowings have extended repayment date after the reporting periods or not to demand repayment of debts due from the Target Company until such time when repayment will not affect the ability of the Target Company to repay other creditors in the normal course of business.

(b) Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis, except for financial assets stated at fair value through profit or loss, which is measured at fair value as explained in the accounting policies set out in Note 4.

(c) Functional and presentation currency

The Financial Information are presented in Renminbi ("RMB"), which is the functional currency of the Target Company. All are rounded to the nearest thousand ("RMB'000"), except when otherwise indicated.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Changes in accounting policies and disclosures

For the purposes of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Company has consistently adopted accounting policies which conform with HKFRSs, amendments and the related interpretations, which are effective for the accounting period beginning on 1 January 2019 throughout the Relevant Periods except the following standards and amendments which have been adopted during the Relevant Periods at their respective effective dates as follows:

HKFRS 16	Lease[1]

[1] Effective for annual periods beginning on or after 1 January 2019

The nature and the impact of the new and revised HKFRSs are described below:

HKFRS 16 — Leases

(i) *Impact of the adoption of HKFRS 16*

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Target Company's accounting policies and the transition method adopted by the Target Company as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Target Company has applied HKFRS 16 using modified retrospective approach from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognised in the opening balances on 1 January 2019.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Statement of financial position as at 1 January 2019

	RMB'000
Right-of-use assets	1,688
Increase in total assets	1,688
Lease liabilities (non-current)	768
Lease liabilities (current)	920
Increase in total liabilities	1,688

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitment as at 31 December 2018	1,895
Less: total future interest expenses	(207)
Total lease liabilities as of 1 January 2019	1,688
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is	4.3%

(ii) *The new definition of a lease*

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Target Company has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) *Accounting as a lessee*

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value.

The Target Company recognised a right-of-use asset and a lease liability at the date of adoption of HKFRS 16, i.e. 1 January 2019 and the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Target Company measures the right-of-use assets applying a cost model. Under the cost model, the Target Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Target Company has leased the office premise under tenancy agreement which the Target Company exercises it judgement and determines that it is a separate class of asset. As a result, the right-of-use asset arising from office premise under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Company shall use the Target Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) *Transition*

As mentioned above, the Target Company has applied HKFRS 16 using modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019. As a result, the comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Target Company has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Target Company has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Target Company has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Target Company has applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Target Company's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

(b) Issued but not yet effective Hong Kong Financial Reporting Standards

The following new/revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by the Target Company.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKAS 1	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 17	Insurance Contracts[3, 4]
Amendments to HKFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021[5]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]

1 No mandatory effective date yet determined but available for adoption

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 As a consequence of the amendments to HKFRS 17 issued in June 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

5 Effective for annual periods beginning on or after 1 April 2021

The Target Company has already commenced an assessment of the impact of these new/revised HKFRSs. The directors of the Target Company anticipate that the application of new/revised HKFRSs will have no material impact on the result and the financial position of the Target Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Plant and equipment

Plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvements	Over the lease terms
Machinery and equipment	5 years
Furniture fittings and office equipment	3–10 years

Where parts of an item of plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between these parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(b) Intangible assets (other than goodwill)

(i) *Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.*

Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Patent	3–5 years

(ii) *Internally generated intangible assets (research and development costs)*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Target Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised on a straight-line basis over the periods. The Target Company expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(c) Government grants

Government grants are not recognised until there is reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate.

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

(d) Leases (accounting policies applied from 1 January 2019)

A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Target Company has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

The Target Company recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Target Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Company shall use the Target Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Where the Target Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(e) Leases (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Target Company as lessee

Payments for office premise held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Plant and equipment

- Intangible assets

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using specific method. Net realisable value represents 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.

(h) Financial Instruments

(i) *Financial assets*

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Company classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Target Company could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) *Impairment loss on financial assets*

The Target Company recognises loss allowances for expected credit loss ("ECL") on other receivables and deposits, financial assets at fair value through profit or loss and cash and cash equivalents. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Target Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Target Company's historical experience and informed credit assessment and including forward-looking information.

The Target Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

The Target Company considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Company in full, without recourse by the Target Company to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) ***Financial liabilities***

The Target Company classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Target Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including other payables and accruals, other borrowings and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Derecognition*

The Target Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services, 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.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Target Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Company performs; or
- does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Target Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Further details of the Target Company's revenue and other income recognition policies are as follows:

Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(j) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(k) Employee benefits

(i) ***Short term employee benefits and contributions to defined contribution retirement plans***

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) ***Termination benefits***

Termination benefits are recognised at the earlier of when the Target Company can no longer withdraw the offer of those benefits and when it recognised restructuring costs involving the payment of termination benefits.

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either: or

- the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(n) Foreign currency

Transactions entered into by Target Company in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items are translated into the presentation currency of the Target Company (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Target Company's net investment are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Target Company in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Target Company's cash management are included in cash and cash equivalents.

(p) Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Target Company if:

(a) A person or a close member of that person's family is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of key management personnel of the Target Company's parent.

(b) An entity is related to the Target Company if any of the following conditions apply:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Company or an entity related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Target Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Useful lives and residue values of plant and equipment and intangible assets

Useful lives of the Target Company's plant and equipment and intangible assets with definite useful life are defined as the period over which they are expected to be available for use by the Target Company. This estimate is based on the historical experience of the actual useful lives of plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in useful lives and residual values and therefore depreciation or amortisation expense in future periods.

(b) Impairment of plant and equipment and intangible assets

Plant and equipment and intangible assets with definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The intangible assets with indefinite useful life are reviewed at least annually for impairment. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of turnover and the amount of operating costs. No impairment was provided during the year.

(c) Income taxes

The Target Company is mainly subject to income taxes in PRC. The Target Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Company's provision for income taxes as there are many transactions and calculations of 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.

(d) Allowance for ECLs on other receivables and deposits

The allowance for ECLs on the other receivables and deposits are estimated based on assumptions about the risk of default and credit risk of respective receivables. The loss allowance amount is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective receivables. Such assessment involves high degree of estimation and uncertainty. When the actual future cash flows are less or more than expected, a material ECLs or material reversal of ECLs may arise, accordingly.

ECL are measured as an allowance equal to 12-month ECL or lifetime ECL for respective receivables and contract assets. An asset will use lifetime ECL when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Target Company takes into account quantitative and qualitative reasonable and supportable forward looking information including available customers' historical data and existing and forecast market conditions.

(e) Research and development costs

Costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits.

6. SEGMENT INFORMATION

The Target Company is principally engaged in the research and development projects of the regenerative medical biomaterials in the PRC. The director of the Target Company is identified as the chief operating decision maker for the purposes of resource allocation and performance assessment and considered the establishing solutions for automated transportation in the production process of material business to be a single operating segment. Accordingly, no segment information is reported. For the Relevant Periods, all of the reporting assets and liabilities were located in the PRC.

7. REVENUE

The Target Company did not derive any revenue for the years ended 31 December 2018, 2019, 2020 and the nine months ended 30 September 2021 as the product development process is in later stage and relevant products have not been launched to the market.

8. OTHER INCOME, GAINS AND LOSSES, NET

	Years ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Government grants *(Note)*	894	344	212	159	7
Bank interest income	—	39	3	2	2
Change in fair value of financial assets at FVTPL	218	1,937	22	17	92
Loss on write off of plant and equipment	(26)	—	—	—	—
Technical service income, net	—	—	64	48	6
Miscellaneous income	48	3	—	—	—
	1,134	2,323	301	226	107

Note: Included in profit or loss of government grants were received from several PRC local government authorities on a discretionary basis before year end.

9. FINANCE COSTS

	Years ended 31 December			Nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Interests on deposits received *(note 20(i))*	1,637	2,729	—	—	—
Interests on other borrowings	—	165	2,043	1,532	1,861
Interests on lease liabilities	—	147	91	54	94
	1,637	3,041	2,134	1,586	1,955
Less: Amount capitalised *(Note)*	(214)	(1,229)	(1,270)	(952)	(941)
	1,423	1,812	864	634	1,014

Note:

Borrowing costs of approximately RMB214,000, RMB1,229,000, RMB1,270,000 and RMB941,000 capitalised during the years ended 31 December 2018, 2019 and 2020 and nine months ended 30 September 2021 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.73%, 5.03%, 3.50% and 2.21% to expenditure on qualifying assets.

No borrowing costs was capitalised during the years ended 31 December 2018, 2019 and 2020 and nine months ended 30 September 2021 arose on the specific borrowing.

10. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	Year ended 31 December			Nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Auditors' remuneration	16	100	95	71	71
Depreciation of plant and equipment	900	1,099	749	562	582
Depreciation of right-of-use assets	—	926	706	606	316
Amortisation of intangible assets	987	900	681	511	76
Operating lease payments	993	—	—	—	—
Salaries cost (including directors' remuneration)*:					
Salaries and bonuses	2,986	2,952	4,306	3,230	2,662
Contributions to defined retirement plan	181	303	189	142	220
Other staff benefits	4	3	10	7	26
	3,171	3,258	4,505	3,379	2,908

* Staff costs capitalised in intangible assets as deferred development costs are approximately RMB5,142,000, RMB4,279,000, RMB1,060,000, RMB795,000 and RMB620,000 for the years ended 31 December 2018, 2019, 2020 and nine months ended 30 September 2020 and 2021 respectively.

11. DIRECTOR'S AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of directors' remuneration during the Relevant Periods are as follows:

For the year ended 31 December 2018	**Fees**	**Salaries and other benefits**	**Contributions to defined retirement plan**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yang Huaimin	—	540	—	540
Mr. Sun Wenquan	—	570	—	570
	—	1,110	—	1,110

For the year ended 31 December 2019	**Fees**	**Salaries and other benefits**	**Contributions to defined retirement plan**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Sun Wenquan	—	490	—	490
	—	490	—	490

For the year ended 31 December 2020	**Fees**	**Salaries and other benefits**	**Contributions to defined retirement plan**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Hudson Huaixin Yang	—	—	—	—
Mr. Sun Wenquan	—	420	—	420
Ms. Ye Luchan	—	373	38	411
	—	793	38	831

For the nine months ended 30 September 2021	**Fees**	**Salaries and other benefits**	**Contributions to defined retirement plan**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Hudson Huaixin Yang	—	—	—	—
Mr. Sun Wenquan	—	306	—	306
Ms. Ye Luchan	—	288	28	316
	—	594	28	622

For the nine months ended 30 September 2020	Fees	Salaries and other benefits	Contributions to defined retirement plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Mr. Hudson Huaixin Yang	—	—	—	—
Mr. Sun Wenquan	—	315	—	315
Ms. Ye Luchan	—	280	28	308
	—	595	28	623

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no remuneration was paid by the Target Company to any director as an inducement to join or upon joining the Target company or as compensation for loss of office.

