THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

HYGEIA

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6078)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTEREST IN ETERN GROUP LTD.

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

A letter from the Board is set out on pages 9 to 27 of this circular.

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

May 14, 2021

CONTENTS

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

"ACP Fund I"	Ascendent Capital Partners I, L.P., holding 100% equity interest in the Vendor
"Acquisition"	the acquisition of the entire equity interest in the Target Company and the transaction contemplated under the Share Purchase Agreement
"Amber Tree"	Amber Tree Holdings Limited, a BVI business company incorporated under the laws of the BVI on August 31, 2018 and indirectly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or is in effect in Hong Kong at any time between the hours of 8:00 a.m. and 5:00 p.m. on weekdays) on which commercial banks are generally open for business in Hong Kong and the PRC
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Century River"	Century River Holdings Limited, a BVI business company incorporated under the laws of BVI on August 31, 2018 and indirectly wholly-owned by Mr. Zhu, one of the Controlling Shareholders
"Century River Investment"	Century River Investment Holdings Limited, a BVI business company incorporated under the laws of BVI on April 16, 2019 and directly wholly-owned by Mr. Zhu, one of the Controlling Shareholders
"Class II" or "Class II hospital"	the regional hospital designated as Class II hospital by the NHFPC hospital classification system, typically having 100 to 500 beds, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions

"Class III" or "Class III hospital"	the largest and best regional hospitals designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds, as for a comprehensive hospital providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives
"Company"	Hygeia Healthcare Holdings Co., Limited (海吉亞醫療控股有限公司), an exempted company with limited liability incorporated under the laws of Cayman Islands on September 12, 2018, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition, as more particularly described under the paragraph "Completion" in this circular
"Conditions Precedent"	the conditions precedent to the Completion, as more particularly described under the paragraph "Conditions Precedent" in this circular
"Consideration"	USD267,132,781, being the USD equivalent of RMB1,734,600,000 (subject to the Post-Completion Adjustment) payable by the Purchaser to the Vendor as consideration pursuant to the Share Purchase Agreement, as more particularly described under the paragraph "Consideration" in this circular
"Contractual Arrangements"	the series of contractual arrangements, as the case may be, entered into by, among others, Xiangshang Investment, Hygeia Hospital Management, Gamma Star Tech and the VIE Hospitals, details of which are described in the section headed "Contractual Arrangements" in the Prospectus
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Zhu, Ms. Zhu, Century River Investment, Century River, Red Palm Investment, Red Palm and Amber Tree
"COVID-19"	novel coronavirus pneumonia
"Director(s)"	the director(s) of the Company

"Enlarged Group"	the Group as enlarged by the Acquisition
"Escrow Account"	the escrow account to be opened, maintained and operated in accordance with the Escrow Agreement
"Escrow Agent"	the escrow agent appointed by the Purchaser and the Vendor under the Escrow Agreement
"Escrow Agreement"	the escrow agreement entered into among the Purchaser, the Vendor and the Escrow Agent on April 25, 2021 for purpose of holding part of the Consideration payable by the Purchaser to the Vendor under the Share Purchase Agreement
"Facility Agreement"	the loan facility agreement entered into between the Purchaser (as the borrower) and Ping An Bank Co., Ltd. Shanghai Branch (as the lender) on April 25, 2021
"Fountain Grass"	Fountain Grass Investment Ltd, a limited liability company incorporated under the laws of Mauritius and an affiliate of Warburg Pincus LLC, one of the Company's pre-IPO investors
"Gamma Star Tech"	Shanghai Gamma Star Technology Development Co., Ltd. (上海伽瑪星科技發展有限公司), a limited liability company established in the PRC on May 20, 2004 and a wholly-owned subsidiary of the Company
"Global Offering"	the Hong Kong Public Offering and the International Offering as described in the Prospectus
"Group", "we", or "us"	the Company together with its subsidiaries
"HK Company"	Etern Healthcare (HK) Limited (永鼎醫療(香港)有限公司), a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hygeia Hospital Management"	Hygeia (Shanghai) Hospital Management Co., Ltd. (海吉亞(上海)醫院管理有限公司), a limited liability company established in the PRC on March 6, 2019, wholly-owned by Xiangshang Investment and a subsidiary of the Company by virtue of the Contractual Arrangements
"Independent Third Party(ies)"	person(s) who is(are) third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
"Latest Practicable Date"	May 7, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Long Stop Date"	being April 30, 2021, the fifth Business Day after signing of the Share Purchase Agreement
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Managed Hospitals"	Kaiyuan Jiehua Hospital (開遠解化醫院), Handan Renhe Hospital (邯鄲仁和醫院) and Handan Zhaotian Orthopedics Hospital (邯鄲兆田骨科醫院)
"Medical Insurance Center"	Suzhou City Wujiang District Medical Security Service Center (蘇州市吳江區醫療保障服務中心)
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Zhu"	Mr. Zhu Yiwen (朱義文), father of Ms. Zhu, the founder of the Group, the vice chairman of the Board, a non-executive Director and one of the Controlling Shareholders
"Ms. Zhu"	Ms. Zhu Jianqiao (朱劍喬), daughter of Mr. Zhu and one of the Controlling Shareholders

