**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 AND CONNECTED TRANSACTION
## ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY
## AND PROPOSED RE-ELECTION OF A DIRECTOR
## AND
## NOTICE OF EGM

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

**ALTUS CAPITAL LIMITED**

A letter from the Board is set out on pages 4 to 17 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 18 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 31 of this circular. A notice convening the EGM to be held on Friday, January 21, 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 with this Circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.pwmedtech.com).

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, January 19, 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.

December 31, 2021

# CONTENTS

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

| | |
|---|---|
| "actual controller (實際控制人)" | the individual or entity that can control a company by way of investment, contract or other arrangements according to the Listing Rules of the Growth Enterprise Market (《創業板股票上市規則》) published by Shenzhen Stock Exchange where Lepu Medical is listed |
| "Acquisition" | the acquisition by the Purchaser of the 51% equity interest in the Target Company from the Vendors pursuant to the Share Transfer Agreement |
| "Board" | the board of directors of the Company |
| "Business Day(s)" | any day except Saturdays, Sundays and other days required by law or authorized by banks to suspend business in the PRC or Hong Kong |
| "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 |
| "Consideration" | the consideration of US$99,457,970 for the Acquisition, subject to the Price Adjustment Mechanism |
| "Closing Date" | the date of the completion of the Acquisition |
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Dr. Pu" | Dr. Zhongjie Pu, the spouse of Ms. Yue'e Zhang and the actual controller of Lepu Medical, which is a substantial shareholder of the Target 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 transactions contemplated thereunder by the Independent Shareholders |
| "Enlarged Group" | the Group and the Target Company upon completion of the Acquisition |
| "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 Board Committee" | the independent board committee of the Company, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Acquisition |
| "Independent Financial Adviser" | Altus Capital Limited, an independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Share Transfer Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole |
| "Independent Shareholders" | Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolutions approving the Share Transfer Agreement and the transactions contemplated thereunder |
| "Infusion Set Business" | the R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc. |
| "Latest Practicable Date" | December 28, 2021 |
| "Listing Rules" | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| "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" | Medcore Investment Limited (美宜科投資有限公司), a limited company incorporated under the laws of Hong Kong on September 9, 2021 and a wholly-owned subsidiary of the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "R&D" | research and development |

| | |
|---|---|
| "Share(s)" | ordinary share(s) of par value US$0.0001 each in the equity interest of the Company |
| "Share Transfer Agreement" | the share transfer agreement dated November 30, 2021 entered into between the Purchaser, the Vendors and the Target Company in relation to the Acquisition |
| "Shareholder(s)" | shareholder(s) of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary(ies)" | has the meaning ascribed to it under the Listing Rules |
| "Target Company" | Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司), a joint stock limited liability company established in PRC on August 6, 2013, together with its subsidiaries |
| "US$" or "USD" | United States dollars, the lawful currency of the United States of America |
| "Vendors" | collectively, 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) |
| "%" | 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

December 31, 2021

*To the Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY AND PROPOSED RE-ELECTION OF A DIRECTOR

### 1. INTRODUCTION

References are made to the announcement of the Company dated November 30, 2021 in relation to the Acquisition.

The purpose of this circular is to provide you, among other things, (i) details of the Acquisition; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) information in respect of the re-election of the retiring Director; (v) the notice of the EGM.

On November 30, 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company), the Vendors and the Target Company entered into the Share Transfer Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, an aggregate of 51% equity interest in the Target Company at the Consideration of US$99,457,970 in cash (subject to the Price Adjustment Mechanism).

Upon completion of the Acquisition, the Purchaser will own 51% equity interest in the Target Company, and 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.

## 2. THE ACQUISITION

### The Share Transfer Agreement

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

***Date:*** November 30, 2021

***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, save as disclosed in this circular, the Vendors, the Target Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

***Subject matter***

Pursuant to the Share Transfer Agreement, the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell 51% equity interest in the Target Company at the Consideration of US$99,457,970 in cash.

***Consideration***

The Consideration to be paid to the Vendors for the Acquisition will be settled in the following manner (subject to the Price Adjustment Mechanism as defined below):

(a) the Purchaser shall pay the first installment in an aggregate amount of US$59,674,782 to the Vendors, being 60% of the Consideration within fifteen (15) Business Days after the Closing Date;

(b) the Purchaser shall pay the second installment in an aggregate amount of US$39,783,188 to the Vendors, being 40% of the Consideration, within fifteen (15) Business Days after the fulfillment of the following conditions precedent (the "**Conditions**") or waiver of the relevant Conditions by the Purchaser by written notice, including but not limited to:

(i) the completion of the Acquisition;

(ii) the Closing Conditions (as defined below) having been satisfied;

(iii) the Vendors having fully settled all debts (if any) owed to any of the group members of the Target Company;

(iv) the Vendors having fulfilled their respective tax payment obligations and delivered the tax payment certificates to the Purchaser; and

(v) no event of default under the Share Transfer Agreement having occurred.

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

The Consideration was determined based on arm's length negotiations on normal commercial terms with reference to, among other things, (i) the proven track record and the historical financial performance of the Target Company; (ii) the price-to-earnings ratio of the Target Company taking into account the comparable companies in the market; and (iii) the business prospect of the Target Company.

The price-to-earnings ratio of the Acquisition (calculated based on the Consideration over 51% of the adjusted net profit after tax of the Target Company for the twelve months ended August 31, 2021 i.e. RMB71,320,000) is approximately 17.5 times which is within the range of the comparables companies in the market.

The Directors consider that the Consideration is fair and reasonable, and the Acquisition is in the interests of the Company and the Shareholders as a whole.

***Price Adjustment Mechanism***

The Consideration is subject to adjustment based on the amount of the adjusted net profit of the Target Company (the "**Adjusted Net Profit**") for the twelve months ended August 31, 2021 (the "**Price Adjust Mechanism**"). Upon adjustment, the total adjusted consideration (the "**Adjusted Consideration**") shall be calculated as follows:

Adjusted Net Profit × 17.5 × 51% ÷ exchange rate of USD to RMB*(Note)*

The value of the Adjusted Net Profit shall be calculated in accordance with the following formula:

Adjusted Net Profit = Profit for the year ended December 31, 2020 (audited) – Profit for the eight months ended August 31, 2020 (reviewed) + Profit for the eight months ended August 31, 2021 (audited)

*Note:* The exchange rate of USD to RMB shall be based on the middle exchange rate as announced by the China Foreign Exchange Trade System one (1) Business Day before the Target Company conducts foreign exchange registration for the Acquisition.

***Closing***

The completion of the Acquisition is conditional upon the satisfaction or waiver (where applicable) of the following conditions precedents (the "**Closing Conditions**") including but not limited to:

(i) the representations and warranties of the Vendors and the Target Company being true, correct and complete, and the Vendors and the Target Company having fulfilled their respective obligations under the Share Transfer Agreement;

(ii) no laws and no order having been formulated, promulgated, implemented, or passed by any government authorities that may render the Acquisition illegal or otherwise restrict or prohibit the Acquisition;

(iii) there is no existing or potential legal proceeding against any party to the Share Transfer Agreement or the Target Company brought by any government authority or any third party that will restrict the Acquisition, or render the completion of the Acquisition illegal or unable to materialize, or will cause material adverse effects on the Target Company;

(iv) there is no circumstance that has had or may be reasonably foreseen to have a material adverse effect on the Target Company;

(v) the Vendors and the Target Company having obtain all necessary (i) internal approvals; (ii) authorizations, approvals, consents, registrations or filings from relevant government authorizations; and (iii) relevant third party consents (if any) for the Share Transfer Agreement and the Acquisition;

(vi) the Share Transfer Agreement and the Acquisition having been approved by both of the EGM of the Company and the Board;

(vii) financial and legal due diligence on the Target Company having been completed and in satisfaction of the Purchaser;

(viii) the Target Company having completed relevant filings with State Administration for Market Regulation (國家市場監督管理總局) and obtained foreign exchange business registration certificate (外匯業務登記憑證);

(ix) the Vendors having duly opened their asset realization bank accounts;

(x) the Target Company having entered into employment contracts with its key employees in a form satisfactory to the Purchaser, which contains intellectual property assignment, confidentiality and non-competition terms and a employment term of no less than six years; and

(xi) three out of five directors and one out of three supervisors of the Target Company nominated by the Purchaser having been appointed at the shareholders' meeting of the Target Company.

The completion of the Acquisition is scheduled to take place within ten (10) Business Days after the fulfillment or waiver (where applicable) of the Closing Conditions pursuant to the Share Transfer Agreement, or at such other time and/or day as the Target Company, the Purchaser and the Vendors may agree in writing pursuant to the Share Transfer Agreement.

Upon the completion of the Acquisition, the Target Company will be owned by the Purchaser as to 51%, the Vendors as to 31% and Lepu Medical as to 18%.

***Termination***

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

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

(i) the Acquisition has not been completed within 365 days after the date of the Share Transfer Agreement; or

(ii) any conditions, changes or other circumstances occurred or may be reasonably foreseen to have a material adverse effect on the Target Company for the period from the date of the Share Transfer Agreement to the Closing Date; or

(iii) the representations or warranties made by the Target Company and/or the Vendors pertaining to the Share Transfer Agreement are untrue or incorrect for the period from the date of the Share Transfer Agreement to the Closing Date, which render the parties unable to satisfy the Closing Conditions; or

(iv) the Target Company and/or the Vendors fail to perform any promises or obligations under the Share Transfer Agreement for the period from the date of the Share Transfer Agreement to the Closing Date, which render the parties unable to satisfy the Closing Conditions; or

(v) the Target Company enters into bankruptcy proceedings or files for liquidation, closure, reorganization or reorganization of its debts in accordance with relevant laws in relation to its bankruptcy, insolvency or reorganization for the period from the date of the Share Transfer Agreement to the Closing Date.

The Vendors, the Target Company and the Purchasers are entitled to terminate the Share Transfer Agreement if any government authorities issue an order, judgment or ruling that renders the Acquisition illegal or otherwise restrict or prohibit the Acquisition, and such order, judgment or ruling is final and cannot be applied for reconsideration.

**Special Rights of the Purchaser**

Upon the completion of the Acquisition, the Purchaser will be entitled to enjoy the following special rights:

*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.

*Transfer of equity interest in the Target Company* — The Purchaser shall have the right to transfer or dispose its equity interest in the Target Company in whole or in part to any third party without prior consent of the other shareholders of the Target Company nor the Target Company.

*Restriction on the Transfer of equity interest in the Target Company by the Vendors* — Without prior written consent of the Purchaser, the Vendors shall not transfer nor dispose its equity interest in the Target Company in whole or in part to any third party.

*Right of first refusal* — In the event any shareholder of the Target Company other than the Purchaser proposes to directly or indirectly transfer or dispose its equity interest in the Target Company, the Purchaser will have a right of first refusal to purchase such equity interest in whole or in part on the same terms under the proposed transfer by such shareholder.

*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; plus (b) a compound interest of ten percent (10%) per annum of such consideration of the Acquisition (the "**Liquidation Preference Amount**") and any declared but unpaid dividends. 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.

*Drag-Along Rights* — In the event that any third party proposes to acquire all or substantially all of the equity interest in the Target Company, the Purchaser has a right to require the other shareholders of the Target Company to sell their respective equity interest in the Target Company to such third party by giving written notice to such other shareholders of the Target Company setting forth the consideration amount and the percentage of equity interests in the Target Company to be sold.

## 3. FINANCIAL EFFECT OF THE TRANSACTION

Upon the completion of the Acquisition, the Purchaser will own 51% equity interest in the Target Company, and the Target Company will become an indirect non-wholly-owned subsidiary of the Company. 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.

## 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 Vendors

Wang Tao (王滔) is a director of the Target Company and an independent third party to the Company.

Ningbo Yihui Investment Management Center (Limited Partnership) (寧波醫惠投資管理中心(有限合夥)) is a limited partnership incorporated in the PRC on October 17, 2014 and is principally engaged in investment holding. Ningbo Yihui Investment Management Center (Limited Partnership) was owned by (i) Ningbo Meishan Free Trade Port Zone Zhonghe Equity Investment Partnership (Limited Partnership) (寧波梅山保税港區重合股權投資合夥企業(有限合夥)) as to 1%, as general partner, and (ii) Ma Xiaohui (馬曉輝) as to 99%, as limited partner. Ningbo Meishan Free Trade Port Zone Zhonghe Equity Investment Partnership (Limited Partnership) was owned by Zhang Zhuo (張卓) and Ma Xiaohui (馬曉輝) as to 96.66% and 3.34%, respectively.

Shanghai Junwei Investment Management Center (Limited Partnership) (上海鈞衛投資管理中心(有限合夥)) is a limited partnership incorporated in the PRC on April 17, 2015 and is principally engaged in investment holding. Shanghai Junwei Investment Management Center (Limited Partnership) was owned by (i) Gan Shiliang (甘釋良) as to 70%, as general partner, and (ii) Luo Yi (羅藝) and Huang Lan (黃蘭) as to 25% and 5%, respectively, as limited partners.

Pingxiang Chengrui Management Consulting Partnership (Limited Partnership) (萍鄉成睿管理諮詢合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on September 10, 2021 and is principally engaged in investment holding. Pingxiang Chengrui Management Consulting Partnership (Limited Partnership) was owned by (i) Huang Yibo (黃毅博) as to 0.38%, as general partner, and (ii) Hainan Chengrui Investment Partnership (Limited Partnership) (海南成睿投資合夥企業(有限合夥)) as to 99.62%, as limited partner. Hainan Chengrui Investment Partnership (Limited Partnership) was owned by Huang Yibo (黃毅博) and Hu Xi (胡茜) as to 99.62% and 0.38%, respectively.

Tianjin Tongchen Medical Technology Partnership (Limited Partnership) (天津同辰醫療科技合夥企業(有限合夥)) is a limited partnership incorporated in the PRC on January 20, 2016 and is principally engaged in investment holding. Tianjin Tongchen Medical Technology Partnership (Limited Partnership) was owned by (i) Zheng Huihua (鄭會華) as to 1%, as general partner, and (ii) Yuan Jianxiu (袁建修) as to 99%, as limited partner.

Ningbo Zhengyao Investment Management Center (Limited Partnership) (寧波正垚投資管理中心(有限合夥)) is a limited partnership incorporated in the PRC on November 30, 2015 and is principally engaged in investment holding. Ningbo Zhengyao Investment Management Center (Limited Partnership) was owned by (i) Gan Shiliang (甘釋良) as to 1%, as general partner, and (ii) Jiang Min (蔣敏) as to 99%, as limited partner.