(b) The five highest paid individuals

The five individuals whose emoluments were the highest in the Target Company for the Relevant Periods included 2, 1, 2, 2, 2 directors of the Target Company whose emoluments during the years ended 31 December 2018, 2019 and 2020 and each of the nine months ended 30 September 2020 and 2021 respectively are reflected in the analysis presented above.

Emoluments payable to the remaining highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries and other benefits	871	1,049	649	487	483
Contributions to defined retirement plan	70	139	104	78	91
	941	1,188	753	565	574

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
				(Unaudited)	
RMBNil to RMB500,000	3	4	3	3	3

12. INCOME TAX EXPENSE

Pursuant to the PRC Enterprise Income Tax ("EIT") Law and the respective regulations, the Target Company which is operated in Mainland China is subject to income tax at a statutory rate of 25% for the Relevant Periods.

No provision for EIT has been made as the Target Company did not generate any chargeable income during the Relevant Periods.

Income tax expense for the year/period can be reconciled to the accounting loss as follows:

	Years ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Loss before income tax	(8,442)	(6,863)	(11,763)	(6,111)	(7,875)
Tax calculated at the domestic tax rate of 25%	(2,110)	(1,716)	(2,941)	(1,528)	(1,969)
Tax effect of expenses not deductible for tax purposes	2,110	1,716	2,941	1,528	1,969
Income tax expense	—	—	—	—	—

The Target Company had no significant deferred tax assets or liabilities at the end of the Relevant Periods.

As at 31 December 2018, 2019, 2020 and 30 September 2021, the Target Company had estimated unused tax losses of approximately RMB22,621,000, RMB29,484,000, RMB41,247,000 and RMB49,122,000 respectively available for offset against future profits which are expected to expire from 31 December 2028 to 30 September 2031. The tax losses were subject to the final assessment by the tax authorities in the respective jurisdictions where the tax losses arising from. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

13. DIVIDENDS

No dividend was declared nor paid during the Relevant Periods.

14. PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Furniture fittings and office equipment *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2018	2,044	2,944	344	5,332
Additions	222	836	405	1,463
Written off	—	—	(109)	(109)
At 31 December 2018	2,266	3,780	640	6,686
Additions	—	537	299	836
At 31 December 2019	2,266	4,317	939	7,522
Additions	—	73	138	211
At 31 December 2020	2,266	4,390	1,077	7,733
Additions	—	—	472	472
At 30 September 2021	2,266	4,390	1,549	8,205
Accumulated depreciation				
At 1 January 2018	390	1,161	133	1,684
Charge for the year	211	601	88	900
Written off	—	—	(83)	(83)
At 31 December 2018	601	1,762	138	2,501
Charge for the year	227	723	149	1,099
At 31 December 2019	828	2,485	287	3,600
Charge for the year	240	298	211	749
At 31 December 2020	1,068	2,783	498	4,349
Charge for the period	156	73	353	582
At 30 September 2021	1,224	2,856	851	4,931
Carrying amounts				
At 30 September 2021	1,042	1,534	698	3,274
At 31 December 2020	1,198	1,607	579	3,384
At 31 December 2019	1,438	1,832	652	3,922
At 31 December 2018	1,665	2,018	502	4,185

During the Relevant Periods, no plant and equipment was held under finance leases by the Target Company.

15. INTANGIBLE ASSETS

	Patent	Deferred development costs	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2018	4,932	6,789	11,721
Additions	—	13,532	13,532
Interest capitalisated	—	214	214
At 31 December 2018	4,932	20,535	25,467
Additions	—	20,068	20,068
Interest capitalisated	—	1,229	1,229
At 31 December 2019	4,932	41,832	46,764
Additions	—	6,145	6,145
Interest capitalisated	—	1,270	1,270
At 31 December 2020	4,932	49,247	54,179
Additions	—	4,067	4,067
Interest capitalisated	—	941	941
At 30 September 2021	4,932	54,255	59,187
Accumulated amortisation			
At 1 January 2018	2,288	—	2,288
Charge for the year	987	—	987
At 31 December 2018	3,275	—	3,275
Charge for the year	900	—	900
At 31 December 2019	4,175	—	4,175
Charge for the year	681	—	681
At 31 December 2020	4,856	—	4,856
Charge for the period	76	—	76
At 30 September 2021	4,932	—	4,932
Carrying amounts			
At 30 September 2021	—	54,255	54,255
At 31 December 2020	76	49,247	49,323
At 31 December 2019	757	41,832	42,589
At 31 December 2018	1,657	20,535	22,192

16. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. Explanations of the transitional requirements that were applied as at 1 January 2019 are set out in Note 3(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019 are set out in Note 4(d).

Nature of leasing activities (in the capacity as lessee)

The Target Company leases office premises in the jurisdictions from which it operates. All property leases the periodic rent is fixed over the lease term.

(a) Right-of-use Assets

	Office Premises	Total
	RMB'000	*RMB'000*
At 1 January 2019 recognised upon the application of HKFRS16	1,688	1,688
Depreciation	(926)	(926)
At 31 December 2019 and 1 January 2020	762	762
Additions	1,116	1,116
Depreciation	(706)	(706)
At 31 December 2020 and 1 January 2021	1,172	1,172
Depreciation	(316)	(316)
At 30 September 2021	856	856

The analysis of the net book value of right-of-use assets of the Target Company by class of underlying asset is as follows:

	As at 31 December		As at 30 September
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Office Premise, carried at depreciated cost	762	1,172	856

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods are as follows:

	As at 31 December		As at 30 September
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of year/period	1,688	768	1,192
Additions of new leases	—	1,116	—
Interest incurred	147	91	94
Lease payment	(920)	(692)	(283)
Interest payment	(147)	(91)	(94)
At the end of year/period	768	1,192	909

Future lease payments are due as follows:

	Minimum lease payments	Interest	Present value
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2019			
Not later than one year	652	50	602
Later than one year and not later than two years	175	9	166
	827	59	768

	Minimum lease payments	Interest	Present value
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2020			
Not later than one year	450	119	331
Later than one year and not later than two years	294	89	205
Later than two year and not later than five years	761	105	656
	1,505	313	1,192

	Minimum lease payments	Interest	Present value
	RMB'000	*RMB'000*	*RMB'000*
As at 30 September 2021			
Not later than one year	294	95	199
Later than one year and not later than two years	296	70	226
Later than two year and not later than five years	538	54	484
	1,128	219	909

The present value of future lease payments are analysed as:

	As at 31 December		As at 30 September
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Analysed into:			
Current portion	602	331	199
Non-current portion	166	861	710
	768	1,192	909

The Target Company as lessee

The Target Company leases office premises under operating leases with fixed rentals. Leases for properties are negotiated for terms ranging from five years.

17. INVENTORIES

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	3,063	3,240	2,211	2,147

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December 2018 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	As at 30 September 2021 *RMB'000*
Other receivables	62	751	560	1,973
Deposits	50	270	274	69
Prepayments	2,299	1,487	1,488	703
	2,411	2,508	2,322	2,745

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Target Company does not hold any collateral as security.

Further details on credit policy and credit risk arising from deposits and other receivables are set out in note 26(a).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	As at 30 September 2021 *RMB'000*
Wealth management products — non-principal protected *(Notes (a))*	—	—	—	13,500
Wealth management products — principal protected *(Notes (b))*	43,200	—	—	—
	43,200	—	—	13,500

During the years ended 31 December 2018, 2019 and 2020 and the nine months ended 30 September 2021, net gain on change in fair value of RMB218,000, RMB1,937,000, RMB22,000,and RMB92,000 (Note 8) respectively, are recognised in profit or loss.

Notes:

(a) The amount included a wealth management product issued by a bank in the PRC. The product is not redeemable on demand and not principal protected. The return of the product is determined by the performance of the underlying investments which are mainly fixed income and debt instruments.

(b) The amount included a wealth management product issued by a bank in the PRC. The product is not redeemable on demand and principal protected. The return of the product is determined by the performance of the underlying investments which are mainly fixed income and debt instruments.

As at 31 December 2018 and 30 September 2021, the maximum exposure to credit risk of the financial assets at FVTPL of the Target Company was equal to their carrying amounts. As at 31 December 2019 and 2020, the Target Company do not have any financial assets at FVTPL.

The movements of financial assets at FVTPL during each of the Relevant Periods are as follows:

	As at 31 December 2018 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	As at 30 September 2021 *RMB'000*
At the beginning of the year/period	—	43,200	—	—
Addition	145,600	96,400	4,680	37,500
Disposal	(102,400)	(139,600)	(4,680)	(24,000)
At the end of the year/period	43,200	—	—	13,500

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposit received *(Notes (i))*	61,637	10,730	—	—
Salaries and welfare payables	626	761	1,031	391
Other payables	462	299	1,123	526
Classified under current liabilities	62,725	11,790	2,154	917
Deferred revenue under non-current liabilities *(Notes (ii))*	4,000	4,000	4,000	4,000

Notes:

(i) In July 2018, the Target Company entered into a fund raising agreement with three individual third parties as the fundamental investors of the Target Company (Collectively named as "fundamental investors") with an amount of RMB30,000,000, RMB20,000,000 and RMB10,000,000 respectively.

However, due to disputes with the management of the Target Company, the fundamental investors sued against the Company in June 2019 and asked for repayment with interest accordingly.