"NHFPC"	National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), currently known as National Health Commission of the PRC (中華人民共和國國家衛生健康委員會)
"percentage ratio"	the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
"Post-Completion Adjustment"	the adjustment to the Consideration, as more particularly described under the paragraph "Post-Completion Adjustment" in this circular
"PRC"	the People's Republic of China, and for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus of the Company published on June 16, 2020
"Purchaser"	the Company
"Red Palm"	Red Palm Holdings Limited, a BVI business company incorporated under the laws of BVI on August 31, 2018 and indirectly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"Red Palm Investment"	Red Palm Investment Holdings Limited, a BVI business company incorporated under the laws of BVI on April 16, 2019 and directly wholly-owned by Ms. Zhu, one of the Controlling Shareholders
"RMB"	Renminbi, the lawful currency of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Shanxian Hygeia Hospital"	Shanxian Hygeia Hospital Co., Ltd. (單縣海吉亞醫院有限公司) (formerly known as Shanxian Hygeia Hospital Investment Co., Ltd. (單縣海吉亞醫院投資有限公司)), a limited liability company established in the PRC on November 20, 2012 and a subsidiary of the Company

"Share(s)"	ordinary share(s) in the share capital of the Company with nominal value of USD0.00001
"Shareholder(s)"	holder(s) of the Shares
"Share Purchase Agreement"	the share purchase agreement entered into between the Purchaser and the Vendor on April 25, 2021 in relation to the purchase and sale of the entire equity interest in the Target Company, as more particularly described in the section headed "The Share Purchase Agreement" in this circular
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the same meaning ascribed to it in the Listing Rules
"Suzhou Canglang Hospital"	Suzhou Canglang Hospital Co., Ltd. (蘇州滄浪醫院有限公司), a limited liability company established in the PRC on March 23, 2015 and a subsidiary of the Company
"Suzhou Yongding Hospital"	Suzhou Yongding Hospital Co., Ltd. (蘇州永鼎醫院有限公司), a for-profit class II general hospital in Suzhou and owned as to 98% by the WFOE and 2% by the YD Minority Shareholder
"Target Company"	Etern Group Ltd., a company incorporated under the laws of the BVI and an investment holding company wholly-owned by the Vendor with its principal assets being its indirect investment in the 98% equity interest in Suzhou Yongding Hospital
"Target Group"	the Target Company and its subsidiaries
"United States"	the United States of America, its territories, possessions, and all areas subject to its jurisdiction
"USD"	US dollar, the lawful currency of the United States
"Vendor"	Ascendent Healthcare (Cayman) Limited, an exempted company incorporated in the Cayman Islands with limited liability on February 12, 2014 and is wholly-owned by ACP Fund I