**The Target Company**

The Target Company is a joint stock company with limited liability established in the PRC on August 6, 2013. It has a registered capital of RMB291.8 million as of the date of this circular. The Target Company is a medical device company, principally engaged in the R&D, manufacturing and sales of medical device for blood purification. The products of the Target Company include, but not limited to, low-flux hemodialyzer (低通量血液透析器), high-flux hemodialyzer (高通量血液透析器), hollow fiber hemodialysis filter (中空纖維膜血液透析濾過器), and hollow fiber hemodialyzer (中空纖維膜血液透析器). The Target Company's products were primarily sold via distributors to medical service providers such as hospitals and blood purification centers in China for blood purification treatment of various kidney and blood-related disease patients.

The Target Company was listed on National Equities Exchange and Quotations (NEEQ) in December 2016. During the NEEQ quotation period, the trading activity, equity liquidity and brand awareness of the shares of the Target Company on the NEEQ failed to meet the expectation of the Target Company's management. Having taken into account its operation demands and long-term development plan, to further expand and consolidate resource channels and enhance financing efficiency, the Target Company voluntarily terminated the quotation of its shares on the NEEQ in 2018. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Target Company does not have any non-compliance issue that resulted in its termination of quotation on the NEEQ.

Other than the Vendors, the remaining shareholder of the Target Company, Lepu Medical holds 18% equity interests in the Target Company before and after the Acquisition. Lepu Medical is a limited liability company established in the PRC on June 11, 1999, the shares of which are listed on the ChiNext Board of the Shenzhen Stock Exchange (stock code: 300003). As of the date of this circular, Lepu Medical was ultimately owned as to 25.25% by Dr. Pu, together with the parties acting in concert with him. Dr. Pu is deemed as the actual controller (實際控制人) of Lepu Medical by the Shenzhen Stock Exchange. Dr. Pu is the spouse of Ms. Yue'e Zhang, the executive Director.

**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,** | |
|---|---|---|
| | **2019** | **2020** |
| | *(RMB'000)* | |
| | (audited) | (audited) |
| Net profit before taxation | 40,960 | 73,887 |
| Net profit after taxation | 35,634 | 65,188 |

| | **As of December 31,** | |
|---|---|---|
| | **2019** | **2020** |
| | *(RMB'000)* | |
| | (audited) | (audited) |
| Total assets | 345,311 | 409,564 |
| Net assets | 313,419 | 378,607 |

## 5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company considers that the Acquisition will be beneficial to the Company's business development for the following reasons:

- **Inspire the innovative development of the medical device sector**. As disclosed in the Company's interim report for the six months ended June 30, 2021, the Company will seize the strategic development opportunities in the medical device industry and encourage businesses to enhance the innovation and R&D capabilities. Through the Acquisition, the Company will further expand the its product portfolio in the blood purification medical device sector, and will obtain access to the Target Company's R&D expertise, experience, intellectual property and future product pipelines in this area. The Acquisition made it a big step to the blood purification market with promising prospects and provide better treatment experience and safety assurance for patients;

- **Bring about promising outlooks and potential for sustainable growth**. The Directors recognize the strengths and value of the Target Company, which, following the completion of the Acquisition, is expected to be integrated into the Company's existing business to further improve the performance of the Company. The Target Company is a pioneer in hemodialysis industry. The Target Company obtained the first registration certificate of high-quality hemodialyzer in China in 2009. The Target Company was also the first company which have (i) applied transparent materials in end cover of hemodialyzer, which can effectively avoid the precipitation of harmful substances, and (ii) adopted D-ring seal on hemodialyzer, which can mitigate the risk of blood clotting in clinical use.

  In addition, in light of the fact that blood purification is a therapy widely used nowadays for the treatment of various kidney & blood-related diseases that are refractory to conventional therapies, the Directors are optimistic about the long-term growth in demand for blood purification devices, which would contribute to the Company's revenue and profit growth in businesses;

- **Bring synergy to existing businesses in terms of cost control and sales channels, promoting business growth and network expansion**. Having considered the followings, the Directors are of the view that the Acquisition equips the Company with the advantages of greater economies of scale, promotes its consolidated distribution networks and thus enhances the promotion of strategic product layout in all markets:

  (i) The Acquisition could diversify the product portfolio of the Group and enable the Group to quickly expand its business into the hemodialysis market;

  (ii) The domestic sales and distribution network of the Target Company mainly cover Sichuan Province, Hunan Province and Jiangxi Province in China, while the Group's domestic sales and distribution network mainly cover Beijing, Hubei Province, Heilongjiang Province and Jiangsu Province. The distribution network of the Target Company and the Group can complement with each other;

  (iii) The Target Company is experienced in export to Southeast Asia, South America and Africa, which can help the Group implement its strategy to expand overseas market; and

  (iv) The Group is currently conducting R&D on hemodialysis products, such as indwelling cannulas with needle for hemodialysis (血液透析留置針). The Target Company's expertise and R&D capability can complement the Group's development of hemodialysis pipeline products and provide the sales network and channel to the Group's market promotion of indwelling cannulas with needle for hemodialysis in the future.

  As such, such factors are expected to allow the Company to outpace its competitors in the fast-growing market; and

- **Enhance the brand recognition, strengths and value**. The Acquisition allows the Target Company to face the investors directly, which would promote its brand awareness. As such, the Acquisition is to further expand the Company's product portfolio, enhance the multi-brand strategy and broaden market exposure of both.

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

## 6. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement, circular and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this circular, other than the Vendors, the remaining shareholder of the Target Company, Lepu Medical, holds 18% equity interest in the Target Company and therefore Lepu Medical is a substantial shareholder of the Target Company. As of the date of this circular, Lepu Medical was ultimately owned as to 25.25% by Dr. Pu, together with the parties acting in concert with him. Dr. Pu is the spouse of Ms. Yue'e Zhang, the executive Director and the chief executive officer of the Company.

Although Dr. Pu did not own more than 30% shareholding of Lepu Medical and was not able to control the majority of the composition of the board of Lepu Medical, the Company considers Lepu Medical as an associate of Ms. Yue'e Zhang, the executive Director because Dr. Pu is deemed as the actual controller (實際控制人) of Lepu Medical by the Shenzhen Stock Exchange and Dr. Pu acknowledges his position as actual controller of Lepu Medical. Therefore, the Company believes that the Acquisition constitutes a connected transaction according to Rule 14A.28(2) of the Listing Rules because Lepu Medical is a substantial shareholder of the Target Company and is also an associate of Ms. Yue'e Zhang, the executive Director. Accordingly, the Acquisition and the transactions contemplated thereunder are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve the Share Transfer Agreement and the transactions contemplated thereunder. Voting by the Shareholders at the EGM will be taken by poll.

Ms. Yue'e Zhang has abstained from voting on the approval of the Share Transfer Agreement and the transactions contemplated thereunder at the Board meeting due to the fact that Ms. Yue'e Zhang's associate, Lepu Medical, is a substantial shareholder of the Target Company. Save as disclosed above, no other Director had any material interest in the Acquisition and accordingly, no other Director was required to abstain from voting on the relevant Board resolutions to approve the Share Transfer Agreement and the transactions contemplated thereunder.

Ms. Yue's Zhang, holding 50,000 Shares, will abstain from voting on the resolution approving the Share Transfer Agreement and the transactions contemplated thereunder at the EGM. Save as aforementioned, no other Shareholder has a material interest in the Acquisition, which would require such Shareholder to abstain from voting on the resolutions in relation to the Share Transfer Agreement and the transactions contemplated thereunder at the EGM.

**7. PROPOSED RE-ELECTION OF A DIRECTOR**

Pursuant to Article 112 of the Articles of Association of the Company, Ms. Wang Fengli, who was appointed as an independent non-executive Director with effect from August 1, 2021, shall hold office until the first general meeting of the Company after her appointment, and is therefore subject to re-election at the EGM.

Ms. Wang Fengli, the retiring independent non-executive Director, has confirmed her independence with reference to the factors set out in Rule 3.13 of the Listing Rules. The Company's nomination committee has reviewed the structure and composition of the Board, the confirmation and disclosures given by the Director, the qualifications, skills and experience, time commitment and contribution of the retiring Director with reference to the nomination principles and criteria set out in the Company's board diversity policy and director nomination policy, and the independence of the independent non-executive Director. The nomination committee has recommended to the Board on re-election of the above retiring Directors who is due to retire at the EGM. The Company considers that the retiring independent non-executive Director is independent according to the independence guidelines set out in the Listing Rules and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and diversity. The Board is of the view that Ms. Wang Fengli's extensive academic background and in-depth knowledge in international commerce will contribute to the diversity of the Board.

Pursuant to Rule 13.74 of the Listing Rules, a listed issuer shall disclose the details required under Rule 13.51(2) of the Listing Rules of any director(s) proposed to be re-elected or proposed new director in the notice or accompanying circular to its shareholders of the relevant general meeting, if such re-election or appointment is subject to shareholders' approval at that relevant general meeting. The requisite details of the above Director are set out in Appendix VI to this circular.

**8. EGM AND PROXY ARRANGEMENT**

The EGM will be held on Friday, January 21, 2022 at 10:00 a.m., at Building 1, No. 23 Panlong West Road, Pinggu District, Beijing, PRC, at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Share Transfer Agreement and the transactions contemplated thereunder, and re-election of the retiring Director. 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 (10:00 a.m. (Hong Kong time) on Wednesday, January 19, 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.

## 9. 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, January 18, 2022 to Friday, January 21, 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, January 17, 2022.

## 10. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 18 of this circular and the letter from the Independent Financial Adviser set out on pages 19 to 31 of this circular, which contains, among others, its advice and recommendation to the Independent Board Committee and the Independent Shareholders in connection with the Share Transfer Agreement and the transactions contemplated thereunder and the principal factors considered by it in arriving at its advice and recommendation.

The Independent Board Committee, having taken into account the advice and recommendation of the Independent Financial Adviser, is of the opinion that the terms and conditions of the Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM.

Therefore, the Directors, including the independent non-executive Directors, consider that the terms of the Share Transfer 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 Independent 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 transactions contemplated therein.

The Directors also consider that the re-election of the retiring Director is in the interests of the Company, the Group and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

## 11. 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*

# PW MEDTECH GROUP LIMITED
# 普华和顺集团公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1358)**

December 31, 2021

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION
## ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company to the Shareholders dated December 31, 2021 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings given to them in the section headed "Definitions" of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable and in the interests of Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Transfer Agreement and the transactions contemplated thereunder, as set out on pages 19 to 31 of the Circular and the letter from the Board set out on pages 4 to 17 of the Circular.

Having considered the information contained in the letter from the Board, and the factors and reasons considered by, and the opinion of, the Independent Financial Adviser as stated in its letter of advice, we consider that the Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the resolution in respect of the Share Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of the
Independent Board Committee of
**PW Medtech Group Limited**
**普华和顺集团公司**
**Mr. Wang Xiaogang**
**Mr. Chen Geng**
**Ms. Wang Fengli**
*Independent Non-executive Directors*

*The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.*

ALTUS.

**Altus Capital Limited**
21 Wing Wo Street
Central, Hong Kong

31 December 2021

*To the Independent Board Committee and the Independent Shareholders*

**PW Medtech Group Limited**
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as contemplated under the Share Transfer Agreement. Details of the Acquisition are set out in the "Letter from the Board" contained in the circular of the Company dated 31 December 2021 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 30 November 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company), the Vendors and the Target Company entered into the Share Transfer Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, an aggregate of 51% of the equity interest in the Target Company at the Consideration of US$99,457,970 in cash (subject to the Price Adjustment Mechanism, as defined in section 4.1 below).

## LISTING RULES IMPLICATIONS

As the highest applicable percentage under Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of the Circular, other than the Vendors, the remaining shareholder of the Target Company, Lepu Medical, holds 18% equity interest in the Target Company and therefore Lepu Medical is a substantial shareholder of the Target Company. As Dr. Pu is deemed as the actual controller of Lepu Medical by the Shenzhen Stock Exchange and Dr. Pu is the spouse of Ms. Yue'e Zhang, the executive Director, Lepu Medical is an associate of Ms. Yue'e Zhang. Given that Ms. Yue'e Zhang's associate, Lepu Medical is a substantial shareholder of the Target Company, the Acquisition constitutes a connected transaction under Rule 14A.28(2) of the Listing Rules.

## THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Xiaogang, Mr. Chen Geng and Ms. Wang Fengli has been formed to advise the Independent Shareholders as to whether (i) the entering into of the Share Transfer Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; (ii) the terms of Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder, taking into account the recommendation from the Independent Financial Adviser.

## THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether (i) the entering into of the Share Transfer Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; (ii) the terms of Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder.

We have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the transactions contemplated under the Share Transfer Agreement is at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling Shareholder(s) or connected person(s).

**BASIS OF OUR ADVICE**

In formulating our opinion, we have reviewed, amongst others, (i) the Share Transfer Agreement; (ii) the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**") and the interim report of the Company for the six months ended 30 June 2021 (the "**2021 Interim Report**"); (iii) the accountants' report of the Target Company for the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021; and (iv) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of the EGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Company. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the principal factors and reasons set out below:

### 1. Information of the Group

#### 1.1. *Background information of the Group*

The Group is principally engaged in R&D, manufacturing and sales of advanced infusion set, intravenous cannula products, insulin needles etc. in the PRC. The Company has been listed on the Stock Exchange since 8 November 2013. The Purchaser is a wholly-owned subsidiary of the Company and its principal business activity is investment holding.

#### 1.2. *Financial information of the Group*

Set out below is a table summarising certain key financial information of the Group extracted from the 2020 Annual Report and 2021 Interim Report:

| | **For the year ended 31 December** | | **For the six months ended 30 June** | |
|---|---|---|---|---|
| | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (unaudited) | (unaudited) |
| Revenue | 362,183 | 247,352 | 101,536 | 133,492 |
| Profit for the year/period | 81,969 | 631,811 | 141,151 | 761,089 |

| | **As at** | | |
|---|---|---|---|
| | **31 December 2019** | **31 December 2020** | **30 June 2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (unaudited) |
| Total assets | 5,351,830 | 5,283,595 | 3,953,282 |
| — *Cash and cash equivalents* | 132,598 | 1,701,783 | 2,410,788 |
| Total liabilities | 743,341 | 175,316 | 127,692 |
| Net assets | 4,608,489 | 5,108,279 | 3,825,590 |

*Year ended 31 December 2020 compared to year ended 31 December 2019*

The Group recorded revenue of approximately RMB247.4 million for the year ended 31 December 2020, representing a decrease of approximately 31.7% from approximately RMB362.2 million for the previous year. The decrease in revenue of the Group was mainly attributable to the loss arising from the decline in the number of persons receiving medical consultation in certain regions in the first half of 2020 due to the COVID-19 pandemic, especially a significant decline in hospital traffic and in daily medical consultation demand in the major sale areas of the Group's infusion set business, such as Beijing, Hubei Province and Heilongjiang Province.