In November 2019, the Company reached to a mediation under 北京市昌平區人民法院, and agreed to repay the deposits received with the interest expense to fundamental investors amounts of RMB32,170,000, RMB21,465,000 and RMB10,730,000 respectively. The amount were fully settled in January 2020. Neither any unfulfilled obligation nor contingent liability was noted for the Target Company regarding to the incident as of the reporting date of this report.

(ii) In March 2018, the Target Company received government grants of RMB4,000,000 from the PRC government authorities for financing biotechnological research and development projects that was under unfulfilled conditions and other contingencies upon the completion of the biotechnological research and development projects by the Company.

21. OTHER BORROWINGS

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other borrowings — guaranteed	—	45,163	54,702	61,471
Other borrowings — non-guaranteed	—	2,448	5,781	25,870
	—	47,611	60,483	87,341

The Target Company's borrowings of approximately RMBnil, RMB45,163,000, RMB54,702,000 and RMB61,471,000 for the years ended 31 December 2018, 2019, 2020 and nine months ended 30 September 2021 respectively were unsecured but guaranteed by the shareholder, interest-bearing at 4.35% per annum and repayable within one year from drawdown date.

The Target Company's borrowings of approximately RMBnil, RMB2,448,000, RMB5,781,000 and RMB5,870,000 for the years ended 31 December 2018, 2019, 2020 and nine months ended 30 September 2021 respectively were unsecured, interest-free and repayable repayable on demand.

The Target Company's borrowings of approximately RMBnil, RMBnil, RMBnil and RMB20,000,000 for the years ended 31 December 2018, 2019, 2020 and nine months ended September, 30 2021 respectively were unsecured, interest-free and repayable within one year.

22. SHARE CAPITAL

(a) Share capital

	As at 31 December			As at 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Authorised capital				
16,071,434 ordinary shares of RMB1 each	16,071	16,071	16,071	16,071
Issued and fully paid				
At the beginning of the year/period	2,238	2,238	2,238	4,115
Issuance of shares	—	—	1,877	—
At the end of the year/period	2,238	2,238	4,115	4,115

	As at 31 December			As at 30 September
	2018	**2019**	**2020**	**2021**
	Number'000	*Number'000*	*Number'000*	*Number'000*
Authorised capital				
16,071,434 ordinary shares of RMB1 each	16,071	16,071	16,071	16,071
Issued and fully paid				
At the beginning of the year/period	2,238	2,238	2,238	4,115
Issuance of shares	—	—	1,877	—
At the end of the year/period	2,238	2,238	4,115	4,115

(b) Reverses

The reconciliation between the opening and closing balances of each component of the Target Company's consolidated equity is set out in the consolidated statements of changes in equity.

(c) The following describes the nature and purpose of each reserve within owner's equity

Share premium account

Balance arising from premium of consideration over the par value of shares issued.

23. RELATED PARTY DISCLOSURES

(a) Summary of transactions

In addition to the transactions disclosed elsewhere in the financial statements, the Target Company does not have any significant transactions with related parties during the Relevant Periods.

The key management personnel of the Target Company are the directors. Details of remuneration paid to them are set out in Note 11 to the financial statements.

(b) Summary of balance

Included in other borrowings are balance due to related parties as follows:

	As at 31 December			As at 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholder — interest bearing *(Notes (a))*	—	3,044	3,174	3,272
Amounts due to shareholder — interest-free *(Notes (b))*	—	2,448	5,781	5,870
Amount due to a related party *(Notes (c))*	—	30,109	31,414	32,393

Amounts due to shareholders were due from Yang Huaimin and Wang Zhijie who are the controlling shareholders of the Target Company.

Amount due to a related party was due from Wang Zhongsheng who is the supervisor of the Target Company.

Notes:

(a) Amounts due to shareholder represented a loan which was unsecured, interest bearing at 4.35% per annum and repayable within one year from drawdown date.

(b) Amounts due to shareholder represented a loan which was unsecured, interest-free and repayable on demand.

(c) Amount due to a related party represented a loan which was unsecured, interest bearing at 4.35% per annum and repayable within one year from drawdown date.

24. CONTINGENT LIABILITIES

As at 31 December 2018, 2019 and 2020 and 30 September 2021, the Target Company had no significant contingent liabilities.

25. CAPITAL RISK MANAGEMENT

The Target Company's objective of managing capital is to safeguard the Target Company's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher returns to equity owners that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Target Company monitors capital using a gearing ratio, which is calculated by dividing the net debts by total equity.

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other borrowings	—	47,611	60,483	87,341
Debt	—	47,611	60,483	87,341
Less: cash and bank balances	(53)	(12,664)	(1,047)	(145)
Net debt	N/A	34,947	59,436	87,196
Total equity/(capital deficiency)	8,379	1,516	(8,370)	(16,245)
Debt to equity ratio	N/A	31.406%	N/A	N/A
Net debt to equity ratio	N/A	23.052%	N/A	N/A

26. FINANCIAL RISK MANAGEMENT

The Target Company's financial instruments are disclosed in Note 27(c). The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Management has a credit policy in place and the exposure to this credit risk is monitored on an ongoing basis.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with good reputation.

The Target Company expects that there is no significant credit risk associated with financial product measured at fair value through profit or loss since the Group furnishes investment mandates to commercial banks. These mandates require them to invest in financial product issued by bank with high market credit rating, liquidity and stable return. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Target Company has adopted general approach to measure ECLs on deposits and other receivables. Under the general approach, the Target Company applies the "3-stage" impairment model for ECLs measurement based on change in credit risk since initial recognition as follows:

— Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.

— Stage 2: If the credit risk of the financial instrument has increased significantly since its initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.

— Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECLs for financial instruments in Stage 1 are measured at an amount equivalent to 12-month ECLs whereas the ECLs for financial instruments in Stage 2 or Stage 3 are measured at an amount equivalent to lifetime ECLs.

When determining whether the risk of default has increased significantly since initial recognition, the Target Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Target Company's historical experience and informed credit risk assessment and including forward-looking information.

At the end of each reporting period, the Target Company assesses whether a financial asset is credit-impaired. The Target Company considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Company in full, without recourse by the Target Company to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

The measurement of ECLs 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 of default. The assessment of the probability of default and loss given default is based on historical data and adjusted for forward-looking information through the use of industry trend and experienced credit judgment to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios.

The Target Company has not recognised any impairment on deposits and other receivables as at 31 December 2018, 2019 and 2020 and 30 September 2021 as there is no significant increase in credit risk since initial recognition and the amount of impairment measured under the 12-month ECLs model is immaterial.

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the end of each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of each reporting period) and the earliest date the Target Company can be required to pay:

	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Other payables and accruals	62,725	62,725	62,725	—	—
Other borrowings	—	—	—	—	—
Lease liabilities	—	—	—	—	—
	62,725	62,725	62,725	—	—

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019					
Other payables and accruals	11,790	11,790	11,790	—	—
Other borrowings	47,611	49,650	49,650	—	—
Lease liabilities	768	827	652	175	—
	60,169	62,267	62,092	175	—

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020					
Other payables and accruals	2,154	2,154	2,154	—	—
Other borrowings	60,483	62,767	62,767	—	—
Lease liabilities	1,192	1,505	450	294	761
	63,829	66,426	65,371	294	761

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 September 2021					
Other payables and accruals	917	917	917	—	—
Other borrowings	87,341	89,842	89,842	—	—
Lease liabilities	909	1,128	294	296	538
	89,167	91,887	91,053	296	538

27. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

(a) Financial instrument measured at fair value

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 fair value measurement is used on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Some of the Target Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	**Fair value as at 31 December 2018**	**Fair value as at 30 September 2021**	**Fair value hierarchy**	**Valuation technique and key input**	**Significant Unobservable input**
	RMB'000	*RMB'000*			
Wealth management products	43,200	13,500	Level 3	Quoted prices from financial institutions	Valuation of underlying investment portfolio

During the years ended 31 December 2018, 2019 and 2020 and the nine months ended 30 September 2021, there were no transfers between instruments in Level 2 and Level 3, or transfers into or out of Level 1.

(b) Financial instruments not measured at fair value

Financial instruments not measured at fair value include other receivables and deposits, cash and cash equivalents, other payables and accruals, other borrowings and lease liabilities.

Due to their short term nature, their carrying values approximate their fair value.

(c) Summary of financial assets and liabilities by categories

	As at 31 December			As at 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets measured at amortised cost:				
Other receivables and deposits	112	1,021	834	2,042
Cash and cash equivalents	53	12,664	1,047	145
Financial assets at FVTPL:				
Wealth management products	43,200	—	—	13,500
	43,365	13,685	1,881	15,687
Financial liabilities				
Financial liabilities measured at amortised cost:				
Other payables and accruals	62,725	11,790	2,154	917
Other borrowings	—	47,611	60,483	87,341
Lease liabilities	—	768	1,192	909
	62,725	60,169	63,829	89,167

28. NOTES SUPPORTING TO STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Other payables and accruals *RMB'000*	Other borrowings *RMB'000*	Lease Liabilities *RMB'000*
At 1 January 2018	112	—	—
Changes from financing cash flows:			
Proceeds from other payables and accruals	60,000	—	—
Proceeds from other borrowings	—	300	—
Repayment of borrowings	—	(300)	—
Total changes from financing cash flows	60,000	—	—
Other changes			
Interests on other payables and accruals	1,637	—	—
Increase in other payables and accruals	4,976	—	—
Total other changes	6,613	—	—
At 31 December 2018	66,725	—	—
Impact of initial application of HKFRS 16	—	—	1,688
Restated balance at 1 January 2019	66,725	—	1,688
Changes from financing cash flows:			
Repayment of other payables and accruals	(53,635)	—	—
Proceeds from other borrowings	—	47,446	—
Repayment of principal portion of lease liabilities	—	—	(920)
Repayment of interest portion of lease liabilities	—	—	(147)
Total changes from financing cash flows	(53,635)	47,446	(1,067)
Other changes			
Interests other payables and accruals	2,729	—	—
Interests on other borrowings	—	165	—
Interests on lease liabilities	—	—	147
Decrease in other payables and accruals	(29)	—	—
Total other changes	2,700	165	147
At 31 December 2019	15,790	47,611	768