"VIE Hospitals"	collectively, Shanxian Hygeia Hospital, Heze Hygeia Hospital Co., Ltd. (菏澤海吉亞醫院有限公司), Suzhou Canglang Hospital, Chongqing Hygeia Cancer Hospital Co., Ltd. (重慶海吉亞腫瘤醫院有限公司), Longyan Boai Hospital Co., Ltd. (龍岩市博愛醫院有限公司), Chengwu Hygeia Hospital Co., Ltd. (成武海吉亞醫院有限公司), Anqiu Hygeia Hospital Co., Ltd. (安丘海吉亞醫院有限公司), Liaocheng Hygeia Hospital Co., Ltd. (聊城海吉亞醫院有限公司), Dezhou Hygeia Hospital Co., Ltd. (德州海吉亞醫院有限公司) and Wuxi Hygeia Hospital Co., Ltd. (無錫海吉亞醫院有限公司)
"WFOE"	Suzhou Yongding Healthcare Management and Service Co., Ltd. (蘇州永鼎醫療管理服務有限公司), a limited liability company established in the PRC on February 10, 2014, which is wholly owned by the Target Company through the HK Company and is holding 98% equity interest in Suzhou Yongding Hospital
"Xiangshang Investment"	Shanghai Xiangshang Investment Development Co., Ltd. (上海向上投資發展有限公司), a limited liability company established in the PRC on September 1, 2015 and owned by Mr. Zhu and Ms. Zhu as to 40% and 60%, respectively
"YD Minority Shareholder"	Suzhou Wujiang Eastern State Capital Investment Management Co., Ltd. (蘇州市吳江東方國有資本投資經營有限公司), a wholly state-owned limited liability company established in the PRC on November 9, 2001 and is holding 2% equity interest in Suzhou Yongding Hospital
"%"	per cent

In this circular, unless the context otherwise requires, the terms "applicable percentage ratio", "associate(s)", "close associate(s)", "connected person(s)", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

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

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

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6078)

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

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

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

Registered Office:
Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

Headquarters in the PRC:
Suites 702-707
Enterprise Square
No. 228 Meiyuan Road
Jing'an District, Shanghai
the PRC

Principal Place of Business in Hong Kong:
40/F, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

May 14, 2021

To the Shareholders

Dear Sir and Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTEREST IN ETERN GROUP LTD.

A. INTRODUCTION

Reference is made to the announcement of the Company dated April 25, 2021, in relation to, among other things, the Share Purchase Agreement and the Acquisition contemplated thereunder.

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

B. THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are summarized below:

Date

April 25, 2021

Parties

(1) the Company, as the Purchaser; and

(2) Ascendent Healthcare (Cayman) Limited, as the Vendor

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

Subject Matter

Pursuant to the Share Purchase Agreement, the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the entire equity interest in the Target Company.

As of the date of the Share Purchase Agreement, the Vendor directly held 100% equity interest in the Target Company, which indirectly held 98% equity interest in Suzhou Yongding Hospital, and the remaining 2% equity interest in Suzhou Yongding Hospital was held by the YD Minority Shareholder, another Independent Third Party. Upon the Completion, the Target Company becomes a direct wholly-owned subsidiary of the Company and Suzhou Yongding Hospital becomes an indirect non-wholly-owned subsidiary of the Company, and the financial results of the Target Group are consolidated into the financial statements of the Group.

For details of the shareholding structure of the Target Group before and after the Completion, please refer to the section headed "General Information on the Parties – Information of the Target Group" below.

Consideration

Pursuant to the Share Purchase Agreement, the Consideration shall be USD267,132,781, being the USD equivalent of RMB1,734,600,000 (subject to the Post-Completion Adjustment), which shall be satisfied by cash.

Of the Consideration, USD152,000,000 will be funded by the external loan facilities provided under the Facility Agreement, approximately USD92,465,568 will be funded by the full amount of the net proceeds from the Global Offering which has been allocated for the purpose of acquiring hospitals, and the remaining amount, being approximately USD22,667,213 (subject to the Post-Completion Adjustment), will be funded by the internal resources of the Group. For details of the Facility Agreement, please refer to the section headed "The Facility Agreement" below.

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor after the Purchaser's due diligence on the Target Group and with reference to, among other things, (i) the recent financial position and historical financial performance of the Target Group; (ii) the regional advantages, business prospects and future growth of Suzhou Yongding Hospital, including its expansion potential in terms of the number of beds, land resources and other service capacities; and (iii) the strategic benefits and potential synergies to be derived by the Group from the Acquisition.

In order to assess the fairness and reasonableness of the Consideration, the Company has carried out an analysis based on comparable companies and comparable transactions, respectively.