The Group's net profit increased significantly from approximately RMB82.0 million for the year ended 31 December 2019 to approximately RMB631.8 million for the year ended 31 December 2020, which was mainly due to the one-off gain on disposal of part of the interest in an associate principally engaged in the R&D, manufacturing and sales of plasma-based pharmaceutical products (the "**Disposal Associate**") for the year ended 31 December 2020. If the one-off gain was excluded, the Group would have made a net profit of approximately RMB44.1 million for the year ended 31 December 2020, representing a decrease by approximately 46.2% from approximately RMB82.0 million in the year ended 31 December 2019. This was primarily attributable to decrease in revenue as discussed above.

The net assets of the Group increased from approximately RMB4,608.5 million as at 31 December 2019 to approximately RMB5,108.3 million as at 31 December 2020 due primarily to the decrease in bank borrowings.

*Six months ended 30 June 2021 compared to six months ended 30 June 2020*

The Group's revenue increased by approximately 31.5% from approximately RMB101.5 million for the six months ended 30 June 2020 to approximately RMB133.5 million for the six months ended 30 June 2021. This was mainly due to the gradual recovery of demand for medical consultation and medical devices in 2021 which was adversely affected by the outbreak of COVID-19.

For the six months ended 30 June 2020 and 2021, the Group made a net profit of approximately RMB141.2 million and RMB761.1 million respectively. Excluding the one-off gain on disposal of the interest in the Disposal Associate, the Group would have recorded a net profit of approximately RMB18.2 million and RMB29.3 million for the six months ended 30 June 2020 and 2021 respectively. Considering that the Disposal Associate had ceased to become an associate of the Company since January 2021, if the share of result of the Disposal Associate for the six months ended 30 June 2020 is also excluded for a like-to-like comparison, the Group would have made a net loss of approximately RMB60.8 million for the six months ended 30 June 2020. The improvement from a net loss position for the six months ended 30 June 2020 to a net profit position for the six months ended 30 June 2021 was mainly due to the increase in revenue and the interest income on bank deposits.

Net assets of the Group has decreased from approximately RMB5,108.3 million as at 31 December 2020 to approximately RMB3,825.6 million as at 30 June 2021, which was mainly attributable to the dividend paid in February 2021.

**1.3. *Outlook of the Group***

According to the 2021 Interim Report, the Management will continue to recognise the essentiality of medical devices to individuals and the importance of enhanced quality of medical services towards the sustainable growth of the Group. The Group has been actively expanding its businesses by investing in R&D on a wide range of new medical devices.

The implementation of national policy on the latest "Regulation on the Supervision and Administration of Medical Devices" and the "Working Plan for the Mandatory Standardization and Optimization of Medical Devices" by the National Medical Products Administration of the PRC in the first half of 2021 gradually enhanced the supervision and improved the overall quality and innovation on the development of the medical device industry. Moreover, the steady economic growth and the positive results on the pandemic control by China will further boost the overall economy and, hence, benefit the medical device industry.

Going forward, the Company remains committed to enhance its own strengths by improving quality control of its products, expanding product R&D and identifying potential merger and acquisition targets. The Management believes that given (i) China's support for innovation of medical devices; (ii) the acceleration of the evaluation and approval process for medical devices; and (iii) the increasing post-pandemic health awareness of people, the medical device industry will see exceptional growth and innovation-driven development. The Company will continue to seek strategic development opportunities in order to maintain its leading position in China's medical device industry, while continue to monitor and maintain stable and sound financial position and cash flows.

**2. Information of the Target Company**

The Target Company is a joint stock company, principally engaged in the R&D, manufacturing and sales of the medical devices for blood purification in China. The Target Company and its subsidiaries were established as early as in 2005.

We noted that the Target Company was once listed on National Equities Exchange and Quotations (NEEQ) in December 2016, and subsequently voluntarily delisted in 2018 for reducing operating and management costs and taking into account its then strategic development plans. According to the latest published financial report of the Target Company for the six months ended 30 June 2018, we noted that the Target Company's products were primarily sold via distributors to medical service providers such as hospitals and blood purification centers in China for blood purification treatment of late-stage kidney disease patients. As at 30 June 2018, the Target Company had obtained 17 patents for its blood purification product technology and/or usage and it had over 250 employees. As at 31 October 2021, we understand from the Management that the number of patents obtained by the Target Company has increased to 27 and it is in the progress of applying for an additional 10 patents for its blood purification product technology and/or usage, and the number of employees has also increased to over 400.

The table below summarises certain key financial information of the Target Company for the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2020 and 2021 as extracted from Appendix II to the Circular.

| | For the year ended 31 December | | | For the eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) | (unaudited) | (audited) |
| Revenue | 96,569 | 146,661 | 211,356 | 131,522 | 160,543 |
| Net profit after taxation | 16,645 | 35,634 | 65,188 | 37,660 | 43,792 |

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) | (audited) |
| Total assets | 306,236 | 345,311 | 409,564 | 461,721 |
| Total liabilities | (28,451) | (31,892) | (30,957) | (39,322) |
| Net assets | 277,785 | 313,419 | 378,607 | 422,399 |

As showed above, we noted that the Target Company has continuously recorded net profit for recent years and experienced a strong continuous growth in both revenue and net profit. The net assets of the Target Company have also been increasing throughout the years.

### 3. The Company's rationale for the Acquisition

As mentioned in the "Reasons for and benefits of the Acquisition" in the Circular, the Management recognises the needs to expand the Company's businesses and believes that entering into the blood purification market will accelerate the Company's revenue and profit growth. Given the increasing needs in blood purification usage and huge potential for sustainable growth in the blood purification market, the Management is optimistic about the long-term growth in demand for blood purification devices, especially in China. According to the data released by the PRC government, there were approximately 6,300 blood purification centres in China in 2019, representing a significant increase of approximately 81.2% as compared with 2011. The number of new patients receiving blood purification treatment in China had also recorded a strong growth from approximately 447,000 in 2016 to approximately 633,000 in 2019, representing a CAGR of approximately 12%.

As discussed under section 1.3 above, the Company will seize the strategic development opportunities in the medical device industry to enhance innovation and R&D capabilities. Given the promising prospect of the blood purification market in China, we concur with the view of the Management that it is in the interests of the Company and Shareholders as a whole to target blood purification medical device market as part of the Company's development and expansion strategy. The Company currently focuses mainly on advanced infusion set, intravenous cannula products and insulin needles. Entering into the blood purification medical device market will further expand the Company's product portfolio, broaden its market exposure and enhance its multi-brand strategy.

Considering the time required in conducting research and developing new medical devices technology in-house, acquisition provides an efficient way for the Company to achieve its objective. As discussed under section 2 above, we noted that the Target Company and its subsidiaries have over 15 years of experience in blood purification device industry and obtained 27 patents for their blood purification device technology and/or usage, with strong historical financial performance delivered. The increase in number of patents, employee size and revenue of the Target Company during the past few years also demonstrated the success of the Target Company's effort in R&D in blood purification medical device, as well as the overall growth of the company. According to the published annual report of the Target Company for the year ended 31 December 2017, we also noted that the Target Company had an established customer and supplier network across a number of regions in China. Hence, the Acquisition will enable the Company to leverage on the established network of the Target Company and will bring synergy to existing businesses of the Company in terms of cost control and sales channels. In addition, the Management is of the view that the Acquisition equips the Company with the advantages of greater economies of scale, promotes its consolidated distribution networks and thus enhances the promotion of strategic product layout in all markets.

Having considered the above reasons, we concur with the Management's view that the entering into of the Share Transfer Agreement is in the ordinary and usual course of business of the Group, and is fair and reasonable and in the interests of the Company and Shareholders as a whole.

**4. Principal terms of the Share Transfer Agreement**

For details of the principal terms of the Share Transfer Agreement, please refer to the "Letter from the Board" in the Circular. When considering the fairness and reasonableness of the terms of the Share Transfer Agreement, we have taken into account the following factors:

**4.1 *Consideration***

The Consideration of US$99,457,970 (equivalent to approximately RMB634.5 million) was determined based on arm's length negotiations on normal commercial terms with reference to, among other things, (i) the proven track record and the historical financial performance of the Target Company; (ii) the price-to-earnings ("**P/E**") ratio of the Target Company taking into account the comparable companies in the market; and (iii) the business prospect of the Target Company.

The Consideration is subject to adjustment based on the amount of the adjusted net profit of the Target Company (the "**Adjusted Net Profit**") for the 12 months ended 31 August 2021 (the "**Price Adjustment Mechanism**"), which shall be calculated in accordance with the following formula:

*Adjusted Net Profit = Profit for the year ended 31 December 2020 (audited) – Profit for the eight months ended 31 August 2020 (reviewed) + Profit for the eight months ended 31 August 2021 (audited)*

Upon adjustment, the total adjusted consideration (the "**Adjusted Consideration**") shall be calculated as follows:

*Adjusted Net Profit × 17.5 × 51% ÷ exchange rate of USD to RMB*[Note]

*Note:* The exchange rate of USD to RMB shall be based on the middle exchange rate as announced by the China Foreign Exchange Trade System one (1) Business Day before the Target Company conducts foreign exchange registration for the Acquisition.

To assess the fairness and reasonableness of the Consideration, we have identified listed companies engaging in similar business of the Target Company (the "**Comparable Companies**") and analysed their P/E ratios, which is a commonly adopted basis in conducting market comparable analysis.

In selecting the Comparable Companies, our selection criteria focused on companies that (i) are listed on the Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange; (ii) are principally engaged in research, development, manufacturing and sales of medical devices in the PRC involving blood purification products; and (iii) generated profits in the most recent financial year.

Independent Shareholders should note that despite of the aforesaid criteria, the business and scale of operations of the Target Company are not exactly the same as those of the Comparable Companies, and we have not conducted any in-depth investigation into the business and operations of the Comparable Companies.

The Comparable Companies below have been selected based on the above criteria, and have been identified through our research using public information. We believe it is an exhaustive list based on these criteria.

| **Company name** | **Stock code** | **Number of patents**(Note 1) | **Revenue contribution from blood purification products**(Note 2) | **P/E ratio**(Note 3) |
|---|---|---|---|---|
| Guangdong Biolight Meditech Co. Ltd. | 300246 | 272 | 43.8% | 8.1 |
| Jafron Biomedical Co. Ltd. | 300529 | 221 | 97.4% | 48.4 |
| Jiangxi Sanxin Medtec Co. Ltd. | 300453 | 73 | 62.0% | 26.6 |
| Maider Medical Industry Equipment Co. Ltd. | 688310 | 237 | 12.1% | 52.2 |
| Shandong Weigao Company Medical Polymer Co. Ltd.(Note 4) (Note 5) | 1066 | 700 | N/A | 16.9 |
| Shinva Medical Instrument Co. Ltd. | 600587 | 490 | Not disclosed | 52.2 |
| Well Lead Medical Co. Ltd. | 603309 | 138 | 6.3% | 27.5 |
| Zhuhai Hokai Medical Instruments Co. Ltd. | 300273 | 105 | Not disclosed | 68.4 |
| | | | **Maximum** | 68.4 |
| | | | **Minimum** | 8.1 |
| | | | **Average** | 37.5 |
| | | | **Median** | 37.9 |
| Target Company(Note 6) | | 27 | 100% | 17.5 |

*Notes:*

1. Number of patents owned by the Comparable Companies (including but not limited to patents in relation to blood purification products) are based on the information disclosed in their latest published interim reports. The patents owned by the Comparable Companies serve to demonstrate that R&D of medical devices is part of their principal businesses, which is comparable to the Target Company. We consider that there is no direct correlation between the number of patents owned and valuations of the Comparable Companies.

2. Revenue contribution from blood purification products of the Comparable Companies over total revenue for their latest financial years is based on the information disclosed in their latest published annual reports.

3. P/E ratio is calculated based on the respective market price of the companies as at the Latest Practicable Date sourced from the websites of the Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange, divided by their respective earnings per share reported in the respective companies' latest published annual reports.

4. This company's blood purification products business is conducted through an associated company so the revenue contribution from such business is not applicable.

5. Exchange rate of RMB1.00: HK$1.22 was used.

6. P/E ratio of the Target Company (the "**Implied P/E Ratio**") is calculated based on the Adjusted Consideration and 51% of the Adjusted Net Profit.

While we note that revenue contribution from blood purification products is minimal, or such information is not disclosed or not applicable for certain Comparable Companies; taking into account that (i) these companies can be considered comparable to the Target Company by virtue of their participation and contribution of resources in developing blood purification products specifically; and (ii) their inclusion provides a reasonable sample size for meaningful analysis; we have included these companies in our analysis.

As shown in the table above, the P/E ratios of the Comparable Companies range from approximately 8.1 times to 68.4 times, with the average and median being approximately 37.5 times and 37.9 times respectively. The Implied P/E Ratio of the Target Company is 17.5 times, which is within the range of those of the Comparable Companies and is lower than their average and median.

Based on the above, we are of the view that the Consideration is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### 4.2 *Cash settlement*

According to the Share Transfer Agreement, the Consideration shall be settled by cash in two instalments, being 60% within 15 Business Days after the Closing Date and remaining 40% within 15 Business Days after fulfilment or waiver of the relevant conditions precedent.

We noted that as at 30 June 2021, the Company had cash balance of approximately RMB2,410.8 million and only had approximately RMB92.9 million current liabilities. Moreover, according to Appendix I of the Circular, 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 51% 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 12 months from the date of the Circular in the absence of unforeseen circumstances. Taking into account the Group's internal resources and working capital position, we are of the view that the aforesaid payment method is fair and reasonable.

**4.3 *Section conclusion***

Considering the above analysis on the Consideration and settlement method, we are of the view that the terms of Share Transfer Agreement are on normal commercial terms and are fair and reasonable.

**5. Potential financial effects as a result of the Acquisition**

As discussed in section 4.2 above, given the Consideration will be settled in cash, it is expected that the cash position of the Group will decrease as a result of the Acquisition. Nonetheless, based on the unaudited pro forma financial information of the Enlarged Group as set out in the Appendix IV to the Circular, it is expected that the net asset value of the Enlarged Group will not be materially affected by the Acquisition.

As confirmed by the Directors, following the Completion, the Target Company will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. Should the Target Company derive any revenue from the sales of blood purification medical devices or incur any costs associated with any R&D activities after the Acquisition, the Group's profit will be affected accordingly.

**RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that (i) the entering into of the Share Transfer Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of Share Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Altus Capital Limited**

| | |
|---|---|
| **Chang Sean Pey** | **Simon Kwok** |
| *Executive Director* | *Senior Manager* |

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 20 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Simon Kwok ("**Mr. Kwok**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over seven years of experience in financial services industry, including over five years of corporate finance advisory experience in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Kwok is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

## 1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

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

The unaudited financial information of the Group for the six months ended 30 June 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 31 December 2018:

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

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

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

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

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

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

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

## 2. STATEMENT OF INDEBTEDNESS

At the close of business on October 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:

**Lease liabilities**

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

The Target Group had lease liabilities of approximately RMB313,000.

**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 October 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 31 December 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 51% 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 in the absence of unforeseen circumstances.

## 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.

**ACCOUNTANTS' REPORT ON THE TARGET GROUP**

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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**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PW MEDTECH GROUP LIMITED**

**Introduction**

We report on the historical financial information of Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司) (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") set out on pages II-4 to II-56, which comprises the consolidated statements of financial position as at 31 December 2018, 2019 and 2020 and 31 August 2021 and the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020 and 31 August 2021, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (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-4 to II-4 forms an integral part of this report, which has been prepared for inclusion in the circular of PW Medtech Group Limited (the "Company") dated 31 December 2021 (the "Circular") in connection with the proposed acquisition of 51% equity interests in the Target Company by the Company.

**Director's responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of 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 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 in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2018, 2019, 2020 and 31 August 2021, the Target Group's financial position as at 31 December 2018, 2019 and 2020 and 31 August 2021 and of the Target Group'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 Historical Financial Information**

We have reviewed the stub period comparative historical financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eight months ended 31 August 2020 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 Engagements 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 12 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
31 December 2021

## I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

### Preparation of the Historical Financial Information

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

The consolidated financial statements of the Target Group for the Track Record Period (also referred to as the "Relevant Periods"), on which the Historical Financial Information is based, were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA (the "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.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (Unaudited) | |
| **Revenue** | *7* | 96,569 | 146,661 | 211,356 | 131,522 | 160,543 |
| Cost of sales | | (59,157) | (78,822) | (109,375) | (71,366) | (80,873) |
| **Gross profit** | | 37,412 | 67,839 | 101,981 | 60,156 | 79,670 |
| Other income, gains and losses, net | *7* | 3,933 | 3,681 | 7,447 | 4,136 | 4,521 |
| Selling and distribution expenses | | (9,762) | (15,661) | (16,469) | (10,199) | (14,980) |
| Research and development cost | | (4,155) | (3,692) | (5,348) | (3,714) | (5,121) |
| Administrative expenses | | (10,726) | (11,182) | (13,658) | (8,901) | (12,162) |
| Impairment on financial assets, net | | (6) | (25) | (66) | (89) | (31) |
| Finance costs | *10* | — | — | — | — | (12) |
| **Profit before income tax** | *8* | 16,696 | 40,960 | 73,887 | 41,389 | 51,885 |
| Income tax expense | *11* | (51) | (5,326) | (8,699) | (3,729) | (8,093) |
| **Profit for the year/period** | | 16,645 | 35,634 | 65,188 | 37,660 | 43,792 |
| **Profit and other comprehensive income for the year/period** | | 16,645 | 35,634 | 65,188 | 37,660 | 43,792 |
| **Profit and other comprehensive income for the year/period attributable to** | | | | | | |
| Owners of the Company | | 16,647 | 35,635 | 65,189 | 37,661 | 43,892 |
| Non-controlling interests | | (2) | (1) | (1) | (1) | (100) |
| | | 16,645 | 35,634 | 65,188 | 37,660 | 43,792 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at 31 August |
|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2021 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Land use right | *13* | 8,826 | — | — | — |
| Property, plant and equipment | *14* | 164,211 | 175,707 | 194,278 | 248,854 |
| Investment properties | *15* | 24,614 | 23,702 | 18,019 | 8,268 |
| Intangible assets | *16* | 8,146 | 8,605 | 15,814 | 17,903 |
| Right-of-use-assets | *22* | — | 8,633 | 8,439 | 8,629 |
| | | 205,797 | 216,647 | 236,550 | 283,654 |
| **Current assets** | | | | | |
| Inventories | *17* | 62,643 | 51,108 | 51,207 | 79,234 |
| Trade receivables | *18* | 810 | 6,219 | 12,067 | 13,088 |
| Prepayments, deposits and other receivables | *19* | 7,592 | 13,852 | 20,156 | 22,206 |
| Cash and cash equivalents | | 29,394 | 57,485 | 89,584 | 63,539 |
| | | 100,439 | 128,664 | 173,014 | 178,067 |
| **Current liabilities** | | | | | |
| Trade and other payables | *20* | 17,789 | 17,664 | 18,236 | 24,897 |
| Contract liabilities | *21* | 2,765 | 4,530 | 2,813 | 4,935 |
| Lease liabilities | *22* | — | — | — | 261 |
| Income tax payable | | 47 | 2,231 | 3,359 | 2,993 |
| | | 20,601 | 24,425 | 24,408 | 33,086 |
| **Net current assets** | | 79,838 | 104,239 | 148,606 | 144,981 |
| **Total assets less current liabilities** | | 285,635 | 320,886 | 385,156 | 428,635 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | *20* | 7,850 | 7,467 | 6,549 | 6,144 |
| Lease liabilities | *22* | — | — | — | 92 |
| | | 7,850 | 7,467 | 6,549 | 6,236 |
| **NET ASSETS** | | 277,785 | 313,419 | 378,607 | 422,399 |

| | | As at 31 December | | | As at 31 August |
|---|---|---|---|---|---|
| | | **2018** | **2019** | **2020** | **2021** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **EQUITY** | | | | | |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | *23* | 291,800 | 291,800 | 291,800 | 291,800 |
| (Deficit)/reserves | *23* | (13,996) | 21,639 | 86,828 | 130,720 |
| | | 277,804 | 313,439 | 378,628 | 422,520 |
| **Non-controlling interests** | *24* | (19) | (20) | (21) | (121) |
| **TOTAL EQUITY** | | 277,785 | 313,419 | 378,607 | 422,399 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Statutory reserve** | **(Accumulated losses)/ retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 23)* | *(Note 23)* | | | *(Note 24)* | |
| **At 1 January 2018** | 291,800 | 14,444 | (45,087) | 261,157 | (17) | 261,140 |
| Profit and other comprehensive income for the year | — | — | 16,647 | 16,647 | (2) | 16,645 |
| Appropriation to statutory reserve | — | 45 | (45) | — | — | — |
| **Balance at 31 December 2018 and 1 January 2019** | 291,800 | 14,489 | (28,485) | 277,804 | (19) | 277,785 |
| Profit and other comprehensive income for the year | — | — | 35,635 | 35,635 | (1) | 35,634 |
| Appropriation to statutory reserve | — | 1,846 | (1,846) | — | — | — |
| **Balance at 31 December 2019 and 1 January 2020** | 291,800 | 16,335 | 5,304 | 313,439 | (20) | 313,419 |
| Profit and other comprehensive income for the year | — | — | 65,189 | 65,189 | (1) | 65,188 |
| Appropriation to statutory reserve | — | 6,898 | (6,898) | — | — | — |
| **Balance at 31 December 2020 and 1 January 2021** | 291,800 | 23,233 | 63,595 | 378,628 | (21) | 378,607 |
| Profit and other comprehensive income for the period | — | — | 43,892 | 43,892 | (100) | 43,792 |
| Appropriation to statutory reserve | — | 5,006 | (5,006) | — | — | — |
| **Balance at 31 August 2021** | 291,800 | 28,239 | 102,481 | 422,520 | (121) | 422,399 |
| **Balance at 1 January 2020** | 291,800 | 16,335 | 5,304 | 313,439 | (20) | 313,419 |
| Profit and other comprehensive income for the period | — | — | 37,661 | 37,661 | (1) | 37,660 |
| Appropriation to statutory reserve | — | 4,091 | (4,091) | — | — | — |
| **Balance at 31 August 2020 (Unaudited)** | 291,800 | 20,426 | 38,874 | 351,100 | (21) | 351,079 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| **Cash flows from operating activities** | | | | | |
| Profit before taxation | 16,696 | 40,960 | 73,887 | 41,389 | 51,885 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 14,658 | 12,024 | 17,104 | 11,403 | 15,348 |
| Depreciation of investment properties | 912 | 912 | 720 | 483 | 227 |
| Depreciation of right of use assets | — | 193 | 194 | 129 | 287 |
| Amortisation of intangible assets | 664 | 690 | 1,041 | 694 | 694 |
| Amortisation of land use right | 193 | — | — | — | — |
| Finance cost | — | — | — | — | 12 |
| Interest income | (46) | (123) | (1,400) | (745) | (265) |
| Loss on write off of property, plant and equipment | — | 248 | 365 | 39 | 478 |
| Loss on write off of inventory | 118 | — | 177 | 177 | 394 |
| Impairment on financial assets, net | 6 | 25 | 66 | 89 | 31 |
| Operating profit before working capital changes | 33,201 | 54,929 | 92,154 | 53,658 | 69,091 |
| (Increase)/decrease in inventories | (13,812) | 11,535 | (276) | 10,943 | (28,421) |
| (Increase)/decrease in trade receivables | (767) | (5,434) | (5,914) | (5,745) | (1,052) |
| Decrease/(increase) in prepayment and deposit | 3,813 | (6,260) | (6,304) | 19,265 | (2,050) |
| Increase/(decrease) in trade payables and other payables | 16,903 | (508) | (346) | (16,599) | 6,257 |
| Increase/(decrease) in contract liabilities | 1,129 | 1,765 | (1,717) | (2,574) | 2,122 |
| Cash generated from operations | 40,467 | 56,027 | 77,597 | 58,948 | 45,947 |
| Income tax paid | (3) | (3,142) | (7,571) | (4,042) | (8,459) |
| *Net cash generated from operating activities* | 40,464 | 52,885 | 70,026 | 54,906 | 37,488 |

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | (24,222) | (23,768) | (31,077) | (18,708) | (60,879) |
| Purchase of intangible assets | (2,258) | (1,149) | (8,250) | (2,600) | (2,783) |
| Interest received | 46 | 123 | 1,400 | 745 | 265 |
| *Net cash used in investing activities* | (26,434) | (24,794) | (37,927) | (20,563) | (63,397) |
| **Cash flows from financing activities** | | | | | |
| Interest paid | — | — | — | — | (12) |
| Repayments of capital element of lease liabilities | — | — | — | — | (124) |
| Net cash used in financing activities | — | — | — | — | (136) |
| **Net increase/(decrease) in cash and cash equivalents** | 14,030 | 28,091 | 32,099 | 34,343 | (26,045) |
| **Cash and cash equivalents at beginning of year/period** | 15,364 | 29,394 | 57,485 | 57,485 | 89,584 |
| **Cash and cash equivalents at end of year/period** | 29,394 | 57,485 | 89,584 | 91,828 | 63,539 |

## STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

| | | As at 31 December | | | As at 31 August |
|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2021 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-Current asset** | | | | | |
| Investment in subsidiaries | *30* | 40,000 | 43,600 | 45,000 | 45,000 |
| **Current assets** | | | | | |
| Cash | | 1,229 | 335 | 51,149 | 27,239 |
| Prepayments, deposits and other receivables | *19* | 8 | 10 | 7 | 9 |
| Amounts due from subsidiaries | *30* | 255,576 | 248,919 | 192,503 | 213,003 |
| | | 256,813 | 249,264 | 243,659 | 240,251 |
| **Current liability** | | | | | |
| Trade and other payables | *20* | 1,166 | 1,540 | 1,706 | 1,564 |
| **Net current assets** | | 255,647 | 247,724 | 241,953 | 238,687 |
| **Net assets** | | 295,647 | 291,324 | 286,953 | 283,687 |
| **EQUITY** | | | | | |
| Share capital | *23* | 291,800 | 291,800 | 291,800 | 291,800 |
| Reserves/(deficit) | *23* | 3,847 | (476) | (4,847) | (8,113) |
| **TOTAL EQUITY** | | 295,647 | 291,324 | 286,953 | 283,687 |

## 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 6 August 2013. Its registered office is located at No. 2401, West Port Avenue, Southwest Airport Economic Development Zone, Shuangliu District, Chengdu, Sichuan Province, the PRC.

The Target Company, is principally engaged in the research and development, manufacturing and sale of medical device for blood purification in the PRC. Details of the activities of its subsidiaries are set out in Note 30.

### 2. BASIS OF PRESENTATION AND PREPARATION

#### (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 Group 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 Group, details of which are set out in Note 3.

#### (b) Basis of measurement

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

#### (c) Functional and presentation currency

The Underlying Financial Statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Target Company. All Historical Financial Information presented in RMB has been rounded to the nearest thousand (RMB'000) except otherwise stated.

## 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 consolidated statement of financial position as a right-of-use assets and a 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 Group's accounting policies and the transition method adopted by the Target Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Target Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

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

***Consolidated statement of financial position as at 1 January 2019***

| | ***RMB'000*** |
|---|---|
| Right-of-use assets | 8,826 |
| Property, plant and equipment | (8,826) |
| Retained earnings | — |

(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 Group 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 consolidated 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 consolidated 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 Group 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. The Target Group measures the right-of-use assets applying a cost model. Under the cost model, the Target Group 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 Group has lease prepayment for land use right which the Target Group exercises it judgement and determines that it is a separate class of asset. As a result, the right-of-use asset arising from land use right 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 Group shall use the Target Group'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) *Accounting as a lessor*

As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirement under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these consolidated financial statements.

(v) *Transition*

As mentioned above, the Target Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). 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 Group 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 Group 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 consolidated statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Target Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Target Group has applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Target Group'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)-Int 4.

**(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 Group.

| | |
|---|---|
| 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 January 1, 2023
5 Effective for annual periods beginning on or after April 1, 2021

The Target Group 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 Group.

## 4. SIGNIFICANT ACCOUNTING POLICIES

**(a) Business combination and basis of consolidation**

The consolidated financial statements comprise the financial statements of the Target Company and its subsidiaries (the "Target Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Target Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Target Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Target Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

**(b) Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Target Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Target Company's statements of profit or loss to the extent of dividends received and receivable. The Target Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are stated at cost less any impairment losses.

**(c) Land use rights**

Land use rights are up-front payments to acquire long-term interests in the usage of land. It is stated at cost and charged to the consolidated statement of comprehensive income over the remaining period of the lease on a straight-line basis, net of any impairment losses.

**(d) Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less accumulated depreciation and any accumulated impairment losses.

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

| | |
|---|---|
| Buildings and facilities | 5–30 years |
| Leasehold Improvements | 1.5–5 years |
| Furniture, fittings and equipment | 3–10 years |
| Machinery and equipment | 3–15 years |
| Motor vehicles | 4–10 years |

Where parts of an item of property, 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 property, 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 Group 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.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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 property, 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.