	Other payables and accruals	Other borrowings	Lease Liabilities
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2019	15,790	47,611	768
Changes from financing cash flows:			
Repayment of other payables and accruals	(10,730)	—	—
Proceeds from other borrowings	—	14,659	—
Repayments of other borrowings	—	(3,830)	—
Repayment of principal portion of lease liabilities	—	—	(692)
Repayment of interest portion of lease liabilities	—	—	(91)
Total changes from financing cash flows	(10,730)	10,829	(783)
Other changes			
Interests on other borrowings	—	2,043	—
Interests on lease liabilities	—	—	91
Additions of new leases	—	—	1,116
Increase in other payables and accruals	1,094	—	—
Total other changes	1,094	2,043	1,207
At 31 December 2020	6,154	60,483	1,192
Changes from financing cash flows:			
Proceeds from other borrowings	—	25,089	—
Repayment of other borrowings	—	(92)	—
Repayment of principal portion of lease liabilities	—	—	(283)
Repayment of interest portion of lease liabilities	—	—	(94)
Total changes from financing cash flows	—	24,997	(377)
Other changes			
Interests on other borrowings	—	1,861	—
Interests on lease liabilities	—	—	94
Decrease in other payables and accruals	(1,237)	—	—
Total other changes	(1,237)	1,861	94
At 30 September 2021	4,917	87,341	909

	Other payables and accruals *RMB'000*	Bank borrowings *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2020	15,790	47,611	768
Changes from financing cash flows:			
Repayment of other payables and accruals	(10,730)	—	—
Proceeds from other borrowings	—	11,394	—
Repayment of other borrowings	—	(2,730)	—
Repayment of principal portion of lease liabilities	—	—	(609)
Repayment of interest portion of lease liabilities	—	—	(54)
Total changes from financing cash flows	(10,730)	8,664	(663)
Other changes			
Interests on other borrowings	—	1,532	—
Interests on lease liabilities	—	—	54
Additions of new leases	—	—	1,116
Increase in other payables and accruals	477	—	—
Total other changes	477	1,532	1,170
At 30 September 2020 (unaudited)	5,537	57,807	1,275

III. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 September 2021.

Set out below is the management discussion and analysis of the Target Company for each of the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021. The following financial information is based on the financial information of the Target Company as set out in Appendix II to this circular.

BUSINESS REVIEW

The Target Company is a limited liability company incorporated in the PRC on February 5, 2013. The Target Company is a biotechnology company, principally engaged in the R&D of the regenerative medical biomaterials.

The Target Company possesses a strong product pipeline that includes but not limited to biological hernia patch, biological dressing, oral cavity repair membrane, breast tissue patch, injection granules and biological sponge. The Target Company will continue to focus on R&D of its pipeline products so as to advance those products to commercialization.

The Target Company has obtained Medical Device Operation License (醫療器械經營許可證) for its business operations. As at December 31, 2021, the Target Company had 18 patents for its pipeline products and it had 35 employees in China. As of the Latest Practicable Date, the Target Company had 6 pending patent application.

FINANCIAL REVIEW

(a) Financial performance

Revenue/Cost of Sales

The Target Company did not derive any revenue or incur any cost of sales for the three years ended December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021 as its products were still under development.

Research and development costs

For the three years ended December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021, the research and development costs of the Target Company were approximately RMB5.5 million, RMB2.8 million, RMB7.3 million and RMB4.8 million, respectively.

The research and development costs has increased by 164.3% from 2019 to 2020, which was primarily due to an increase in staff cost and cost of materials and consumables as a result of the progression of the development of its pipeline products.

Administrative expenses

For the three years ended December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021, the administrative expenses of the Target Company were approximately RMB2.6 million, RMB4.6 million, RMB3.9 million and RMB2.2 million, respectively. The administrative expense has increased by approximately 76.5% from 2018 to 2019, which was primarily attributable to (i) the increase of staff cost caused by the increase in average salary of management and administrative personnel; and (ii) the increase of depreciation expenses and professional service fee. The administrative expense decreased by 15.5% from 2019 to 2020, which was due to the decrease in staff cost caused by the decrease in number of employees.

Loss before taxation

For the three years ended December 31, 2018, 2019, 2020 and the nine months ended September 30, 2021, the loss before taxation of the Target Company was approximately RMB8.4 million, RMB6.9 million, RMB11.8 million and RMB7.9 million, respectively. The loss before taxation has increased by 71.4% from 2019 to 2020, which was primarily attributable to the increase of research and development costs.

(b) Liquidity and financial resources

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the current ratio of the Target Company was approximately 0.78, 0.31, 0.09 and 0.21, respectively.

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the cash and cash equivalents of the Target Company were approximately RMB53 thousands, RMB12.7 million, RMB1.0 million and RMB0.15 million, respectively.

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the other borrowings of the Target Company were nil, RMB47.6 million, RMB60.5 million and RMB87.3 million, respectively.

(c) Capital structure

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the total assets of the Target Company were approximately RMB75.1 million, RMB65.7 million, RMB59.5 million and RMB76.9 million, respectively.

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the total liabilities of the Target Company were approximately RMB66.7 million, RMB64.2 million, RMB67.8 million and RMB93.2 million, respectively.

(d) Gearing ratio

As at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, the gearing ratio (total liabilities/total assets × 100%) of the Target Company was approximately 88.8%, 97.7%, 114.1% and 121.1%, respectively.

(e) Contingent liabilities

The Target Company did not have any significant contingent liabilities as at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021.

(f) Financial risk management

For the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021, the Target Company was mainly exposed to credit risk and liquidity risk in the normal course of business. For details of the exposure to such risks and the relevant risk management policies and practices adopted by the Target Company, please refer to Note 26 of the Accountant's Report of the Target Company as set out in Appendix II to this circular.

The Target Group has no foreign exchange risk exposure. In addition, the Target Group has not used any financial instrument to hedge potential fluctuation in interest rates and exchange rates.

(g) Significant investment

The Target Company did not have any significant investments for the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021.

(h) Charge of assets

The Target Company did not have charge of assets for the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021.

(i) Employees and remuneration policy

The Target Company had 57, 56, 36 and 34 employees as at December 31, 2018, December 31, 2019, December 31, 2020 and September 30, 2021, respectively.

The total remuneration paid to the Target Company's employees for the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021 was approximately RMB8.3 million, RMB7.5 million, RMB5.6 million and RMB3.5 million, respectively.

The employees were remunerated based on their working performance and experience, with consideration to the prevailing market conditions.

(j) Future plans for material investment or capital assets

During the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021, the Target Company did not have any plans for material investment or capital assets.

(k) Material acquisition and disposal

During the three years ended December 31, 2018, 2019 and 2020 and the nine months ended September 30, 2021, the Target Company did not complete any material acquisition or disposal of subsidiaries, joint ventures or associates.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out in this appendix does not form part of the Accountants' Report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company as set out in Appendix II to this circular, and is included herein for information only.

The unaudited pro forma financial information set out below should be read in conjunction with the financial information of the Group as set out in Appendix I of this circular, Sichuan Ruijian Medical Technology Co. Ltd., the target company in another on-going proposed acquisition by the Group, and its subsidiaries (collectively referred to as the "Sichuan Group") as set out in Appendix IV of the circular dated 31 December 2021, the financial information of the Target Company as set out in Appendix II of this circular, and other financial information included elsewhere in this circular.

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the completion of the Acquisition on the financial position of the Group as at 30 June 2021 as if the completion of the Acquisition had taken place on 30 June 2021.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes below based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2021 nor does the Unaudited Pro Forma Financial Information purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose 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 been completed as at 30 June 2021, or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in its published interim report for the six months ended 30 June 2021 and other financial information included elsewhere in this Circular.

Unaudited pro forma consolidated statement of financial position

	The Group as at 30 June 2021	The Sichuan Group as at 31 August 2021	Pro forma adjustments		Sub total	The Target Company as at 30 September 2021	Pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4, 5)*	*(Note 6)*	
ASSETS									
Non-current assets									
Property, plant and equipment	686,562	248,854			935,416	3,274			938,690
Right-of-use assets	22,205	8,629			30,834	856			31,690
Investment properties	273,390	8,268			281,658	—			281,658
Goodwill	—	—	306,489		306,489	—	68,535		375,024
Intangible assets	176,290	17,903	267,562		461,755	54,255	811,159		1,327,169
Deferred income tax assets	15,395	—			15,395	—			15,395
Long-term prepayments	10,577	—			10,577	—			10,577
Loan receivable	180,000	—			180,000	—			180,000
Financial asset at fair value through other comprehensive income	10,000	—			10,000	—			10,000
	1,374,419	283,654			2,232,124	58,385			3,170,203
Current assets									
Inventories	35,311	79,234			114,545	2,147			116,692
Trade and other receivables	132,764	35,294			168,058	2,745			170,803
Financial assets at fair value through profit or loss	—	—			—	13,500			13,500
Cash and cash equivalents	2,410,788	63,539	(636,531)	(4,065)	1,833,731	145	(382,000)	(3,967)	1,447,909
	2,578,863	178,067			2,116,334	18,537			1,748,904
Total assets	3,953,282	461,721			4,348,458	76,922			4,919,107

	The Group as at 30 June 2021	The Sichuan Group as at 31 August 2021	Pro forma adjustments		Sub total	The Target Company as at 30 September 2021	Pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4, 5)*	*(Note 6)*	
Current liabilities									
Trade and other payables	85,413	24,897			110,310	917			111,227
Other borrowings	—	—			—	87,341			87,341
Contract liabilities	—	4,935			4,935	—			4,935
Lease liabilities	2,442	261			2,703	199			2,902
Tax payables	5,041	2,993			8,034	—			8,034
	92,896	33,086			125,982	88,457			214,439
Total assets less current liabilities	3,860,386	428,635			4,222,476	(11,535)			4,704,668
Non-current liabilities									
Bank borrowings	16,360	—			16,360	—			16,360
Lease liabilities	—	92			92	710			802
Deferred tax liabilities	2,111	—	42,820		44,931	—	121,674		166,605
Deferred government grants	16,325	6,144			22,469	4,000			26,469
	34,796	6,236			83,852	4,710			210,236
NET ASSETS/ LIABILITIES	3,825,590	422,399			4,138,624	(16,245)			4,494,432

Notes:

(1) The unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2021 has been extracted from the interim report of the Company dated 26 August 2021.