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

Name	Stock Code	Principal Business Activities	P/E Multiples[(1)]
Jinxin Fertility Group Limited	1951.HK	Provision of assisted reproductive services	106.6[(2)]

Name	Stock Code	Principal Business Activities	P/E Multiples[(1)]
Aier Eye Hospital Group Co., Ltd.	300015.SZ	Provision of ophthalmic healthcare services	166.9
Topchoice Medical Co., Inc.	600763.SH	Provision of dental healthcare services	196.6
Hygeia Healthcare Holdings Co., Limited	6078.HK	Provision of oncology healthcare services	99.9[(3)]
Wenzhou Kangning Hospital Co., Ltd.	2120.HK	Provision of psychiatry healthcare services	27.0

Notes:

(1) The P/E Multiples of the Comparable Companies are calculated by dividing the price per share as of April 23, 2021 (being the last trading day prior to the date of the Share Purchase Agreement) by the basic earnings per share of the latest financial year.

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

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

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

Comparable Companies, based on the above criteria, are exhaustive and could serve as fair and representative samples for the purpose of the Acquisition.

The maximum Consideration for the Acquisition reflects a P/E Multiple of 28.7 times, which is significantly lower than the average P/E Multiple of the Comparable Companies of 119.4 times, and the Company considers that this reflects disparity between the Target Group in terms of size and scale of business, the scope of service offerings as well as the publicly trading nature of the securities of the Comparable Companies.

For comparable transactions analysis, the Company has identified and reviewed, to the best of its knowledge and ability, the P/E Multiples represented by the comparable acquisitions (the "**Comparable Transactions**") that met the following criteria: (i) acquisitions of target companies primarily engaging in provision of healthcare services in the PRC that were completed in the past two years as of the date of the Share Purchase Agreement with transaction particulars publicly available; (ii) the target company were profitable at the time of the relevant acquisition; and (iii) the target company will be held by more than 50% by the purchaser after the relevant acquisition. Details of the Comparable Transactions are set out as below:

Purchaser	Stock Code	Name of the Target Company	Date of the Transaction	Percentage Acquired	P/E Multiples(1)
China Resources Medical Holdings Company Limited	1515.HK	Sinophi China Hospitals Limited	March 28, 2021	99.19%	88.0
China Resources Medical Holdings Company Limited	1515.HK	Jinan Zhong Qi Hospital Company Limited	August 21, 2020	25% (2)	139.9
Ningbo Sanxing Medical Electric Co., Ltd.(3)	601567.SH	Nanchang Mingzhou Rehabilitation Hospital Company Limited	April 2, 2021	100%	20.0
Ningbo Sanxing Medical Electric Co., Ltd.(3)	601567.SH	Nanjing Mingzhou Rehabilitation Hospital Company Limited	April 2, 2021	100%	15.4
Ningbo Sanxing Medical Electric Co., Ltd.(3)	601567.SH	Hangzhou Mingzhou Brain Rehabilitation Hospital Company Limited	April 2, 2021	100%	13.3

Purchaser	Stock Code	Name of the Target Company	Date of the Transaction	Percentage Acquired	P/E Multiples[(1)]
Aier Eye Hospital Group Co., Ltd.	300015.SZ	Dali Huashan Eye Hospital Company Limited	December 10, 2020	70%	16.5
Zhejiang Shapuaisi Pharmaceutical Co., Ltd.[(3)]	603168.SH	Taizhou Women and Children Hospital Company Limited	September 30, 2020	100%	17.3
Suzhou Medical System Co., Ltd.	603990.SH	Haikou Mary Hospital Company Limited	September 27, 2019	51%	15.0
Suzhou Medical System Co., Ltd.[(3)]	603990.SH	Haikou Mary Hospital Company Limited	February 5, 2021	49%	16.9

Notes:

(1) The P/E Multiples of the Comparable Transactions are calculated by dividing the valuation of the target company by its net profit of the latest financial year.

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

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

The Board noted that the range of the P/E Multiples of the Comparable Transactions is broad and believes that this reflects disparity among the Comparable Transactions in terms of size and scale of business of the target company, the scope of service offerings of the target company and whether the acquisition was a related party transaction, or a transaction with an independent third party. Comparable Transactions with relatively lower P/E Multiples may involve target companies with size and scale of business not comparable to the Target Group or are related party transactions. The Board considers the above analysis is sufficient and meaningful for the Board to form an observation and meaningful comparison with the Acquisition. To the best knowledge and information of the Directors, the P/E Multiples of the Comparable Transactions, based on the above criteria, are exhaustive and could serve as fair and representative samples for the purpose of the Acquisition.