**(e) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and impairment losses, if any. Depreciation is recognised so as to write off the cost of the investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period in which the property is derecognised.

**(f) 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.

| | |
|---|---|
| Development cost | 10 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 Group 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 Group 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.

**(g) Government grants**

Government grants are not recognised until there is reasonable assurance that the Target Group 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 Group 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 Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**(h) 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 Group 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 Group 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 Group 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 Group accounts for land use right that are held for rental or capital appreciation purpose under HKAS 40 and are carried at cost, less any accumulated depreciation and any impairment losses. The Target Group accounts for land use right which is held for own use under HKAS 16 and are stated at cost and are amortised over the period of the lease. Other than the above right-of-use assets, the Target Group also has leased office premise under lease agreement which the Group exercises its judgement and determines that it is a separate class of asset apart from the land use right which is held for own use. As a result, the right-of-use asset arising from the office premise under a lease agreement is 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 Group shall use the Target Group'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 Group 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.

**(i) 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 Group as lessee***

Payments for land use right 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.

**(j) 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:

— Property, plant and equipment/investment property under cost model

— 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.

**(k) 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.

**(l) 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 ("**FVTPL**"), 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 Group 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 Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group 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 Group 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 Group recognises loss allowances for expected credit loss ("**ECL**") on trade receivables, deposits and other receivables 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 Group 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 Group in accordance with the contract and all the cash flows that the Target Group 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 Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

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

The Target Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group 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 Group 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 Group 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 Group'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 trade and other payables 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 Group 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.

**(m) *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 Group 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 Group'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 Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group 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 Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Target Group, 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 Group's revenue and other income recognition policies are as follows:

*Sale of medical device for blood purification*

Sale of medical device for blood purification are recognised when the customer takes possession of and accepts the products. This is usually taken as the time when the goods are delivered and the customer has accepted the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. There is generally only one performance obligation. Invoices are issued when the customer takes possession of and accepts the products and are usually payable within 120 days from the date of billing. No significant financial component existed. The transaction price is determined based on a stand-alone selling price specified in the contracts for advanced medical device for blood purification.

*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.

**(n) *Contract assets and liabilities***

A contract asset represents the Target Group's right to consideration in exchange for services that the Target Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

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

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

**(o) *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 Group can no longer withdraw the offer of those benefits and when it recognised restructuring costs involving the payment of termination benefits.

**(p) *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 Group 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 Group 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.

**(q)** ***Provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Group 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.

**(r)** ***Foreign currency***

Transactions entered into by Target Group 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 Group (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 Group's net investment are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

**(s)** ***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 Group 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 Group's cash management are included in cash and cash equivalents.

**(t)** ***Related parties***

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

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

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

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

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

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

(i) The entity and the Target Group 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 Group or an entity related to the Target Group.

(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 Group or the Target 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 Group 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 property, plant and equipment, investment property and intangible assets

Useful lives of the Target Group's property, plant and equipment, investment property 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 Group. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment, investment property 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 property, plant and equipment, investment property and intangible assets**

Property, plant and equipment, investment property 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 Group is mainly subject to income taxes in PRC. The Target Group 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 Group'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 trade receivables, deposits and other receivables**

The allowance for ECLs on the trade receivables, deposits and other receivables 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. 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 Group 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

For management purposes, the Target Group has only one reportable operating segment which is the research and development, manufacturing and sale of medical device for blood purification in the PRC. Since this is the only one reportable operating segment of the Target Group, no further operating segment analysis thereof is presented.

### (a) Geographical information

The Target Group's operations and non-current assets (the "**Non-Current Assets**") are located in the PRC. The following table provide analysis of the Target Group's revenue by geographical area:

***Revenue from external customers***

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| PRC | 93,956 | 131,180 | 178,903 | 107,277 | 138,897 |
| Asia | 2,447 | 12,226 | 26,665 | 20,581 | 14,732 |
| Americas | — | 3,090 | 5,462 | 3,539 | 4,573 |
| Africa | 36 | 63 | 167 | 108 | 1,609 |
| Europe | — | — | 8 | 1 | 387 |
| Other | 130 | 102 | 151 | 16 | 345 |
| | 96,569 | 146,661 | 211,356 | 131,522 | 160,543 |

The revenue information above is based on the location of customers.

### (b) Non-Current Assets

The Target Group's non-current assets are located in the PRC.

### (c) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Target Group's revenue for the Relevant Periods, is set out below:

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| Customer A | 19,292 | 35,642 | 27,656 | 24,514 | 9,163* |
| Customer B | 12,474 | N/A* | N/A* | N/A* | N/A* |

* The corresponding revenue of these customers is not disclosed as they individually did not contribute 10% or more of the Target Group's total gross revenue for the Relevant Periods.

## 7. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | | | | |
| Sale of medical device for blood purification | 96,569 | 146,661 | 211,356 | 131,522 | 160,543 |

Timing of revenue recognition:

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| — Recognised at a point of time | 96,569 | 146,661 | 211,356 | 131,522 | 160,543 |

**Other income, gains and losses, net**

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| Interest income | 46 | 123 | 1,400 | 745 | 265 |
| Rental income | 4,000 | 3,359 | 4,017 | 2,602 | 2,018 |
| Cost of rental income | (1,518) | (1,141) | (972) | (683) | (679) |
| Government grants *(Note)* | 1,650 | 1,408 | 4,521 | 1,676 | 3,628 |
| Loss on write off of property, plant and equipment | — | (248) | (365) | (39) | (478) |
| Loss on write off of inventory | (118) | — | (177) | (177) | (394) |
| Exchange loss/(gain), Net | (80) | 159 | (952) | 7 | 43 |
| Miscellaneous (expense)/income | (47) | 21 | (25) | 5 | 118 |
| | 3,933 | 3,681 | 7,447 | 4,136 | 4,521 |

*Note:* Government grants of approximately RMB1,650,000, RMB1,408,000 RMB3,642,000 and RMB1,654,000 for the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021 has been received from the PRC government authorities for financing research projects on medical device for blood purification, of which approximately RMB400,000, RMB493,000 RMB551,000 and RMB660,000 respectively was released from deferred revenue to profit or loss.

## 8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging the followings:

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| Auditors' remuneration | 485 | 504 | 317 | 250 | 390 |
| Raw material and consumable used | 54,010 | 38,015 | 93,153 | 31,169 | 63,548 |
| Depreciation of property, plant and equipment | 14,658 | 12,024 | 17,104 | 11,403 | 15,348 |
| Depreciation of right-of-use assets | — | 193 | 194 | 129 | 287 |
| Depreciation of land use rights | 193 | — | — | — | — |
| Depreciation of investment properties | 912 | 912 | 720 | 483 | 227 |
| Amortisation of intangible assets | 664 | 690 | 1,041 | 694 | 694 |
| Research and development costs | 4,155 | 3,692 | 5,348 | 3,714 | 5,121 |
| Salaries cost (including directors' remuneration)*: | | | | | |
| Salaries and bonuses | 10,584 | 11,542 | 13,664 | 8,408 | 12,058 |
| Contribution to defined contribution retirement plan | 956 | 1,077 | 602 | 346 | 1,082 |
| Other staff benefits | 1,028 | 1,248 | 1,841 | 1,141 | 1,601 |
| | 12,568 | 13,867 | 16,107 | 9,895 | 14,741 |

* Staff costs capitalised in development costs are approximately RMB1,214,000, RMB244,000, RMB306,000, RMB701,000 and RMB1,564,000 for the years ended 31 December 2018, 2019, 2020 and eight months ended 31 August 2020 and 2021 respectively.

## 9. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

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

| | Fees | Salaries and other benefits | Contributions to defined retirement plan | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2018** | | | | |
| *Executive directors* | | | | |
| 甘釋良 | — | — | — | — |
| 戴燕 | — | 459 | 19 | 478 |
| 朱祥凱 | — | — | — | — |
| 王滔 | — | 405 | — | 405 |
| 袁興紅 | — | — | — | — |
| | — | 864 | 19 | 883 |

| | Fees | Salaries and other benefits | Contributions to defined retirement plan | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2019** | | | | |
| *Executive directors* | | | | |
| 甘釋良 | — | — | — | — |
| 戴燕 | — | 462 | 17 | 479 |
| 朱祥凱 | — | — | — | — |
| 王滔 | — | 428 | — | 428 |
| 袁興紅 | — | — | — | — |
| | — | 890 | 17 | 907 |

| | Fees | Salaries and other benefits | Contributions to defined retirement plan | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2020** | | | | |
| *Executive directors* | | | | |
| 甘釋良 | — | — | — | — |
| 戴燕 | — | 549 | 5 | 554 |
| 朱祥凱 | — | — | — | — |
| 王滔 | — | 424 | — | 424 |
| 袁興紅 | — | — | — | — |
| | — | 973 | 5 | 978 |

| | Fees | Salaries and other benefits | Contributions to defined retirement plan | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Eight months ended 31 August 2020 (Unaudited)** | | | | |
| *Executive directors* | | | | |
| 甘釋良 | — | — | — | — |
| 戴燕 | — | 398 | 4 | 402 |
| 朱祥凱 | — | — | — | — |
| 王滔 | — | 248 | — | 248 |
| 袁興紅 | — | — | — | — |
| | — | 646 | 4 | 650 |

| | Fees | Salaries and other benefits | Contributions to defined retirement plan | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Eight months ended 31 August 2021** | | | | |
| *Executive directors* | | | | |
| 甘釋良 | — | — | — | — |
| 戴燕 | — | 304 | 8 | 312 |
| 朱祥凱 | — | — | — | — |
| 王滔 | — | 355 | — | 355 |
| 袁興紅 | — | — | — | — |
| | — | 659 | 8 | 667 |

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 Group to any director as an inducement to join or upon joining the Target Group or as compensation for loss of office.

**(b) The five highest paid individuals**

The five individuals whose emoluments were the highest in the Target Group for the Relevant Periods included 2, 2, 2, 2, 2 directors of the Target Company whose emoluments during the years ended 31 December 2018, 2019 and 2020 and each of the eight months ended 31 August 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 | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Salaries and bonus | 1,244 | 1,419 | 1,963 | 1,295 | 1,366 |
| Contributions to defined retirement plan | 19 | 28 | 9 | 6 | 18 |
| | 1,263 | 1,447 | 1,972 | 1,301 | 1,384 |

Their emoluments were within the following bands:

| | Number of employees | | | | |
|---|---|---|---|---|---|
| | Year ended 31 December | | | Eight months ended 31 August | |
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| RMBNil to RMB500,000 | 2 | 2 | 1 | 2 | 2 |
| RMB500,001 to RMB1,000,000 | 1 | 1 | 2 | 1 | 1 |

## 10. FINANCE COSTS

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| Interest on lease liabilities | — | — | — | — | 12 |

## 11. INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| **PRC Enterprise Income Tax** | | | | | |
| Current year | 50 | 5,318 | 11,488 | 6,518 | 8,588 |
| Under/(over) provision in respect of prior years | 1 | 8 | (2,789) | (2,789) | (495) |
| | 51 | 5,326 | 8,699 | 3,729 | 8,093 |

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the Target Group is 25% for the three years ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 and 2021, except for the following subsidiaries:

A subsidiary of the Target Company has been certified as new high technology enterprise in the PRC from 18 November 2013 and enjoyed a preferential enterprise income tax rate of 15% for the year ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 and 2021.

The remaining subsidiaries of the Target Company were qualified as small enterprise and are eligible for preferential tax rate for the year ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 and 2021.

(b) Income tax expense for the year/period can be reconciled to the accounting profit as follows:

| | Year ended 31 December | | | Eight months ended 31 August | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| Profit before income tax | 16,696 | 40,960 | 73,887 | 41,389 | 51,885 |
| Tax calculated at the rates applicable to profits in the tax jurisdictions concerned | 4,174 | 10,240 | 18,472 | 10,347 | 12,971 |
| Tax effect of non-deductible Items | 1,008 | 1,087 | 1,208 | 840 | 1,342 |
| Tax effects of non-taxable items | (63) | (5) | (115) | (4) | (53) |
| Tax effect of temporary difference not recognised | 89 | 1,199 | (102) | (35) | 181 |
| Tax effect of estimated tax losses not recognised | (4,304) | (2,481) | — | — | — |
| Tax effect of preferential tax rate | (854) | (4,722) | (7,975) | (4,630) | (5,853) |
| Under/(Over) provision in respect of previous year | 1 | 8 | (2,789) | (2,789) | (495) |
| Income tax expense | 51 | 5,326 | 8,699 | 3,729 | 8,093 |

(c) The Target Group had no significant deferred tax assets or liabilities at the end of the Relevant Periods.

As at 31 December 2018, 2019, 2020 and 31 August 2021, the Target Group had estimated unused tax losses of approximately RMB9,922,000, RMBNil, RMBNil and RMBNil respectively available for offset against future profits. 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. The tax losses may be carried back one year and carried forward indefinitely.

## 12. DIVIDENDS

No dividend was declared nor paid during the Relevant Periods.