(2) The audited consolidated statement of assets and liabilities of the Sichuan Group as at 31 August 2021 and relevant pro forma adjustments on the on-going proposed acquisition have been extracted from the circular of the Company dated 31 December 2021.

(3) The audited consolidated statement of assets and liabilities of the Target Company as at 30 September 2021 has been extracted from the accountants' report as set out in Appendix II to this Circular.

(4) Pursuant to the Agreement, the consideration for the Acquisition of 51.5% equity interest in the Target Company comprises cash consideration of approximately RMB412,000,000.

Pursuant to the Share Subscription Agreement, the Group agreed to subscribe for, and the Target Company agreed to issue, 17% enlarged issued share capital of the Target Company at the consideration of RMB170,000,000, approximately RMB3,415,180 of which will be accounted for by the Target Company as registered capital and approximately RMB166,584,820 of which will be accounted for by the Target Company as capital reserve.

Pursuant to the Share Subscription Agreement, the Independent Minority Investors agreed to subscribe for, and the Target Company agreed to issue, 3% enlarged issued share capital of the Target Company at the total consideration of RMB30,000,000. The completion of the Share Transfer and the Share Subscription is inter-conditional. Upon completion of the Share Transfer and the Share Subscription, the Company will own 58.2% equity interest in the Target Company through the Group and the Target Company will become a non-wholly owned subsidiary of the Company.

(5) This adjustment represents the accounting for the Acquisition using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of the Unaudited Pro Forma Financial Information, the Group has carried out an illustrative purchase price allocation and the fair values of the identifiable assets and liabilities of the Target Company as at 30 September 2021 were estimated by the Directors with reference to the valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professionally qualified valuer.

The carrying values and fair values of the identifiable assets and liabilities of the Target Company as at 30 September 2021 are as follows:

	Carrying value	Change in fair value	Fair value recognised on acquisition	Capital injection	Fair value recognised on acquisition after capital injection
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	3,274	—	3,274		3,274
Right-of-use assets	856	—	856		856
Intangible assets *(note i)*	54,255	811,159	865,414		865,414
Inventories	2,147	—	2,147		2,147
Trade and other receivables	2,745	—	2,745		2,745
Financial assets at fair value through profit or loss	13,500	—	13,500		13,500
Cash and cash equivalents	145	—	145	200,000	200,145
Trade and other payables	(4,917)	—	(4,917)		(4,917)
Other borrowings	(87,341)	—	(87,341)		(87,341)
Lease liabilities	(909)	—	(909)		(909)
Deferred tax liabilities *(note ii)*	—	(121,674)	(121,674)		(121,674)
Total identifiable net (liabilities)/assets	(16,245)		673,240		873,240
Non-controlling interests (41.2% equity interest in the Target Company)					(359,775)
Goodwill on acquisition					68,535
Total consideration *(note 4)*					582,000
Less: Capital injection					(200,000)
Net cash outflow					382,000

Notes:

(i) The fair value of the intangible assets was estimated using the income approach.

The principal assumptions used in the valuation are set out below:

(i) Discount rate 16.87%

Discount rate — The discount rate used reflects specific risks relating to the intangible assets.

(ii) The Deferred tax liabilities arose from the difference between the tax bases and the fair values of intangible assets. A tax rate of 15% was used to calculate deferred tax liability as it is the tax rate expected to apply in the period when the asset is realised.

The Target Company have been qualified as "High and New Technology Enterprises" under the CIT Law at 25 October 2021. Therefore, the Target Company was entitled to a preferential income tax rate of 15% on their estimated assessable profit.

Since the fair values of the identifiable net assets of the Target Company and the consideration for the Acquisition as at the actual date of the completion of the Acquisition may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the final amounts of the identifiable assets, liabilities and goodwill to be recognised in connection with the Acquisition may be materially different from the estimated amounts as shown above.

(6) The adjustment represents estimated acquisition-related costs, including legal and professional fees and transaction costs of approximately RMB3,967,000 payable by the Group.

(7) Apart from the above, no other adjustment has been made to reflect any trading results or other transactions of the Group and the Target Company entered into subsequent to 30 September 2021.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong.

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

To the directors of PW Medtech Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of PW Medtech Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Company as at 30 June 2021 and related notes as set out on pages IV-1 to IV-6 of Appendix IV of the circular dated 21 February 2022 (the "Circular") in connection with the proposed acquisition of 58.2% equity interest in the Beijing Ruijian High-Tech Biological Technology Co., Ltd (北京瑞健高科生物科技有限公司) (the "Target Company") (the "Acquisition") and another on-going proposed acquisition of Sichuan Ruijian Medical Technology Co., Ltd. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on IV-1 to IV-6 of Appendix IV of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's consolidated financial position as at 30 June 2021 as if the Acquisition had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's interim financial information for the six months ended 30 June 2021, on which an independent interim's report for the six months ended 30 June 2021 has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company 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").

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 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 Accountants' 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 accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company 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 30 June 2021 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 unaudited 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, 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 of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; 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.

BDO Limited
Certified Public Accountants
Hong Kong

21 February 2022

仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

February 21, 2022

The Board of Directors
PW Medtech Group Limited
Level 54, Hopewell Centre,
183 Queen's Road East,
Wan Chai, Hong Kong

Dear Sirs,

In accordance with the instructions from PW Medtech Group Limited (the "**Company**"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**") has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100% equity interest in Beijing Ruijian High-Tech Biological Technology Co., Ltd (the "**Target Company**") as at September 30, 2021 (the "**Valuation Date**"). The report which follows is dated February 21, 2022 (the "**Report Date**"). The purpose of this valuation is to express an independent opinion for disclosure reference.

Our valuation was carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND

The Target Company, incorporated in the PRC with limited liability on February 5, 2013, researches, develops, produces, and sells biomedical materials and medical devices. Four products of the Target Company, namely hernia patches, oral biofilms, breast patches and biological dressings (together referred as the "**R&D Projects**"), have either completed or are going through the clinical stages, which are assumed to debut in the market in 2022 and 2024. The Target Company markets its products throughout the PRC.

Hernia patch is a medical device that is used to provide additional support to weakened or damaged tissue. The Target Company's biological hernia patch has completed clinical trials and is estimated by the management to be approved by National Medical Products Administration ("**NMPA**") in 2022.

Oral biofilm using biomedical materials in clinical treatment of stomatology is mainly used for repairing soft tissue defects in oral cavity.

Breast patch has histocompatibility and biomechanical properties to counter the weakness of the breast muscle tissue, complications such as implant displacement, detachment and capsular contracture after breast reconstruction.

Biological dressing is a covering or protective layer used for wound, which can replace the demand skin for temporary protection in the process of wound healing and treatment, it has the use of avoiding wound infection and providing a suitable healing environment for the injured dermis.

The Target Company's oral biofilm, breast patch and biological dressing are currently undergoing clinical trials and are estimated by the management to be approved by NMPA in 2023.

The Subject of this valuation is being 100% equity interest in Beijing Ruijian High-Tech Biological Technology Co., Ltd (the "**Subject**").

FINANCIAL PERFORMANCE OF THE TARGET COMPANY

Revenue & Cost of sales

As the products of the Target Company are yet to be officially launched, it recorded minimal revenue during the historical period, besides one off service income of RMB6,478 and RMB63,467 during the year of 2021 and 2020 respectively.

Operating Expenses

Operating Expenses mainly comprise of Sales and Marketing Expenses, General and Administration expenses, Research and Development Expenses and Finance Cost. During 2018 to 2021 (January to September), an annual Operating Expenses of around RMB10 million were incurred by the Target Company.

SOURCES OF INFORMATION

In conducting our valuation of the Subject, we have reviewed information including, but not limited to:

- Background of the Target Company;
- Historical financial information of the Target Company from year 2018 to year 2021 (January to September);
- The market research reports (the "**Research Reports**") prepared by China Insights Consultancy Limited[1] ("**CIC**") (commissioned by the Company) and IQVIA Holdings Inc.[2] ("**IQVIA**") (commissioned by the Company), respectively (collectively referred as the "**Market Consultants**");

- Revenue forecast of certain biomedical materials and medical devices of the Target Company from year 2021 to year 2031 prepared by their management with reference to the Research Reports; and

- Other operation and market information in relation to the business of the Target Company.

Note 1: CIC was incorporated in 2013, and it is an investment consulting company originally established in Hong Kong. Its services include industry consulting services, commercial due diligence, strategic consulting, and so on. Its consultant team has been tracking the latest market trends in agriculture, chemicals, consumer goods, culture and entertainment, energy and industry, finance and service, healthcare, TMT, transportation, etc., and has the most relevant and insightful market intelligence in the above industries. It now employs over 200 staffs in China. CIC has strong experience in healthcare and medical biomaterial industry. CIC served more than 100 clients including multi-national companies as well as domestic bio-tech companies in the area.

Note 2: IQVIA (NYSE:IQV), with an access to Global IMS sales and clinical research databases, ample knowledge in clinical practices, and experienced commercial due diligence team, is uniquely positioned to support the Company in this strategic initiative. Over past 15 years, IQVIA (NYSE: IQV) has delivered numerous similar projects in market understanding, pricing, growth, and turnaround. Its clients in such kind of assignments are typically China or Global Investment & Strategy and Marketing teams of leading pharmaceutical companies and device companies. Several projects that reflect their profound experiences in the regenerative medicine realm include: Commercial due diligence of surgical regenerative devices for Medtronic, global market landscape analysis of drug-medtech combo for BD and numerous investment strategy planning projects for multinational medical device and pharm companies, such as Geistlich and Abbott Laboratories.