The maximum Consideration for the Acquisition reflects a P/E Multiple of 28.7 times, which is lower than the average P/E Multiple of the Comparable Transactions of 38.0 times, and the Company considers the Consideration for the Acquisitions fair and reasonable.

For the avoidance of doubt, in determining the Consideration, no reference was made to the net asset value of the Target Group as it only considers the book value of the Target Group's tangible asset, while the intangible value and profitability of the Target Group is not captured. The Board believes that it is common practice to determine the Consideration based on the profit (*e.g.,* P/E Multiple) instead of the net asset value of a profit-making company with positive cash flow recurring from its ordinary course of business like the Target Group.

In arriving at the Consideration, the historical and recent circumstances of the Target Group, such as its operation, financial position and performance were, among others, taken into account of by the Company. The Directors have also carefully assessed the business prospects and growth potential of Suzhou Yongding Hospital, and consider that the Acquisition could bring outstanding synergy effects for both the Group and Suzhou Yongding Hospital and improve the hospital's profit margins by integrating it to the Group's centralized and standardized management system. For example, the Group's centralized procurement channel could further enhance the procurement efficiency and reduce the procurement cost for Suzhou Yongding Hospital. The Group's oncology specialties could provide support for developing Suzhou Yongding Hospital's multi-disciplinary oncology diagnosis and treatment businesses to increase its revenue level. The Group's logistical support could also help reduce Suzhou Yongding Hospital's expenses and further improve its overall operational efficiency to better serve for patients. In addition, Suzhou Yongding Hospital has academic accumulations in oncology and hematology departments, and has nearly 500 beds and 30 thousand sq.m. space to be developed, which provide for great opportunity and room for the Group to expand its multi-disciplinary oncology business. The Directors believe that revenue of Suzhou Yongding Hospital would grow steadily and rapidly after the Acquisition. For further details, please see the section headed "Reasons for and Benefits of the Acquisition" below.

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

Payment Terms

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

(1) 2% of the Consideration (the "**Deposit**") shall be paid by the Purchaser by wire transfer to the bank account designated by the Vendor as the deposit within one Business Day after the Purchaser has obtained the written Shareholders' approval from a closely allied group of the Shareholders, who together hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting of the Purchaser to approve the Acquisition pursuant to the Listing Rules, which shall be applied towards the payment of the Consideration at Completion;

(2) 83% of the Consideration (the "**Completion Payment**") shall be paid by the Purchaser by wire transfer to the bank account designated by the Vendor at Completion;

(3) 13% of the Consideration (the "**Escrow Amount**") shall be deposited by the Purchaser into the Escrow Account at Completion, out of which 10% of the Consideration (the "**Post-Completion First Payment**") shall be released, pursuant to the Escrow Agreement, by the Escrow Agent to the bank account designated by the Vendor after receiving instructions from both the Purchaser and the Vendor, which instructions shall be given within the earlier to occur of (i) two Business Days after the Target Group completes the administrative procedures as agreed by the Purchaser and the Vendor, including but not limited to, information updates of the filing records and operating licenses with the competent governmental authorities of the Target Group, or (ii) twenty Business Days after the date of the Completion; and

(4) the remaining balance of the Consideration (the "**Post-Completion Last Payment**"), comprising all the remaining amount in the Escrow Account and 2% of the Consideration (subject to the Post-Completion Adjustment), shall be released by the Escrow Agent after receiving instructions from both the Purchaser and the Vendor pursuant to the Escrow Agreement (in respect of the remaining amount in the Escrow Account) and be paid by the Purchaser (in respect of the 2% of the Consideration after adjusting for the Post-Completion Adjustment where applicable), by wire transfer to the bank account designated by the Vendor on or before December 31, 2021, which is subject to deduction of any indemnification amount that the Vendor is obliged to pay to the Purchaser and settlement of all disputed indemnification amount (if any) pursuant to the Share Purchase Agreement.