## 13. LAND USE RIGHT

The Target Group's interests in land use right represent prepaid operating lease payment for land located in the PRC, the net book values of which are analysed as follows:

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| In the PRC, held on: | | | | |
| Leases of between 47 to 50 years | 8,826 | — | — | — |

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year/period | 9,019 | 8,826 | — | — |
| Amortisation charge | (193) | — | — | — |
| Transfer to right-to-use assets *(Note 2(a))* | — | (8,826) | — | — |
| At the end of year/period | 8,826 | — | — | — |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Building and facilities | Leasehold improvements | Furniture fittings and office equipment | Machinery and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2018** | | | | | | | |
| Cost | 42,622 | 3,842 | 1,439 | 104,090 | 500 | 28,363 | 180,856 |
| Accumulated depreciation | (2,839) | (512) | (683) | (21,950) | (225) | — | (26,209) |
| **Net book amount** | 39,783 | 3,330 | 756 | 82,140 | 275 | 28,363 | 154,647 |
| **Year ended 31 December 2018** | | | | | | | |
| Opening net book amount | 39,783 | 3,330 | 756 | 82,140 | 275 | 28,363 | 154,647 |
| Additions | — | — | 26 | 1,010 | — | 23,186 | 24,222 |
| Transfer from/to construction in progress | — | 854 | 146 | 25,606 | — | (26,606) | — |
| Written off | — | — | — | — | — | — | — |
| Depreciation | (1,431) | (794) | (335) | (12,047) | (51) | — | (14,658) |
| **Closing net book amount** | 38,352 | 3,390 | 593 | 96,709 | 224 | 24,943 | 164,211 |
| **At 31 December 2018** | | | | | | | |
| Cost | 42,622 | 4,696 | 920 | 128,126 | 500 | 24,943 | 201,807 |
| Accumulated depreciation | (4,270) | (1,306) | (327) | (31,417) | (276) | — | (37,596) |
| **Net book amount** | 38,352 | 3,390 | 593 | 96,709 | 224 | 24,943 | 164,211 |

| | Building and facilities *RMB'000* | Leasehold improvements *RMB'000* | Furniture fittings and office equipment *RMB'000* | Machinery and equipment *RMB'000* | Motor vehicles *RMB'000* | Construction in progress *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | | |
| Cost | 42,622 | 4,696 | 920 | 128,126 | 500 | 24,943 | 201,807 |
| Accumulated depreciation | (4,270) | (1,306) | (327) | (31,417) | (276) | — | (37,596) |
| **Net book amount** | 38,352 | 3,390 | 593 | 96,709 | 224 | 24,943 | 164,211 |
| **Year ended 31 December 2019** | | | | | | | |
| Opening net book amount | 38,352 | 3,390 | 593 | 96,709 | 224 | 24,943 | 164,211 |
| Additions | — | — | 43 | 1,338 | — | 22,387 | 23,768 |
| Transfer from/to construction in progress | 371 | — | — | (14,093) | — | 13,722 | — |
| Written off | — | (9) | (2) | (237) | — | — | (248) |
| Depreciation | (1,431) | (937) | (155) | (9,450) | (51) | — | (12,024) |
| **Closing net book amount** | 37,292 | 2,444 | 479 | 74,267 | 173 | 61,052 | 175,707 |
| **At 31 December 2019** | | | | | | | |
| Cost | 42,993 | 4,687 | 953 | 89,815 | 500 | 61,052 | 200,000 |
| Accumulated depreciation | (5,701) | (2,243) | (474) | (15,548) | (327) | — | (24,293) |
| **Net book amount** | 37,292 | 2,444 | 479 | 74,267 | 173 | 61,052 | 175,707 |
| **At 1 January 2020** | | | | | | | |
| Cost | 42,993 | 4,687 | 953 | 89,815 | 500 | 61,052 | 200,000 |
| Accumulated depreciation | (5,701) | (2,243) | (474) | (15,548) | (327) | — | (24,293) |
| **Net book amount** | 37,292 | 2,444 | 479 | 74,267 | 173 | 61,052 | 175,707 |
| **Year ended 31 December 2020** | | | | | | | |
| Opening net book amount | 37,292 | 2,444 | 479 | 74,267 | 173 | 61,052 | 175,707 |
| Additions | — | 1,450 | 99 | 380 | 36 | 29,112 | 31,077 |
| Transfer from/to construction in progress | 3,323 | 196 | 658 | 75,444 | — | (79,621) | — |
| Transfer from investment property | 4,963 | — | — | — | — | — | 4,963 |
| Written off | — | — | (10) | (285) | — | (70) | (365) |
| Depreciation | (1,668) | (1,157) | (175) | (14,061) | (43) | — | (17,104) |
| **Closing net book amount** | 43,910 | 2,933 | 1,051 | 135,745 | 166 | 10,473 | 194,278 |
| **At 31 December 2020** | | | | | | | |
| Cost | 52,042 | 6,333 | 1,564 | 164,687 | 536 | 10,473 | 235,635 |
| Accumulated depreciation | (8,132) | (3,400) | (513) | (28,942) | (370) | — | (41,357) |
| **Net book amount** | 43,910 | 2,933 | 1,051 | 135,745 | 166 | 10,473 | 194,278 |
| **At 1 January 2021** | | | | | | | |
| Cost | 52,042 | 6,333 | 1,564 | 164,687 | 536 | 10,473 | 235,635 |
| Accumulated depreciation | (8,132) | (3,400) | (513) | (28,942) | (370) | — | (41,357) |
| **Net book amount** | 43,910 | 2,933 | 1,051 | 135,745 | 166 | 10,473 | 194,278 |

| | Building and facilities | Leasehold improvements | Furniture fittings and office equipment | Machinery and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 August 2021** | | | | | | | |
| Opening net book amount | 43,910 | 2,933 | 1,051 | 135,745 | 166 | 10,473 | 194,278 |
| Additions | — | 76 | 39 | 477 | 43 | 60,244 | 60,879 |
| Transfer from/to construction in progress | — | — | — | 9,222 | — | (9,222) | — |
| Transfer from Investment property | 9,523 | — | — | — | — | — | 9,523 |
| Written off | — | — | — | (478) | — | — | (478) |
| Depreciation | (1,457) | (853) | (141) | (12,863) | (34) | — | (15,348) |
| **Closing net book amount** | 51,976 | 2,156 | 949 | 132,103 | 175 | 61,495 | 248,854 |
| **At 31 August 2021** | | | | | | | |
| Cost | 63,469 | 6,409 | 1,603 | 173,304 | 579 | 61,495 | 306,859 |
| Accumulated depreciation | (11,493) | (4,253) | (654) | (41,201) | (404) | — | (58,005) |
| **Net book amount** | 51,976 | 2,156 | 949 | 132,103 | 175 | 61,495 | 248,854 |

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

## 15. INVESTMENT PROPERTIES

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | |
| At the beginning of the year/period | 27,347 | 27,347 | 27,347 | 21,621 |
| Transferred to property, plant and equipment | — | — | (5,726) | (11,428) |
| At the end of the year/period | 27,347 | 27,347 | 21,621 | 10,193 |
| **Accumulated depreciation** | | | | |
| At the beginning of the year/period | 1,821 | 2,733 | 3,645 | 3,602 |
| Charge for the year/period | 912 | 912 | 720 | 227 |
| Transferred to property, plant and equipment | — | — | (763) | (1,904) |
| At the end of the year/period | 2,733 | 3,645 | 3,602 | 1,925 |
| **Net carrying value** | 24,614 | 23,702 | 18,019 | 8,268 |

The fair values of the Target Group's investment properties as at 31 December 2018, 2019, 2020 and 31 August 2021 amounted to approximately RMB28,230,000, RMB28,630,000, RMB20,740,000 and RMB10,070,000 respectively. The fair values of the investment properties have been arrived at on investment approach carried out by Flagship Appraisals and Consulting Limited, an independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued. The fair value of investment properties is a level 3 fair value measurement. Fair value is determined based on investment approach by taking into account the current passing rents of the investment properties being held under existing tenancies and the reversionary potential of the tenancies if they have been or would be let to tenants.

## 16. INTANGIBLE ASSETS

| | Development cost |
|---|---|
| | *RMB'000* |
| **At 1 January 2018** | |
| Cost | 7,227 |
| Accumulated amortisation | (675) |
| **Net book amount** | 6,552 |
| **Year ended 31 December 2018** | |
| Opening net book amount | 6,552 |
| Additions | 2,258 |
| Amortisation | (664) |
| **Closing net book amount** | 8,146 |
| **At 31 December 2018** | |
| Cost | 9,485 |
| Accumulated amortisation | (1,339) |
| **Net book amount** | 8,146 |
| **Year ended 31 December 2019** | |
| Opening net book amount | 8,146 |
| Additions | 1,149 |
| Amortisation | (690) |
| **Closing net book amount** | 8,605 |
| **At 31 December 2019** | |
| Cost | 10,634 |
| Accumulated amortisation | (2,029) |
| **Net book amount** | 8,605 |
| **Year ended 31 December 2020** | |
| Opening net book amount | 8,605 |
| Additions | 8,250 |
| Amortisation | (1,041) |
| **Closing net book amount** | 15,814 |
| **At 31 December 2020** | |
| Cost | 18,884 |
| Accumulated amortisation | (3,070) |
| **Net book amount** | 15,814 |
| **Year ended 31 August 2021** | |
| Opening net book amount | 15,814 |
| Additions | 2,783 |
| Amortisation | (694) |
| **Closing net book amount** | 17,903 |
| **At 31 August 2021** | |
| Cost | 21,667 |
| Accumulated amortisation | (3,764) |
| **Net book amount** | 17,903 |

## 17. INVENTORIES

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 5,940 | 5,643 | 10,146 | 16,495 |
| Work in progress | 22,262 | 17,608 | 8,576 | 11,546 |
| Finished goods | 34,441 | 27,857 | 32,485 | 51,193 |
| | 62,643 | 51,108 | 51,207 | 79,234 |

## 18. TRADE RECEIVABLES

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 816 | 6,250 | 12,164 | 13,216 |
| Less: Provision of expected credit loss | (6) | (31) | (97) | (128) |
| | 810 | 6,219 | 12,067 | 13,088 |

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of the Relevant Periods:

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 356 | 1,518 | 786 | 2,559 |
| 31–60 days | — | 1,192 | 3,127 | 1,562 |
| 61–90 days | — | 2,564 | 1,784 | 1,572 |
| Over 90 days | 454 | 945 | 6,370 | 7,395 |
| | 810 | 6,219 | 12,067 | 13,088 |

Trade receivables are due within 30–365 days from the date of billing.

The maximum exposure to credit risk at the reporting dates is the carrying amounts of the trade receivables. The Target Group does not hold any collateral as security.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Target Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movements in the loss allowance accounts in respect of trade receivables during each of the Relevant Periods are as follows:

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | |
| At the beginning of the year/period | — | 6 | 31 | 97 |
| Addition | 6 | 27 | 85 | 61 |
| Reversal | — | (2) | (19) | (30) |
| At the end of the year/period | 6 | 31 | 97 | 128 |

The following significant changes in the gross carrying amounts of trade receivables contributed to the changes in the loss allowances as of the reporting dates:

— Origination of new trade receivables net of those settled resulted in an increase in loss allowance of approximately RMB6,000, RMB25,000, RMB66,000 and RMB31,000 during the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021 respectively.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| **The Target Group** | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables | 1,134 | 1,282 | 1,289 | 1,505 |
| Prepayment | 6,458 | 12,570 | 18,867 | 20,701 |
| | 7,592 | 13,852 | 20,156 | 22,206 |

| **The Target Company** | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables | 8 | 10 | 7 | 9 |

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Target Group 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 28(a).

## 20. TRADE AND OTHER PAYABLES

| The Target Group | | As at 31 December | | | As at 31 August |
|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2021 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | *(a)* | 14,613 | 14,298 | 14,120 | 17,542 |
| Other payables and accruals | | 2,636 | 2,826 | 3,509 | 6,748 |
| Deferred revenue | | 540 | 540 | 607 | 607 |
| Classified under current liabilities | | 17,789 | 17,664 | 18,236 | 24,897 |
| Deferred revenue under non-current liabilities | | 7,850 | 7,467 | 6,549 | 6,144 |

| The Target Company | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other payables | 851 | 882 | 960 | 800 |
| Accruals | 287 | 609 | 675 | 698 |
| Other tax payables | 28 | 49 | 71 | 66 |
| | 1,166 | 1,540 | 1,706 | 1,564 |

(a) Average credit period granted to the Target Group is 15–30 days. Aging analysis of trade payables based on the invoice date (or date of cost recognition, if earlier) as of the end of the Relevant Periods is as follows:

| The Target Group | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–30 days | 5,004 | 6,792 | 4,358 | 5,683 |
| 31–90 days | 461 | 103 | 2,192 | 1,689 |
| Over 90 days | 9,148 | 7,403 | 7,570 | 10,170 |
| | 14,613 | 14,298 | 14,120 | 17,542 |

## 21. CONTRACT LIABILITIES

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Contract liabilities from sale of medical device for blood purification | 2,765 | 4,530 | 2,813 | 4,935 |

The amount represents unrecognised revenue in respect of payments received in advance for the rights of distribution in future periods.

Typical payment terms which impact the amount of contract liabilities are as follows:

**Sale of medical consumables**

The receipts in advance received from the customers remains as a contract liability until the goods have been transferred and accepted by the customer.

Movements in contract liabilities are as follows:

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/period | 1,636 | 2,765 | 3,233 | 2,730 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year/period | (1,636) | (2,765) | (3,233) | (2,730) |
| Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer | 2,765 | 4,530 | 2,813 | 4,935 |
| At the ending of year/period | 2,765 | 4,530 | 2,813 | 4,935 |

## 22. LEASE LIABILITIES

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(h).

**Nature of leasing activities (in the capacity as lessee)**

The Target Group leases land use right and office premise in the jurisdictions from which it operates. All property leases the periodic rent is fixed over the lease term.

| **Right-of-use Assets** | **Land use right** | **Office premise** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2019 recognised upon the application of HKFRS16 | 8,826 | — | 8,826 |
| Depreciation | (193) | — | (193) |
| At 31 December 2019 and 1 January 2020 | 8,633 | — | 8,633 |
| Depreciation | (194) | — | (194) |
| At 31 December 2020 and 1 January 2021 | 8,439 | — | 8,439 |
| Additions | — | 477 | 477 |
| Depreciation | (129) | (158) | (287) |
| At 31 August 2021 | 8,310 | 319 | 8,629 |

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

| | **As at 31 December** | | **As at 31 August** |
|---|---|---|---|
| | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Land use rights, carried at depreciated cost | 8,633 | 8,439 | 8,310 |
| Office premise, carried at depreciated cost | — | — | 319 |
| | 8,633 | 8,439 | 8,629 |

**Lease liability**

Movement of the Target Group's lease liabilities is analysed as follows:

| | **As at 31 August 2021** |
|---|---|
| | *RMB'000* |
| At the beginning of the year/period | — |
| Addition of new leases | 477 |
| Interest incurred | 12 |
| Repayment | (124) |
| Interest payment | (12) |
| At the end of the year/period | 353 |

Future lease payments are due as follows:

| | Minimum lease payments | Interest | Present value |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 August 2021** | | | |
| Not later than one year | 271 | 10 | 261 |
| Later than one year and not later than two years | 93 | 1 | 92 |
| | 364 | 11 | 353 |

The present value of future lease payments are analysed as:

| | As at 31 August 2021 |
|---|---|
| | *RMB'000* |
| Current | 261 |
| Non-current | 92 |
| | 353 |

**The Target Group as lessee**

The Target Group leases an office premise under operating leases with fixed rentals. Leases for properties are negotiated for terms ranging from two years.