We have held discussions with management of the Company and conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate, and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Council ("**IVSC**"). The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The Research Reports prepared by the Market Consultants;

- Projected sales of certain R&D projects, prepared by the Target Company, with reference to the Research Reports;

- The economic outlook in general;

- The nature of business and history of the operation concerned;
- The financial condition of the Subject;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income and the projected future results;
- Consideration and analysis on the micro and macro economy affecting the business of the Subject;
- Analysis on tactical planning, management standard and synergy of the Subject; and
- Assessment of the leverage of the Subject.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the valuation of the Subject.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the nature of the Subject, there are substantial limitations for adopting the market approach and the cost approach to value the underlying assets. Firstly, the market approach relies generally on deriving value through a measure of the values of market comparables or transactions. Considering the unique characteristics of Target Company such as the specialised products they will be offering and the stages of development of the products, there was a lack of market comparables or transactions available as at the Valuation Date to derive an indicative value with a sufficient level of accuracy.

According to the legal due diligence report by Beijing Zhong Lun Law Firm dated April 2021, a group of investors reached an agreement with the Target Company to participate into its B-round financing in 2018, based on a pre-money valuation of around RMB600 million.

Due to the disagreement between the B-round investors and the Target Company in the strategic development of the Target Company, the B-round shareholders requested to withdraw their investment and appealed to the court. The Target Company reached a settlement with the B-round investor with the mediation of the court. According to the settlement agreements, the Target Company was liable to refund the investment amount, and to pay interests and other legal cost of approximately RMB5.25 million.

Per the Target Company and the legal due diligence report, the liabilities related to the dispute between the Target Company and the B-round investors have been fully settled in January 2020. Also per the accountant's report as set out in the Appendix II of this circular, neither any unfulfilled obligation nor contingent liability was noted for the Target Company.

At such, this prior transaction was considered as inapplicable in the valuation of the Subject.

Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the business of the Subject as the Target Company has completed the clinical trial of one of the products and is in the process of applying for approval from NMPA.

In view of the above, we have adopted the income approach for the valuation of the Subject. Under this method, value depends on the present worth of future economic benefits to be derived from the financial projection. Indications of value have been developed by the discounted future estimated cash flows available for payment of owners' interest to their present worth at discount rates which in our opinion are appropriate for the risks of the business. In considering the appropriate discount rate to be applied, we have taken into account a number of factors including the current cost of financing and the relevant risks inherent in the business.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value. The following key assumptions in determining the market value of the Subject have been made:

- The valuation was primarily based on the financial projections prepared by the Target Company with reference to the Research Reports and latest historical financial information made available to us. We have assumed that the financial projections provided are prepared on a reasonable basis, reflecting aspects of the individual R&D Projects, including but not limited to, market conditions, economic fundamentals, expected success rates, market shares to be achieved, selling prices, and costs of sales and operations of each of the R&D Projects after their respective commercialization, and that they will materialize;

- The Target Company have, or will have, sufficient capital, competent management and sufficient personnel, as well as sufficient facilities and systems for future expansion, to achieve or contribute to ongoing R&D and future commercialization;

- There will be no material change in the core operations of the Target Company from what is present and/or expected;

- All relevant laws, statutes, ordinances and regulations pertaining to the Target Company are complied with and where applicable, renewable upon expiry;

- The operational and contractual terms stipulated in the contracts and agreements associated with the R&D Projects and/or the Target Company will be honored;

- There are no hidden or unexpected conditions associated with the R&D Projects and/or the Target Company that might adversely affect the reported values; and

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions from present and/or from what is expected, which might adversely affect the business of the Target Company.

FINANCIAL PROJECTION OF THE TARGET COMPANY

Our opinion of value was calculated using the financial projection as prepared the Target Company with reference to the Research Reports. Such financial projection has been adopted in the valuation without any adjustments. Key inputs of the financial projection and our analysis are summarized as below:

Projection Period

- The forecast period is up to December 31, 2035, with reference to the average product life cycles within the industries as observed by the Market Consultants.

Product Lines

- In the projection, 3 major product lines were assumed by the Target Company, namely hernia patches, oral biofilms and breast patches. Biological dressings was excluded in the projection as it deems the market of the product is fairly minimal in current stage.

Success Ratio

- The success ratio refers to the respective probabilities of the products being approved by NMPA.

- Per the Research Reports, in all the 4,977 domestic class III medical device registration applications accepted by NMPA in 2016–2020, 4,551 of them were approved, with an approval rate of 91%.

- As all the R&D Projects are classified as class III medical device, we have adopted the abovementioned statistics as the base rate of success ratio.

- According to the Market Consultants, there is little risk for the products which have finished clinical trials and most of them will be approved by NMPA. Hence, they determine the base of the success ratio for Target Company's hernia patch of 90%.

- For the existing indications of oral biofilm and breast patch, the Market Consultants deem the closer to the finish of clinical trial, the higher the success ratio for the product. As the oral biofilm and breast patch have completed recruitment and have certain promising clinical data feedback, they take a success ratio of 85%.

- For the new indication of breast patch, namely the mammoplasty indication which is expected to be launched in 2024, the Market Consultants estimate that there is a 90% possibility that the Target Company's breast patch will be approved for mammoplasty after the launch of existing indication. Considering it together with the 85% success ratio attributed for breast patch's existing indication, a success ratio of 76.5% is hence adopted for breast patch's mammoplasty indication.

Market Size

- For the market size of the 3 product lines, the Market Consultants have incorporated a number of macro factors into their estimations, such as the PRC population, disease diagnostic rates, disease treatment rates, adoption rates of the products in treatments, etc.

- Each abovementioned parameter is estimated by the Market Consultants with reference to the authoritative clinical guidelines and detailed interviews conducted with the industry experts. The averages of the experts' opinions related to the future trends of the parameters are adopted by the Market Consultants in their estimations.

Market Share

- The Market Consultants have projected the market share for all products through meticulous and comprehensive interviews with the industry experts.

- During the interviews, the Target Company's product profiles and competitor analysis tables are presented to the industry experts to determine the expected peak market share, ramp up period and competitive landscape in projection period. The averages of the experts' opinions related to the competitive advantages of the products are adopted by the Market Consultants in their estimations.

Revenue

- The abovementioned market size and market share estimated by the Market Consultants have been adopted in projecting the pre-success ratio revenue for the Target Company, assuming the respective R&D projects will successfully be approved by NMPA.

- However, as there are still uncertainties in the approvals of the R&D projects, we have multiplied the pre-success ratio revenue by the success ratio in obtaining the post-success ratio revenue for the Target Company.

- The revenue from operating represents sales of biomedical materials and medical devices of the Target Company, which is projected to increase from RMB8.28 million for 2022 to RMB1.70 billion for 2031, before decreasing gradually to RMB1.01 billion for 2035.

- The projected post-success ratio revenue for each R&D project during the projection period is illustrated below:

Period ended	December 31, 2021	December 31, 2022	December 31, 2023	December 31, 2024	December 31, 2025	December 31, 2026	December 31, 2027	December 31, 2028
				RMB million				
Hernia patches	—	8	21	39	70	112	142	171
Oral biofilms	—	—	19	59	150	305	539	716
Breast patches	—	—	11	45	96	192	303	377
Total	**—**	**8**	**52**	**142**	**317**	**609**	**984**	**1,264**

Period ended	December 31, 2029	December 31, 2030	December 31, 2031	December 31, 2032	December 31, 2033	December 31, 2034	December 31, 2035
				RMB million			
Hernia patches	195	214	235	180	170	162	140
Oral biofilms	826	904	950	731	687	657	565
Breast patches	429	477	517	397	373	357	308
Total	**1,449**	**1,595**	**1,702**	**1,308**	**1,230**	**1,176**	**1,013**

- Per the Market Consultants, the rapid growth was mainly attributed to the advanced technologies in the Target Company's products which can provide them competitive advantages over the existing market players.

Cost of Sales

- Cost of Sales comprises mainly of raw materials and the production costs of the respective products of the Target Company.

- The Market Consultants have performed extensive research in relation to the average gross margin of other market players of the respective products. Based on their analysis, the industry average gross margins are around 88–92%, 92–94% and 60–70% for hernia patches, oral biofilms, and breast patches, respectively.

- Overall, the gross profit margin of the Target Company is projected to stay at around 83–85% during the projection period, which is in line with industry averages per the Research Reports.

Operating Expenses

- Operating Expenses comprises of Sales and Marketing Expenses, Research and Development Expenses and General and Administration Expenses.

- Facing serious challenge posed by the pandemic and the general macroeconomics condition, the Target Company is looking forward to maintain its investment in R&D in the future.

- On the other hand, the Target Company will launch a sales and marketing team in 2022 with around 20 people in total.

- With reference to the average of that of the Comparable Companies, the Target Company projected an Operating Expenses-to-Revenue ratio of around 44.16% to be maintained throughout the projection period.

Depreciation, Amortization Expenses & CAPEX

- The assets related to the historical R&D expenses are recognized as intangible assets which are subject to amortization. Intangible assets are amortized by straight-line method during the projection period, with an amortization life of 10 years. Fixed assets are depreciated on a straight-line basis, with a depreciation life of 10 years. No residual value is assumed.

- A total CAPEX of around RMB51.5 million is assumed by the Target Company to be required during the projection period.

Income Tax Expense

- The Target Company is qualified as "High and New Technology Enterprises" under the CIT Law and therefore entitled to a preferential income tax rate of 15% on their estimated assessable profits throughout the projection period.

Other Assets and Other Liabilities

- Other assets to be assumed are based on the financial information provided by the Target Company, including financial assets at fair value through P&L of RMB13.50 million and others.

- Other liabilities to be assumed are based on the financial information provided by the Target Company, including other borrowings of RMB87.34 million and others.

DISCOUNT RATE

In applying the discounted cash flow method for the Subject, it is necessary to determine an appropriate discount rate or cost of capital to account for the time value of money and the risks of the business. We have determined that the appropriate discount rate for the Subject is its weighted average cost of capital ("**WACC**"). The concept of WACC is to incorporate the different costs of capital for all sources of the Subject's capital and weight by their proportionate share of total capital to determine the Subject's overall cost of capital.