As of the Latest Practicable Date, the Deposit and the Completion Payment had been paid by the Purchaser to the Vendor, and the Escrow Amount had been deposited by the Purchaser into the Escrow Account, which were funded by the internal resources of the Group, the net proceeds from the Global Offering which has been allocated for the purpose of acquiring hospitals, and the external loan facilities provided under the Facility Agreement. It is intended that the remaining balance of the Consideration will be paid in accordance with the payment terms under the Share Purchase Agreement and funded by the internal resources of the Group.

Post-Completion Adjustment

As the Consideration was arrived at after arm's length negotiations between the parties after the Purchaser's due diligence on the Target Group and with reference to, among other things, the recent financial position of the Target Group, yet the amount of the medical fees that will be actually received by Suzhou Yongding Hospital from the Medical Insurance Center in respect of the social medical insurance fees for the year of 2020 and the employees remuneration of the Target Group for the month of March 2021 that will be actually paid could not be ascertained prior to the Completion, the Purchaser and the Vendor agree to confirm the following adjustments after the Completion and by November 30, 2021:

(1) the result of the amount of reimbursable medical fees to be received from the Medical Insurance Center that were recorded on the management accounts of Suzhou Yongding Hospital as of December 31, 2020 minus the amount of medical fees that are actually received as of November 30, 2021 in respect of the social medical insurance fees for the year of 2020 (the "**Medical Insurance Adjustment**"); and

(2) the result of the amount of employees remuneration (including but not limited to salaries, bonus, over-time payments, night-time payments and other employment expenses) of the Target Group for the month of March 2021 that were actually paid in April 2021 minus the amount of employees remuneration of the Target Group for the month of March 2021 estimated by the Vendor (the "**Employee Remuneration Adjustment**").

The amount of the Post-Completion Adjustment shall be the USD equivalent of the result calculated in accordance with the following formula, taking into account of the 98% equity interest in Suzhou Yongding Hospital held by the Group and the potential tax effect:

A = (0.98 x 0.75 x B) + (0.98 x 0.75 x C)

Where:

"A" means the amount of the Post-Completion Adjustment in RMB;
"B" means the amount of the Medical Insurance Adjustment; and
"C" means the amount of the Employee Remuneration Adjustment.

If the amount of the Post-Completion Adjustment is (i) positive, the Consideration shall be adjusted downward by deducting the amount of the Post-Completion Adjustment from the Post-Completion Last Payment; (ii) negative, the Consideration shall be adjusted upward by adding the absolute value of the amount of the Post-Completion Adjustment to the Post-Completion Last Payment and the upward adjustment (if any) is expected to be no more than RMB3,000,000; or (iii) zero, no Post-Completion Adjustment will be made.

As the Consideration was determined with reference to, among other things, the recent financial position of the Target Group and the Post-Completion Adjustment could not be confirmed prior to the Completion as discussed above, the Directors consider that the Post-Completion Adjustment is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Further announcement will be published to keep the Shareholders and potential investors informed of the final amount of the Consideration.

Conditions Precedent

Completion shall be conditional upon satisfaction or waiver by both the Purchaser and the Vendor in writing (except for Condition Precedent (1) below which could not be waived) of each of the following Conditions Precedent:

(1) the Purchaser having obtained the written Shareholders' approval from a closely allied group of Shareholders, who together hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting of the Purchaser to approve the Acquisition pursuant to the Listing Rules;

(2) no *force majeure* events having occurred, including any act of war, political conditions and natural disasters (other than the COVID-19 pandemic) which has had, or would reasonably be expected to have, a material adverse effect on the business, assets, financial conditions or operation results of the Target Group as a whole;

(3) there being no applicable laws which shall prohibit the Acquisition contemplated under the Share Purchase Agreement;

(4) there being no legal proceedings which have been brought, or are likely to be brought, by any governmental body to prohibit or otherwise prevent the Acquisition contemplated under the Share Purchase Agreement; and

(5) there being no objection raised by the shareholders of Suzhou Yongding Hospital in relation to the Acquisition.

As of the Latest Practicable Date, all the above Conditions Precedents had been fulfilled.

Completion

Subject to the fulfillment or waiver (as the case may be) of the Conditions Precedent, the Completion shall take place within five Business Days after signing of the Share Purchase Agreement.