**23. SHARE CAPITAL AND RESERVES**

**(a) Share capital**

| The Target Company | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Authorised capital | | | | |
| 291,800,000 ordinary shares of RMB1 each | 291,800 | 291,800 | 291,800 | 291,800 |
| Issued and fully paid | | | | |
| At the beginning and the end of the year/period | 291,800 | 291,800 | 291,800 | 291,800 |

| | As at 31 December 2018 '000 | 2019 '000 | 2020 '000 | As at 31 August 2021 '000 |
|---|---|---|---|---|
| Authorised capital | | | | |
| 291,800,000 ordinary shares of RMB1 each | 291,800 | 291,800 | 291,800 | 291,800 |
| Issued and fully paid | | | | |
| At the beginning and the end of the year/period | 291,800 | 291,800 | 291,800 | 291,800 |

**(b) Reverses**

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the year/period are set out below:

| **The Target Company** | **Statutory reserve** *RMB'000* | **Accumulated losses** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| At 1 January 2018 | 13,446 | (5,822) | 7,624 |
| Loss for the year | — | (3,777) | (3,777) |
| At 31 December 2018 and 1 January 2019 | 13,446 | (9,599) | 3,847 |
| Loss for the year | — | (4,323) | (4,323) |
| At 31 December 2019 and 1 January 2020 | 13,446 | (13,922) | (476) |
| Loss for the year | — | (4,371) | (4,371) |
| At 31 December 2020 and 1 January 2021 | 13,446 | (18,293) | (4,847) |
| Loss for the period | — | (3,266) | (3,266) |
| At 31 August 2021 | 13,446 | (21,559) | (8,113) |

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

***Statutory reserve***

In according to statutory requirement in PRC, the Target Company and its subsidiaries registered in PRC are required to place an amount equal to 10% of after-tax annual profits in a statutory reserve amount until the reserves reaches 50% of the equity capital.

**24. NON-CONTROLLING INTERESTS**

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the year/period | 17 | 19 | 20 | 21 |
| Profit for the year/period | 2 | 1 | 1 | 100 |
| At the end of the year/period | 19 | 20 | 21 | 121 |

**25. RELATED PARTY DISCLOSURES**

Saved for disclosed elsewhere in the Historical Financial Information, the Target Group has not entered into other material related party transactions during the Relevant Periods.

**26. CONTINGENT LIABILITIES**

At 31 December 2018, 2019 and 2020 and 31 August 2021, the Target Group did not have any contingent liabilities.

**27. CAPITAL RISK MANAGEMENT**

The Target Group's objective of managing capital is to safeguard the Target Group'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.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Target Group consists of equity attributable to owners of the Target Company only, comprising share capital and reserves.

**28. FINANCIAL RISK MANAGEMENT**

The Target Group's financial instruments are disclosed in Note 29(b). 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 Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

Impairment on trade receivables under the ECLs model is set out in Note 18.

The Target Group has adopted general approach to measure ECLs on deposits and other receivables and loans to a director and shareholders. Under the general approach, the Target Group 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 Group 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 Group's historical experience and informed credit risk assessment and including forward-looking information.

At the end of each reporting period, the Target Group assesses whether a financial asset is credit-impaired. The Target Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group 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 Group 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.

| | **2018** | **2019** | **2020** | **2021** |
|---|---|---|---|---|
| Expected credit loss rate (%) | 0.7 | 0.5 | 0.8 | 1.0 |
| Gross carrying amount (RMB'000) | 816 | 6,250 | 12,164 | 13,216 |
| Loss allowance (RMB'000) | 6 | 31 | 97 | 128 |

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables.

The Target Group has not recognised any impairment on deposits and other receivables as at 1 January 2018, 31 December 2018, 2019 and 2020 and 31 August 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.

The Target Group has certain concentration of credit risk on trade receivables as 53%, 46%, 25% and 27% of the total trade receivables respectively was due from the Target Group's major five customers as at 31 December 2018, 2019 and 2020 and 31 August 2021.

**(b) Liquidity risk**

The Target Group'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 Group'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 Group 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** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2018** | | | | |
| Trade and other payables | 15,337 | 15,337 | 15,337 | — |
| Lease liabilities | — | — | — | — |
| | 15,337 | 15,337 | 15,337 | — |

| | **Carrying Amount** | **Total contractual undiscounted cash flows** | **Within 1 year or on demand** | **More than 1 year but less than 2 years** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2019** | | | | |
| Trade and other payables | 15,200 | 15,200 | 15,200 | — |
| Lease liabilities | — | — | — | — |
| | 15,200 | 15,200 | 15,200 | — |

| | **Carrying Amount** | **Total contractual undiscounted cash flows** | **Within 1 year or on demand** | **More than 1 year but less than 2 years** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2020** | | | | |
| Trade and other payables | 15,353 | 15,353 | 15,353 | — |
| Lease liabilities | — | — | — | — |
| | 15,353 | 15,353 | 15,353 | — |

| | Carrying Amount | Total contractual undiscounted cash flows | Within 1 year or on demand | More than 1 year but less than 2 years |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 August 2021** | | | | |
| Trade and other payables | 19,377 | 19,377 | 19,377 | — |
| Lease liabilities | 353 | 363 | 271 | 92 |
| | 19,730 | 19,740 | 19,648 | 92 |

**(c) Foreign currency risk**

The Target Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily USD.

The following tables demonstrates the sensitivity as at the end of the Relevant Periods to a reasonably possible change in the exchange rate, with all other variables held constant, of the Target Group's profit/(loss) before income tax (due to changes in the fair value of monetary assets and liabilities).

| **At 31 December 2018** | Increase/(decrease) in foreign currency exchange rate | Increase/(decrease) in profit before income tax |
|---|---|---|
| | *%* | *RMB'000* |
| If RMB strengthens against United States dollar | 5 | 219 |
| If RMB weakens against United States dollar | 5 | (219) |

| **At 31 December 2019** | Increase/(decrease) in foreign currency exchange rate | Increase/(decrease) in profit before income tax |
|---|---|---|
| | *%* | *RMB'000* |
| If RMB strengthens against United States dollar | 5 | 2 |
| If RMB weakens against United States dollar | 5 | (2) |

| **At 31 December 2020** | Increase/(decrease) in foreign currency exchange rate | Increase/(decrease) in profit before income tax |
|---|---|---|
| | *%* | *RMB'000* |
| If RMB strengthens against United States dollar | 5 | (162) |
| If RMB weakens against United States dollar | 5 | 162 |
| If RMB strengthens against yen | 5 | (149) |
| If RMB weakens against yen | 5 | 149 |

| At 31 August 2021 | Increase/(decrease) in foreign currency exchange rate | Increase/(decrease) in profit before income tax |
|---|---|---|
| | % | *RMB'000* |
| If RMB strengthens against United States dollar | 5 | (622) |
| If RMB weakens against United States dollar | 5 | 622 |

## 29. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

### (a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade receivables, deposits and other receivables, cash and bank balances, trade and other payables and lease liabilities.

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

### (b) Summary of financial assets and liabilities by categories

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| Financial assets measured at amortised cost: | | | | |
| Trade receivables | 810 | 6,219 | 12,067 | 13,088 |
| Deposits and other receivables | 1,134 | 1,282 | 1,289 | 1,505 |
| Cash and bank balances | 29,394 | 57,485 | 89,584 | 63,539 |
| | 31,338 | 64,986 | 102,940 | 78,132 |

| | As at 31 December | | | As at 31 August |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost: | | | | |
| Trade payables | 14,613 | 14,298 | 14,120 | 17,542 |
| Other payables | 724 | 902 | 1,233 | 1,835 |
| Lease liabilities | — | — | — | 353 |
| | 15,337 | 15,200 | 15,353 | 19,730 |

## 30. INVESTMENTS IN SUBSIDIARIES

As at the date of this report, the particulars of the subsidiaries in which the Target Company has direct or indirect interests are set out as follows:

| Name of company | Form of business structure | Place of incorporation/ operation | Issued registered capital | Effective interest held by the Target Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| 成都歐賽醫療器械有限公司 | Limited liability company | the PRC | RMB20,000,000 | 100.00% | | The R&D, manufacturing and sales of medical device for blood purification |
| 成都睿爾科維醫療器械有限責任公司 | Limited liability company | the PRC | RMB5,000,000 | 100.00% | | Investment holding |
| 北京睿爾康健康管理有限公司 | Limited liability company | the PRC | RMB50,000,000 | 70.00% | | Investment holding |
| 北京睿爾健健康管理有限公司 | Limited liability company | the PRC | RMB20,000,000 | 70.00% | | Dormant |
| 成都慕道爾精密模塑有限公司 | Limited liability company | the PRC | RMB10,000,000 | | 100.00% | The R&D, manufacturing and sales of medical device for blood purification |
| 廣州市賽諾康醫療器械有限公司 | Limited liability company | the PRC | RMB30,000,000 | | 94.75% | The R&D of medical device for blood purification |
| 成都睿爾凱健康管理有限公司 | Limited liability company | the PRC | RMB15,000,000 | | 70.00% | Dormant |

The amount due from subsidiaries is unsecured, interest-free and repayable on demand.

## 31. NOTE SUPPORTING THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

| | **Lease liabilities** *(Note 22)* *RMB'000* |
|---|---|
| As at 1 January 2018, 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020 and 1 January 2021 | — |
| Changes from financing cash flow: | |
| Payment of lease liabilities | (124) |
| Interest paid | (12) |
| Total changes from financing cash flows | (136) |
| Other change: | |
| Addition of office premise | 477 |
| Interest expense | 12 |
| | 489 |
| As at 31 August 2021 | 353 |

## III. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 August 2021.

*Set out below is the management discussion and analysis of the Target Company for each of the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021. The following financial information is based on the financial information of the Target Company as set out in Appendix III to this Circular.*

**BUSINESS REVIEW**

The Target Company is a joint stock company with limited liability established in the PRC on August 6, 2013. It has a registered capital of RMB291.8 million as of the Latest Practicable Date. The Target Company is a medical device company, principally engaged in the R&D, manufacturing and sales of medical device for blood purification.

The products of the Target Company include, but not limited to, low-flux hemodialyzer (低通量血液透析器), high-flux hemodialyzer (高通量血液透析器), hollow fiber hemodialysis filter (中空纖維膜血液透析濾過器), and hollow fiber hemodialyzer (中空纖維膜血液透析器). The Target Company's products were primarily sold via distributors to medical service providers such as hospitals and blood purification centers in China for blood purification treatment of various kidney and blood-related disease patients. The Target Company have obtained all requisite licenses from the relevant government authorities that are material for its business operations, including the Medical Device Operation License (醫療器械經營許可證), the Medical Device Production License (醫療器械生產許可證) and Export and Sales Certificate of Medical Device Products (醫療器械產品出口銷售證明).

As at 31 October, 2021, the Target Company had 27 patents for its blood purification product technology and/or usage and it had 444 employees in China. The patents of the Target Company will expire on the dates ranging from August 28, 2023 to August 21, 2038. 23 out of 27 patents will expire after 2025. The protection period is 20 years for an invention patent and 10 years for a utility model patent, commencing from their respective application dates. Once the patent expires, it will become available to the public to freely use, redesign, and market without the original patent owner's permission. The expiry of the patents of the Target Company would not have material adverse effect on the business and operation of the Target Company based on the followings: (i) the underlying technology of the expired patent would fall behind the latest technology development in 10 or 20 years; and (ii) the Target Company can effectively manage its patent portfolio and it will continuously work on the development of new technology or utility and obtain patent protection. As of the Latest Practicable Date, the Target Company had 10 pending patent application.

The Target Company will (i) strive to promote the penetration of hemodialyzer in China, (ii) promote the marketing and distribution of its new product, disposable hemoperfutor (一次性使用血液灌流器), (iii) continue to focus on R&D on its pipeline products so as to advance those products to commercialization, such as hollow fiber dialyzer (中空纖維透析器) and disposable vascular access for hemodialysis (一次性使用血液透析管路), and (iv) expand its production capacity to meet the demands brought by the expected business growth.

## LICENSING REQUIREMENT FOR THE PRINCIPAL BUSINESS OF THE TARGET COMPANY

### Registration and Filings of Medical Device Products

Pursuant to the Regulations on the Supervision and Administration of Medical Devices and the Measures for the Administration of Registration of Medical Devices (《醫療器械註冊管理辦法》) promulgated by the former CFDA on July 30, 2014 and came into effect on October 1, 2014, for the filings of the medical device products of Class I, the parties undergoing the filings of medical devices shall submit the filing materials to the drug supervision and administration departments of the respective local people's government at the city level. In case of any amendment to matters stated in the filings, such amendment shall be filed with the original filing department. Class II and Class III medical devices are subject to product registration management. Medical devices of Class II shall be examined by drug supervision and administration departments of the people's governments of the provinces, autonomous regions or municipality. Medical devices of Class III shall be examined by the drug supervision and administration departments of the State Council. A registration certificate for such medical device shall be issued upon approval.

### Medical Device Production Permit

According to the Regulations on Supervision of Medical Devices, in addition to the required medical device registration certificates, a producer of medical devices shall file a record with or obtain a production license from drug supervision and administration departments of local people's governments at the corresponding level before commencing production. The medical device production license is valid for five years. Where the period of validity for the license needs to be extended upon expiry, the procedures for such extension shall be handled in accordance with the provisions of relevant laws on administrative licensing.

### Permit for Medical Device Operation

According to the Administrative Measures for Supervision of the Operation of Medical Devices (《醫療器械經營監督管理辦法》), which was promulgated by the former CFDA and came into effect on November 17, 2017, an enterprise engaging in the operation of medical devices shall have business premises and storage conditions suitable for the operation scale and business scope, as well as quality management system and quality management institution or quality management personnel suitable for the medical devices it operates. Where an enterprise is engaged in the operation of Class II medical devices, it shall file with the food and drug supervision and administration department of the people's government of the city with districts where it is located, and provide evidence that it meets the relevant conditions for engaging in the operation of medical devices; where an enterprise is engaged in the operation of Class III medical devices, it shall apply to the food and drug supervision and administration department of the people's government of the city with districts where it is located for operation license, and provide evidence that it meets the relevant conditions for engaging in the operation of medical devices.

The food and drug supervision and administration department that accepts the application for operation license shall issue a medical device operation license for enterprises that meet the prescribed conditions, and the medical device operation license shall be valid for five years. Where the period of validity for the license needs to be extended upon expiry, the procedures for such extension shall be handled in accordance with the provisions of relevant laws on administrative licensing. Enterprises engaging in medical device business shall not operate medical devices that have not been registered or filed, do not have qualified certification documents, or whose certification documents have outdated or lapsed or have been revoked.

**Export Registration of Medical Devices**

The Administrative Measures for the Supervision of the Production of Medical Devices stipulates that the manufacturer of the medical devices for export shall ensure that the medical devices it produces meet the requirements of the importing country (region) and shall file the product information with the local municipal food and drug supervision and administration department. Pursuant to the Administrative Provisions on the Export and Sales Certificate of Medical Device Products (《醫療器械產品出口銷售證明管理規定》) promulgated by the former CFDA on June 1, 2015 which took effect on September 1, 2015, where the registration certificate and the production permit certificate for medical device products have been obtained or the filing for medical device products and the production filing have been completed in the PRC, the food and drug administration authority may issue the Export and Sales Certificate for Medical Device Products to the relevant production enterprise. The validity period of the Export and Sales Certificate of Medical Device Products shall not exceed the deadlines of the certificates submitted by the enterprises in the application materials, whichever is the earliest, and shall not exceed two years.