The equation of WACC is shown as follows:

$$WACC = (E/V) \times r_e + (D/V) \times r_d \times (1 - t_c)$$

r_e	=	*Cost of equity of required return on equity*
r_d	=	*Required return on debt*
E	=	*Fair value of the firm's equity*
D	=	*Fair value of the firm's debt*
V	=	*Total of fair value of the firm's equity and fair value of the firm's debt*
E/V	=	*Percentage of equity financing*
D/V	=	*Percentage of debt financing*
t_c	=	*Corporate tax rate*

Required Return on Equity

We have used the Capital Assets Pricing Model ("**CAPM**") to estimate the required return on equity capital. The required return on equity of a company represents the total rate of return investors expect to earn, through a combination of dividends and capital appreciation, as a reward for risk taking. The CAPM is a fundamental tenet of modern portfolio theory which is a generally accepted basis for marketplace valuations of equity capital. The CAPM is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required return on equity capital.

The equation of CAPM is shown as follows:

Cost of Equity or Required Return on Equity (r_e)	=	***Risk Free Rate***
	+	***Relevered Beta × China Market Risk Premium***
	+	***Size Premium***
	+	***Company – Specific Risk Premium***

In determining the WACC of the Subject, the following parameters have been used:

Parameter	As at September 30, 2021	Remark	Source
Risk-free Rate	2.87%	Based on 10-year China fixed rate government bond	Bloomberg L.P.
Relevered Beta	0.983	Based on relevered 5-year beta of the comparable companies	Bloomberg L.P.
U.S. Market Risk Premium	7.25%	Based on long term market risk premium of the United States	Duff & Phelps Cost of Capital Navigator
Country Risk Premium	0.68%	Based on differential in country risk premium of the United States and China	Damodaran, Country Default Spreads and Risk Premiums
China Market Risk Premium	7.93%	Calculated based on the U.S. Market Risk Premium and Country Risk Premium	
Size Premium	3.21%	Based on size of the Subject	Duff & Phelps Cost of Capital Navigator
Company-specific Risk Premium	3.00%	Estimated to reflect additional risk premium due to lower liquidity of the Target Company as compared to the comparable companies	
Cost of Equity	16.87%	Calculated according to the equation of CAPM as stated above	
Debt-to-equity Ratio[1]	0.00%	Based on 5-year debt-to-equity ratio of the comparable companies	Bloomberg L.P.

Parameter	As at September 30, 2021	Remark	Source
Cost of Debt	3.95%	Above 5-year best lending rate of China, tax adjusted	Bloomberg L.P.
WACC	**16.87%**	Calculated according to the equation of WACC as stated above	

Note 1: Per the management, the borrowings of RMB87 million of the Target Company as at 30 September 2021 were attributed to the loans from shareholders, related parties and business partners, which shall be repaid after the capital injection. In the foreseeable future, the management does not have any new borrowing plans or project any borrowing needs during the Forecast Period. Hence, a D/E ratio of 0% is expected to be maintained for the Target Company, which is in line with that of the comparable companies.

Comparable Companies

As the valuation is conducted by the income approach, the major factor driving the valuation is the financial forecast of the Target Company. The comparable companies are selected for:

- Establishing the discount rate which reflects the most similar degrees of systematic risk (represented by beta) among the Target Company and the comparable companies. It gives a benchmark in measuring the systematic risk between the industry (that the Target Company belongs to) and the overall market; and
- Conducting the sanity check on the reasonableness of some of the financial ratios on the financial forecast of the Target Company such as gross margin ratios and profit margin ratios.

The selection criteria in identifying the comparable companies include the followings:

- The companies derive most, if not all, of their revenues from the same industry of the Target Company, i.e. researches, develops, produces, and sells biomedical materials and medical devices;
- The comparable companies are searchable in Bloomberg;
- The comparable companies are publicly listed; and
- Sufficient data as at the Valuation Date of the comparable companies is available.

As sourced from Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The details of the comparable companies are listed below:

Bloomberg Ticker	Company Name	Company Description
688198 CH Equity	Beijing Balance Medical Technology Co., Ltd.	Beijing Balance Medical Technology Co., Ltd. manufactures biotechnology products. It produces soft tissue repair materials, heart valve replacement products, cardiac implant treatment products, and other products. Beijing Balance Medical Technology also produces medical equipment.
688613 CH Equity	Allgens Medical Science & Technology Co., Ltd.	Allgens Medical Science & Technology Co., Ltd. researches, develops, produces, and sells biomedical materials and medical devices. It manufactures mineralized collagen artificial bone repair materials, artificial bone granule, dental bone graft material, skull repair plug, and more. Allgens Medical Science & Technology applies its products for hospitals.
688314 CH Equity	Kontour (Xi'an) Medical Technology Co., Ltd.	Kontour (Xi'an) Medical Technology Co., Ltd. manufactures and distributes surgical supplies. It produces materials neurosurgery products, titanium materials neurosurgery products, skull internal fixation repair systems, sternum fixation systems, rib fixation systems, and others. Kontour (Xi'an) Medical Technology also operates import and export businesses.
6826 HK Equity	Shanghai Haohai Biological Technology Co., Ltd.	Shanghai Haohai Biological Technology Co., Ltd. manufactures absorbable biomedical materials. It manufactures and sells intraocular lens, medical sodium hyaluronate, medical chitosan, medical collage sponge, and other products. Shanghai Haohai Biological Technology markets its products worldwide.

Bloomberg Ticker	Company Name	Company Description
002901 CH Equity	Double Medical Technology Inc.	Double Medical Technology Inc. operates as an orthopedic devices manufacturing company. It produces and sells physical therapy equipment, orthopedic surgical instruments, injection puncture, and other products. Double Medical Technology markets its products throughout China.
300238 CH Equity	Grandhope Biotech Company Limited	Grandhope Biotech Company Limited develops, manufactures and markets regenerative medical materials and regenerative implantable medical devices.
300653 CH Equity	Yantai Zhenghai Bio-tech Co., Ltd.	Yantai Zhenghai Bio-tech Co., Ltd. operates as a pharmaceutical company. The Company produces oral repair membrane, skin repair membrane, bone repair materials, and other products. Yantai Zhenghai Bio-tech markets its products throughout China.

An extract of the key information of the Comparable Companies is illustrated below[1]:

Bloomberg Ticker	OPEX-to revenue ratio	Total Asset	NAV	Revenue	Net Profit	5-year levered beta	D/E ratio
		RMB million	*RMB million*	*RMB million*	*RMB million*		
688198 CH Equity	47.47%	962.9	944.9	246.4	40.4	1.149	0.00%
688613 CH Equity	43.17%	1,386.7	1,235.3	183.8	88.9	0.774	0.00%
688314 CH Equity	47.10%	541.8	482.1	164.1	52.4	1.707	0.00%
6826 HK Equity	54.34%	6,811.3	6,156.1	1,715.1	427.9	0.983	0.62%
002901 CH Equity	33.16%	2,986.7	2,336.6	1,781.9	631.6	1.064	0.00%
300238 CH Equity	63.28%	1,136.8	764.0	489.9	69.5	0.726	5.24%
300653 CH Equity	NA	883.1	743.2	378.1	149.4	0.851	0.20%

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. The DLOM is applicable to the Target Company as it is a private entity on a standalone basis.

[1] Although the historical financial information of the comparable companies above are not identical to that of the Target Company, it should be noted that the selection criteria of the comparable companies does not limit whether the comparable companies are in pre-revenue stage or in net liabilities position. It so happens that the exhaustive list of the comparable companies satisfying the said selection criteria did not turn out any comparable company with similar stage and financial position to the Target Company.

However, as explained earlier, the main purpose of selecting the comparable companies is to look for the beta which can reflect the systematic risk between the industry (that the Target Company belongs to) and the overall market.

Furthermore, based on the existing financial information of the Target Company, upon the completion of transaction (including the share subscription at the consideration of RMB170 million), the Target Company will achieve a positive net asset position. In addition, according to the financial forecast, it is expected that the Target Company will become profitable in 2023 when the products start gradually launching to the market in 2022. It is also expected that the financial positions (e.g. revenue size, profit size and net asset size) would become comparable to and in line with the comparable companies in 4–5 years' time according to the financial forecast.

Given the longer horizon of the financial forecast (until 2035) compare to the shorter time required getting the Target Company to be in-line with the comparable companies in those financial metrics, we consider that these comparable companies are suitable for this valuation analysis.

We have assessed the DLOM of this interest using a put option method. The concept is that when comparing a public share and a private share, the holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. As the time to a liquidity event becomes shorter, the degree of the DLOM becomes smaller.

In this valuation exercise, we have assessed the DLOM using the put option method, which is one of the most commonly used theoretical models. The value of put option is determined by "Finnerty Model" with the following parameters.

Parameter	**Input**	**Source**
Maturity	2 year	Assumed
Volatility (%)	49.89%	Historical volatility of the Comparable Companies
Implied DLOM (%)	15.47%	Calculated

SENSITIVITY ANALYSIS

A sensitivity analysis was prepared to project the results based on the changes of discount rate.

The following table summarize the resulting values of the Subject based on changes of discount rate:

Discount Rate *(%)*	**Market Value of the Subject** *(RMB)*
14.87	947,000,000
15.87	874,000,000
16.87	808,000,000
17.87	747,000,000
18.87	691,000,000

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and the Target Company, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in Beijing Ruijian High-Tech Biological Technology Co., Ltd as at the Valuation Date is reasonably stated at the amount of **RMB808,000,000**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this Report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Client/ Target Company/CIC/IQVIA and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our Report was used as part of the analysis of the Client/Target Company/CIC/IQVIA in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the Client.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Client/Target Company have reviewed this Report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the Report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the Subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Client/Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This Report has been prepared solely for internal use purpose. The Report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This Report is confidential to the Client and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as at the Valuation Date. In accordance with our standard practice, we must state that this Report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Client/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Client/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This Report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the Report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Client/Target Company and other sources. Actual transactions involving the Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

17. The board of directors, management, staff, and representatives of the Client/Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Client/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

A. ASSURANCE REPORT FROM BDO LIMITED ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TARGET COMPANY

The following is the text of a report received from the Company's independent reporting accountants, BDO Limited, for inclusion in this circular.