The Completion took place on April 28, 2021. Upon Completion, the Target Company becomes a direct wholly-owned subsidiary of the Company and Suzhou Yongding Hospital becomes an indirect non-wholly-owned subsidiary of the Company, and the financial results of the Target Group are to be consolidated into the financial statements of the Group.

Termination

The Share Purchase Agreement may be terminated:

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

(2) by either party serving a written notice to the other party if any of the Conditions Precedent (2), (3) and (4) is not fulfilled or waived by the Long Stop Date;

(3) by the Vendor serving a written notice to the Purchaser if (i) the Purchaser refuses to proceed to the Completion in the event that all the Conditions Precedent have been fulfilled or waived, or (ii) the Condition Precedent (1) has not been fulfilled by the Long Stop Date; or

(4) by the Purchaser serving a written notice to the Vendor if (i) the Vendor refuses to proceed to the Completion in the event that all the Conditions Precedent have been fulfilled or waived, or (ii) the Condition Precedent (5) is not fulfilled by the Long Stop Date.

The Deposit shall be refunded to the Purchaser in full within two Business Days after termination of the Share Purchase Agreement, except in the event that the Share Purchase Agreement is terminated in accordance with the termination event as set out in paragraph (3)(i) above. In the event that the Share Purchase Agreement is terminated in accordance with the termination event as set out in paragraph (4)(i) above, in addition to the refund of the Deposit from the Vendor to the Purchaser, an amount of RMB10,000,000 shall be paid by the Vendor to the Purchaser as termination fee.

C. THE FACILITY AGREEMENT

In order to fund part of the Consideration, on April 25, 2021, the Purchaser (as the borrower) entered into the Facility Agreement with Ping An Bank Co., Ltd. Shanghai Branch (as the lender), which provides for a loan facility in an aggregate principal amount of up to USD152,000,000. As of the Latest Practicable Date and to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the lender and its ultimate beneficial owner(s) are Independent Third Parties.

Under the Facility Agreement, the drawdown period shall be from the date of signing of the Facility Agreement to March 31, 2022. The maturity date shall be April 25, 2022 for 1.3% of the principal drawdown amount, April 25, 2023 for 6.6% of the principal drawdown amount and April 25, 2024 for 92.1% of the principal drawdown amount. Interest shall be accrued on the outstanding drawdown amount from the drawdown date to the repayment date at the three-month London Interbank Offered Rate plus 112 basis points.

After the Completion, the Target Group shall provide guarantee for the loan under the Facility Agreement, including that all the equity interest to be held by the Company directly or indirectly in the Target Group after the Completion (including the 100% equity interest in the Target Company, the HK Company and the WFOE, and the 98% equity interest in Suzhou Yongding Hospital) shall be pledged in favor of the lender within two months after the first drawdown.

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

(1) Mr. Zhu, Ms. Zhu and parties acting in concert with them shall collectively remain interested in an aggregate of not less than 30% of the voting power of the Company;

(2) there shall be no material litigation and arbitration proceedings, or administrative and criminal investigations involving, or coercive measures such as seizure, freezing or preservation of material assets, administrative penalties in an amount exceeding RMB10,000,000, or criminal sanctions imposed on the Controlling Shareholder, or any other events that would impact their ability to perform duties with respect to the Company; and

(3) there shall be no change of Controlling Shareholders of the Company that would affect the Company's ability of repayment under the Facility Agreement.

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

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

D. GENERAL INFORMATION ON THE PARTIES

Information of the Target Group

The Target Company, a wholly-owned subsidiary of the Vendor, is a limited company incorporated under the laws of the BVI and is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Suzhou Yongding Hospital.

Suzhou Yongding Hospital has commenced its operation as a general hospital since 2007 in Suzhou City, Jiangsu Province, the PRC and is currently a private for-profit Class II general hospital providing extensive healthcare services. Suzhou Yongding Hospital currently holds a valid Medical Institution Practicing License (醫療機構執業許可證) and provides outpatient services, inpatient services and general healthcare services in a wide range of specialties, including but not limited to oncology, general surgery, internal medicine, and traditional Chinese medicine. As of December 31, 2020, it had 540 registered beds. The number of inpatient visits was approximately 20 thousand, and the number of outpatient visits was approximately 482 thousand for the year ended December 31, 2020.