**FINANCIAL REVIEW**

**(a) Financial performance**

***Revenue***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the revenue of the Target Company was approximately RMB96.6 million, RMB146.7 million, RMB211.4 million and RMB160.5 million, respectively. The revenue has increased by approximately 51.9% from 2018 to 2019 and approximately 44.1% from 2019 to 2020 as the Target Company has successfully increased its market shares of a growing sector during the relevant periods by providing satisfactory products to its customers.

***Cost of sales***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the cost of sales of the Target Company was approximately RMB59.2 million, RMB78.8 million, RMB109.4 million and RMB80.9 million, respectively. The cost of sales has increased by approximately 33.2% from 2018 to 2019 and approximately 38.8% from 2019 to 2020, which was in line with the business growth of the Target Company.

***Gross profit***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the gross profit of the Target Company was approximately RMB37.4 million, RMB67.8 million, RMB102.0 million and RMB79.7 million, respectively. The gross profit has increased by approximately 81.3% from 2018 to 2019 and approximately 50.3% from 2019 to 2020, which was in line with the business growth of the Target Company.

***Selling and distribution expenses***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the selling and distribution expenses of the Target Company were approximately RMB9.8 million, RMB15.7 million, RMB16.5 million and RMB15.0 million, respectively. The selling and distribution expense has increased by approximately 60.4% from 2018 to 2019, which was in line with the business growth of the Target Company. The selling and distribution expense remained largely stable in 2019 and 2020.

***Administrative expenses***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the administrative expenses of the Target Company were approximately RMB10.7 million, RMB11.2 million, RMB13.7 million and RMB12.2 million, respectively. The administrative expense remained largely stable in 2018 and 2019. The administrative expense has increased by approximately 22.1% from 2019 to 2020, which was primarily attributable to the administrative expense relating to the property paid to the government in 2020 amounting to approximately RMB1.5 million.

***Profit before income tax***

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the profit before income tax of the Target Company was approximately RMB16.7 million, RMB41.0 million, RMB73.9 million and RMB51.9 million, respectively. The profit before tax has increased by approximately 145.3% from 2018 to 2019 and 80.4% from 2019 to 2020 as the Target Company was able to maximize the utilization of its existing resources, identify opportunities with better profitability and improve its cost control.

**(b) Liquidity and financial resources**

As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the current ratio of the Target Company was approximately 4.88, 5.27, 7.09 and 5.38, respectively.

The Target Company financed working capital and capital expenditures principally through cash generated from operating activities. As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the cash and cash equivalents of the Target Company were approximately RMB29.4 million, RMB57.5 million, RMB89.6 million and RMB63.5 million, respectively. As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the Target Company had no loans.

**(c) Capital structure**

As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the total assets of the Target Company were approximately RMB306.2 million, RMB345.3 million, RMB409.6 million and RMB461.7 million, respectively.

As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the total liabilities of the Target Company were approximately RMB28.5 million, RMB31.9 million, RMB31.0 million and RMB39.3 million, respectively.

**(d) Gearing ratio**

As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the gearing ratio (total liabilities/total assets × 100%) of the Target Company was approximately 9.3%, 9.2%, 7.6% and 8.5%, respectively.

**(e) Contingent liabilities**

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

**(f) Financial risk management**

For the three years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the Target Company was mainly exposed to credit, liquidity and foreign currency risks arising 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 Notes 28 of the Accountant's Report of the Target Company as set out in Appendix II to this circular.

The Target Company's transactions are denominated in RMB and US$. The management is aware of the possible foreign currency risk exposure of the Target Company due to the fluctuation of RMB and will closely monitor its impact on the performance of the Target Group and hedge its currency risk when appropriate. As at the Latest Practicable Date, the Target Company has not entered into any financial instrument for foreign currency hedging purpose.

**(g) Significant investment**

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

**(h) Charge of assets**

As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, the Target Company did not have any charge of assets.

**(i) Employees and remuneration policy**

The Target Company had 261, 247, 388 and 455 employees as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 August 2021, respectively.

The total remuneration paid to the Target Company's employees for the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021 was approximately RMB12.6 million, RMB13.9 million, RMB16.1 million and RMB14.7 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 years ended 31 December 2018, 31 December 2019 and 31 December 2020, and the eight months ended 31 August 2021, the Target Company did not have any plans for material investment or capital assets.

**(k) Material Acquisition and Disposal**

During the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 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, the financial information of the Target Group 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 Target Company as at 31 August 2021 | Pro forma adjustments | | Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 3, 4)* | *(Note 5)* | |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 686,562 | 248,854 | | | 935,416 |
| Right-of-use assets | 22,205 | 8,629 | | | 30,834 |
| Investment properties | 273,390 | 8,268 | | | 281,658 |
| Goodwill | — | — | 306,489 | | 306,489 |
| Intangible assets | 176,290 | 17,903 | 267,562 | | 461,755 |
| Deferred income tax assets | 15,395 | — | | | 15,395 |
| Long-term prepayments | 10,577 | — | | | 10,577 |
| Loan receivable | 180,000 | — | | | 180,000 |
| Financial asset at fair value through other comprehensive income | 10,000 | — | | | 10,000 |
| | 1,374,419 | 283,654 | | | 2,232,124 |
| Current assets | | | | | |
| Inventories | 35,311 | 79,234 | | | 114,545 |
| Trade and other receivables | 132,764 | 35,294 | | | 168,058 |
| Cash and cash equivalents | 2,410,788 | 63,539 | (636,531) | (4,065) | 1,833,731 |
| | 2,578,863 | 178,067 | | | 2,116,334 |
| Total assets | 3,953,282 | 461,721 | | | 4,348,458 |
| Current liabilities | | | | | |
| Trade and other payables | 85,413 | 24,897 | | | 110,310 |
| Contract liabilities | — | 4,935 | | | 4,935 |
| Lease liabilities | 2,442 | 261 | | | 2,703 |
| Tax payables | 5,041 | 2,993 | | | 8,034 |
| | 92,896 | 33,086 | | | 125,982 |
| Total assets less current liabilities | 3,860,386 | 428,635 | | | 4,222,476 |
| Non-current liabilities | | | | | |
| Bank borrowings | 16,360 | — | | | 16,360 |
| Lease liabilities | — | 92 | | | 92 |
| Deferred tax liabilities | 2,111 | — | 42,820 | | 44,931 |
| Deferred government grants | 16,325 | 6,144 | | | 22,469 |
| | 34,796 | 6,236 | | | 83,852 |
| NET ASSETS | 3,825,590 | 422,399 | | | 4,138,624 |

*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 Target Group as at 31 August 2021 has been extracted from the accountants' report as set out in Appendix II to this Circular.

(3) Pursuant to the Agreement, the consideration for the Acquisition of 51% equity interest in the Target Company comprises cash consideration of approximately USD99,457,970 in equivalent to approximately RMB636,531,000. The consideration stated in United States Dollars translated into Renminbi at the approximately exchange rate of USD1.00 to RMB6.40, which was the prevailing exchange rate as at 31 August 2021 for illustration purpose only.

(4) 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 Group as at 31 August 2021 were estimated by the Directors with reference to the valuation performed by Flagship Appraisals and Consulting Limited, an independent professionally qualified valuer.

The carrying values and fair values of the identifiable assets and liabilities of the Target Group as at 31 August 2021 are as follows:

| | **Carrying value** | **Fair value recognised on acquisition** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Property, plant and equipment | 248,854 | 248,854 |
| Right-of-use assets | 8,629 | 8,629 |
| Investment properties | 8,268 | 8,268 |
| Intangible assets *(note i)* | 17,903 | 285,465 |
| Inventories | 79,234 | 79,234 |
| Trade and other receivables | 35,294 | 35,294 |
| Cash and cash equivalents | 63,539 | 63,539 |
| Trade and other payables | (31,041) | (31,041) |
| Contract liabilities | (4,935) | (4,935) |
| Lease liabilities | (353) | (353) |
| Tax payables | (2,993) | (2,993) |
| Deferred tax liabilities *(note ii)* | — | (42,820) |
| Total identifiable net assets | 422,399 | 647,141 |
| Non-controlling interests | | (317,099) |
| Goodwill on acquisition | | 306,489 |
| Total consideration *(note 3)* | | 636,531 |

*Notes:*

(i) The fair value of the intangible assets was estimated using the relief from royalty method under the income approach.

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

| | | |
|---|---|---|
| (i) | Royalty rate | 5.00% |
| (ii) | Discount rate | 14.09% |
| (iii) | Growth rate used to extrapolate cash flow projection | 2.00% |

Royalty rate — The royalty rate is a parameter in relief from royalty method which is determined based on 5.0% of revenue.

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

Growth rate used to extrapolate cash flow projection — The growth rate used is with reference to the average inflation rates in the relevant markets.

(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.

Since the fair values of the identifiable net assets of the Target Group 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.

(5) The adjustment represents estimated acquisition-related costs, including legal and professional fees and transaction costs of approximately RMB4,065,000 payable by the Group.

(6) Apart from the above, no other adjustment has been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 August 2021.

## B. 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-4 of Appendix IV of the circular dated 31 December 2021 (the "**Circular**") in connection with the proposed acquisition of 51% equity interest in the Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司) (the "**Target Company**") (the "**Acquisition**"). 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-4 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

31 December 2021

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with 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 and Chief Executive 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 the Latest Practicable Date.

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 (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 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,

(ii) 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**"),

(iii) 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,

(iv) 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

(v) 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. EXPERTS

(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 |
| Altus Capital Limited | a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO |

(b) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its report and/or letter and references to its name in the form and context in which it appears.

(c) As at the Latest Practicable Date, the above experts 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, the above experts 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 letter from the Board, the text of which is set out in this circular;

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

(iv) the letter from the Independent Financial Adviser, the text of which is set out in 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 written consent of the experts referred to in the paragraph headed "Expert" in this appendix; and

(vii) this circular.

*Pursuant to the Listing Rules, the details of the Director, who will retire and offer herself for re-election at the EGM, are provided below.*

**MS. WANG FENGLI**

**Position and experience**

**Ms. Wang Fengli ("Ms. Wang")**, aged 58, has been appointed as an independent non-executive Director, a member of both the Remuneration Committee and Nomination Committee of the Company with effect from August 1, 2021. Ms. Wang graduated from Northwest University of Political Science and Law (西北政法大學) with a Master's degree in Law in March 2006. She also graduated from Sichuan University with a Bachelor's degree in History in July 1985. Ms. Wang has worked in Northwest University of Political Science and Law starting from July 1985, and (i) served as an assistant teacher in the teaching research section of the Party History (黨史教研室) of Department of the Theory (理論系) of Northwest Institute of Politics and Law (西北政法學院) (now known as Northwest University of Political Science and Law) from July 1985 to December 1986; (ii) served as a lecturer in the teaching research section of the Party History of Department of the Theory of Northwest Institute of Political Science and Law from January 1987 to December 1991; (iii) was an associate professor and head of teaching research section of International Trade (國際貿易教研室) in the Department of Business Trading (經貿系) of Northwest University of Political Science and Law from January 1992 to December 2001; (iv) served as a professor in the Department of International Trade (國際貿易系) of the School of Economics (經濟學院) of Northwest University of Political Science and Law since December 2011; and (v) served as head of the Department of International Trade from December 2011 to December 2016. Ms. Wang currently serves as a professor in the Department of International Trade of the School of Economics of Northwest University of Political Science and Law as well as the person-in-charge of the programme of Master degree for International Commerce (國際商務專業) and is engaged in the teaching and research of International Commerce.

Ms. Wang has been providing training in business negotiation and business etiquette for various enterprises, and has published five master works and more than 30 relevant essays. Ms. Wang obtained the Education Certificate of Independent Director qualification (獨立董事資格教育證書) of Shenzhen Stock Exchange in August 2015. She was an independent director of Sunresin New Materials Co., Ltd, Xi'An. (西安藍曉科技新材料股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300487) from 2015 to April 2021.

Save as disclosed above, Ms. Wang has not held other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

**Length of service**

Pursuant to the existing letter of appointment issued by the Company to Ms. Wang, Ms. Wang's current term of office is 3 years from August 1, 2021, unless terminated by either party giving to the other not less than 3 months' prior notice in writing. Ms. Wang is also subject to retirement and re-election at annual general meeting of the Company in accordance with the Company's Articles of Association.

**Relationships**

As far as the Directors are aware, Ms. Wang does not have any relationships with other Directors, senior management, substantial Shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Company.

**Interests in Shares**

As far as the Directors are aware, as at the Latest Practicable Date, Ms. Wang was not interested or deemed to be interested in any shares or underlying shares of the Company or its associated corporations pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

**Director's emoluments**

Pursuant to the letter of appointment, Ms. Wang is entitled to an annual director's fee of HK$200,000, which has been determined with reference to her role and duties, as well as the prevailing market conditions. Ms. Wang is also eligible to participate in the Company's share option schemes. The emoluments of Ms. Wang are subject to revision in future by the decision of the Board based on the recommendation of the Company's remuneration committee.

**Other information and matters that need to be disclosed or brought to the attention of the Shareholders**

As far as the Directors are aware, there is no other information of Ms. Wang to be disclosed pursuant to any of the requirements under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and there are no other matters concerning Ms. Wang that need to be brought to the attention of the Shareholders.

# 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, January 21, 2022 at Building 1, No. 23 Panlong West Road, Pinggu District, Beijing, the People's Republic of China for the purposes of considering and, if thought fit, passing the following resolutions:

## ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the share transfer agreement dated November 30, 2021 (the "**Share Transfer Agreement**") entered into between (i) Medcore Investment Limited (the "**Purchaser**"), 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 (collectively, the "**Vendors**"), and (iii) Sichuan Ruijian Medical Technology Co. Ltd. (四川睿健醫療科技股份有限公司) (the "**Target Company**"), and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified; and

   (b) any one director of the Company or the Purchaser 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 all such other documents and to take all such steps as the directors of the Company or the Purchaser 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 transactions contemplated thereunder."

2. "**THAT** Ms. Wang Fengli be re-elected as an independent non-executive director of the Company."

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

Hong Kong, December 31, 2021

*As at the date of this notice, the Board comprises one executive Director, namely, Ms. Yue'e Zhang; two non-executive Directors, namely, Mr. Jiang Liwei and Mr. Lin Junshan; and three independent non-executive Directors, namely, Mr. Wang Xiaogang, Mr. Chen Geng and Ms. Wang Fengli.*

*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, January 19, 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, January 18, 2022 to Friday, January 21, 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, January 17, 2022.