To the board of directors of PW Medtech Group Limited

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the "Valuation") dated January 5, 2022 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in respect of the appraisal of the fair value of the entire equity interest in Beijing Ruijian High-Tech Biological Technology Co., Ltd. ("Beijing Ruijian") as at September 30, 2021 is based. The Valuation is prepared based on the discounted future estimated cash flows and is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Responsibilities

The directors of PW Medtech Group Limited (the "Directors") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation (the "Bases and Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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 Hong Kong Institute of Certified Public Accountants (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 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 Accountants' Responsibilities

Our responsibility is to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the arithmetical accuracy of the calculations is concerned, have been properly compiled in accordance with the Bases and Assumptions. We performed procedures on the arithmetic calculations and the compilations of the discounted future estimated cash flows in accordance with the Bases and Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the arithmetical accuracy of the calculations is concerned, the discounted future estimated cash flows have been properly compiled in accordance with the Bases and Assumptions adopted by the Directors as set out in the Valuation.

Other Matters

Without modifying our opinion, we draw your attention that we are not reporting on the appropriateness and validity of the Bases and Assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of Beijing Ruijian or an expression of an audit or review opinion on the Valuation.

The preparation of the discounted future estimated cash flows on which the Valuation is based does not involve the adoption of accounting policies. The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other party in respect of, arising out of or in connection with our work.

BDO Limited
Certified Public Accountants

Hong Kong, January 5, 2022

B. LETTER FROM THE BOARD

January 5, 2022

Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Dear Sirs/Madams,

Major Transactions — Acquisition of 58.2% Equity Interest in the Target Company

We refer to the valuation dated January 5, 2022 appraised by the Independent Valuer regarding the valuation of the 58.2% equity interest in the Target Company as at September 30, 2021, which constitutes profit forecasts under Rule 14.61 of the Listing Rules.

We have discussed with the Independent Valuer about different aspects including the bases and assumptions based upon which the valuation has been prepared, and reviewed the valuation for which the Independent Valuer is responsible. We have also considered the report from BDO Limited regarding whether the profit forecasts, so far as the calculations are concerned, have been properly complied with the bases and assumptions set out in the valuation report. We have noted that the profit forecasts in the valuation are mathematically accurate and the discounted cash flows will not be affected by accounting policies.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board of the Company confirmed that the valuation prepared by the Independent Valuer has been made after due and careful enquiry.

By order of the Board
PW Medtech Group Limited
Yue'e Zhang
Chairman

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 regard to the Group. The Directors, having made all reasonable enquiries, confirm that 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

Interests of Directors in Securities

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) 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 he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

(A) ***Long position in the Shares***

Name of Director	Capacity	Number of Shares interested	Approximate percentage+ of the Company's issued share capital
Ms. Yue'e ZHANG	Beneficial owner	50,000	0.003%
Mr. JIANG Liwei	Beneficial owner	2,638,714	0.17%
Mr. LIN Junshan	Beneficial owner	1,673,427	0.11%
Mr. CHEN Geng	Beneficial owner	636,943	0.04%

(B) ***Long position in underlying Shares — physically settled unlisted equity derivatives***

Name of Director	Capacity	Number of underlying Shares in respect of the share options granted	Approximate percentage* of underlying Shares over the Company's issued share capital
Mr. WANG Xiaogang	Beneficial owner	118,471	0.008%

* The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the Company's issued Shares as at June 30, 2021.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" under the interim report of the Company for the six months ended June 30, 2021, to the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (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 he/she was 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 referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Interests of Directors in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors had any interest in any asset which have been, since December 31, 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors of the Company and any member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete, either directly, or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

5. MATERIAL ADVERSE CHANGES

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since December 31, 2020 (being the date to which the latest published audited accounts of the Company were made up).

6. LITIGATION

As of the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance affecting its business operation, and the Directors were not aware of any litigation or arbitration or claim of material importance affecting its business operation which was pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

Except for the Share Transfer Agreement and the Share Subscription Agreement (the details of which are disclosed in this circular), the following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

(i) the share transfer agreement dated November 30, 2021 entered into between (i) Medcore Investment Limited, a wholly-owned subsidiary of the Company, as the purchaser, and (ii) Ningbo Yihui Investment Management Center (Limited Partnership) (寧波醫惠投資管理中心(有限合夥)), Shanghai Junwei Investment Management Center (Limited Partnership) (上海鈞衛投資管理中心(有限合夥)), Pingxiang Chengrui Management Consulting Partnership (Limited Partnership) (萍鄉成睿管理諮詢合夥企業(有限合夥)), Tianjin Tongchen Medical Technology Partnership (Limited Partnership) (天津同辰醫療科技合夥企業(有限合夥)), Ningbo Zhengyao Investment Management Center (Limited Partnership) (寧波正垚投資管理中心(有限合夥)) and Wang Tao (王滔), as the vendors, and (iii) Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司) as the target company;

(ii) the loan agreement dated April 12, 2021 entered into between Beijing Tianxia Pule Medical Investment Co., Ltd.* (北京天下普樂醫療投資有限公司) and Beijing Fert Technology Co., Ltd.* (北京伏爾特技術有限公司), a wholly-owned subsidiary of the Company in relation to the provision of the loan in the principal amount of RMB180 million,

(iii) the share purchase agreement dated October 26, 2020 entered into between the Company and Biomedical Treasure Limited ("**Biomedical Treasure**"), pursuant to which the Company has conditionally agreed to sell, and Biomedical Treasure has conditionally agreed to purchase, 3,750,000 shares of China Biologic Products Holdings ("**CBPO Shares**"),

(iv) the share purchase agreement dated October 26, 2020 entered into between the Company and Biomedical Future Limited ("**Biomedical Future**"), pursuant to which the Company has conditionally agreed to sell, and Biomedical Future has conditionally agreed to purchase, no less than 660,833 CBPO Shares and no more than 1,571,000 CBPO Shares,

(v) the share purchase agreement dated October 26, 2020 entered into between the Company and 2019B Cayman Limited ("**CITIC Capital**"), pursuant to which the Company has conditionally agreed to sell, and CITIC Capital has conditionally agreed to purchase, 910,167 CBPO Shares, and

(vi) the letter agreements dated October 26, 2020 entered into between the Company and, among others, each of Biomedical Treasure, CITIC Capital and Biomedical Future, in connection with the disposal of certain CBPO Shares and in furtherance of the Company's intention with regard to the privatization of China Biologic Products Holdings.

8. EXPERT

(a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
BDO Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Professional Valuer

(b) Each of the Independent Valuer and BDO Limited has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its report and/or letter dated February 21, 2022 and references to its name in the form and context in which it appears.

(c) As at the Latest Practicable Date, each of the Independent Valuer and BDO Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(d) As at the Latest Practicable Date, each of the Independent Valuer and BDO Limited had no interest in any asset which have been since December 31, 2020 (being the date to which the latest published audited accounts of the Company 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 Group.

9. MISCELLANEOUS

(a) The secretary of the Company is Mr. WONG Tin Yu, a Chartered Secretary and an Associate of both The Hong Kong Chartered Governance Institute (formerly The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(b) The registered office of the Company is situated at The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands.

(c) The principal place of business in Hong Kong of the Company is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited which is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Save as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

10. DOCUMENTS ON DISPLAY

The following documents are published on the respective websites of Company (http://www.pwmedtech.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) from the date of this circular up to 14 days thereafter:

(i) the Share Transfer Agreement;

(ii) the Share Subscription Agreement;

(iii) the letter from the Board, the text of which is set out in this circular;

(iv) the accountants' report of the Target Company, the text of which are set out in Appendix II to this circular;

(v) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(vi) the valuation report of the Target Company, the text of which is set out in Appendix V to this circular;

(vii) the assurance report issued by BDO Limited and a letter from the Board in respect of the profit forecasts and the Target Company Valuation, the text of which is set out in Appendix VI to this circular; and

(viii) the written consent of the experts referred to in the paragraph headed "Expert" in this appendix.

PW MEDTECH GROUP LIMITED
普 华 和 顺 集 团 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of PW Medtech Group Limited (the "**Company**") will be held at 10:00 a.m. on Friday, March 11, 2022 at Building 1, No. 23 Panlong West Road, Pinggu District, Beijing, PRC for the purposes of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the share transfer agreement dated January 5, 2022 (the "**Share Transfer Agreement**") entered into between (i) Medfusion Investment Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, as the purchaser, and (ii) Huaimin Yang, Wenquan Sun, Hainan Ruijian Enterprise Management Partnership (Limited Partnership) (海南瑞健企業管理合夥企業(有限合夥)), Luchan Ye, Dongguan Gaohua No. 1 Investment Partnership (Limited Partnership) (東莞高樺一號投資合夥企業(有限合夥)) and Xin Wang (collectively, the "**Vendors**") as vendors, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;

(b) the share subscription agreement dated January 5, 2022 (the "**Share Subscription Agreement**") entered into between the Purchaser, the Target Company and the Vendors, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified; and

(c) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign, execute, seal (where required) and deliver the Share Transfer Agreement and the Share Subscription Agreement and all such other documents and to take all such steps as the directors of the Company in their discretion may consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Share Transfer Agreement and the Share Subscription Agreement and the transactions contemplated thereunder."

By order of the Board
PW Medtech Group Limited
普华和顺集团公司
Yue'e Zhang
Chairman

Hong Kong, February 21, 2022

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong (i.e. Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Meeting (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, March 9, 2022) or any adjournment thereof (as the case may be). Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the form of proxy shall be deemed to be revoked.

3. To attend the EGM, an individual shareholder should bring along his/her identity card, shareholder account card; a proxy should bring along the proxy form, his/her identity card and the identity card of the appointer and the shareholder account card for registration purpose. The representative of the legal person shareholder who attends the meeting should bring along a copy of the business license, the proxy form signed by the legal entity, the shareholder account card and the identity card of the attendee for registration purpose.

4. To ascertain shareholders' eligibility to attend and vote at the Meeting, the register of members of the Company will be closed from Tuesday, March 8, 2022 to Friday, March 11, 2022 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the Meeting, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates are lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited (at its address shown in Note 2 above) for registration no later than 4:30 p.m. (Hong Kong time), on Monday, March 7, 2022.