Financial information of the Target Group

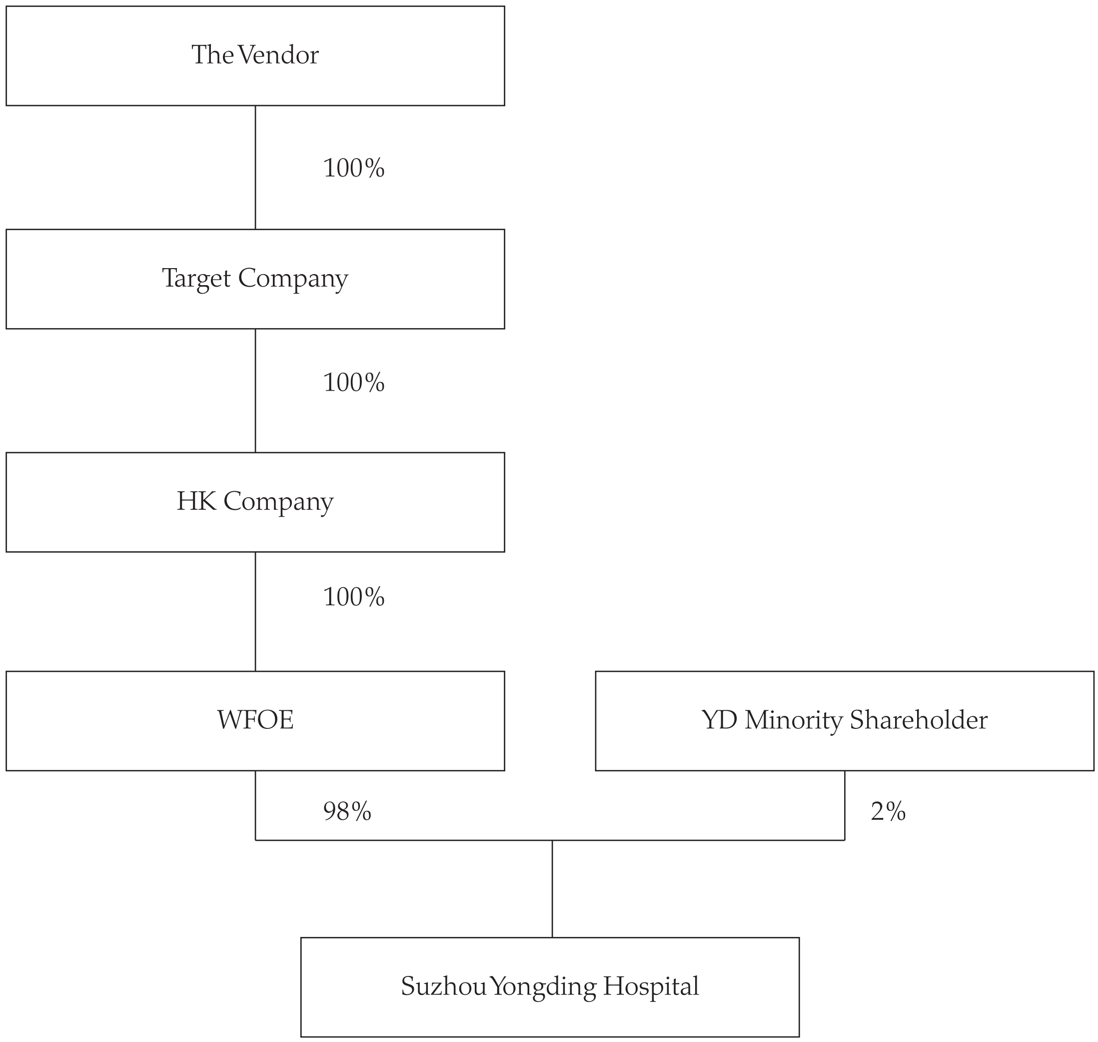
Set out below is the audited consolidated financial information of the Target Group for the three years ended December 31, 2018, 2019 and 2020 and the audited consolidated assets value of the Target Group as of the same dates as indicated:

	For the year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	470,508	517,498	492,099
Profit before income tax	104,774	107,108	86,755
Net profit	71,990	75,652	60,577

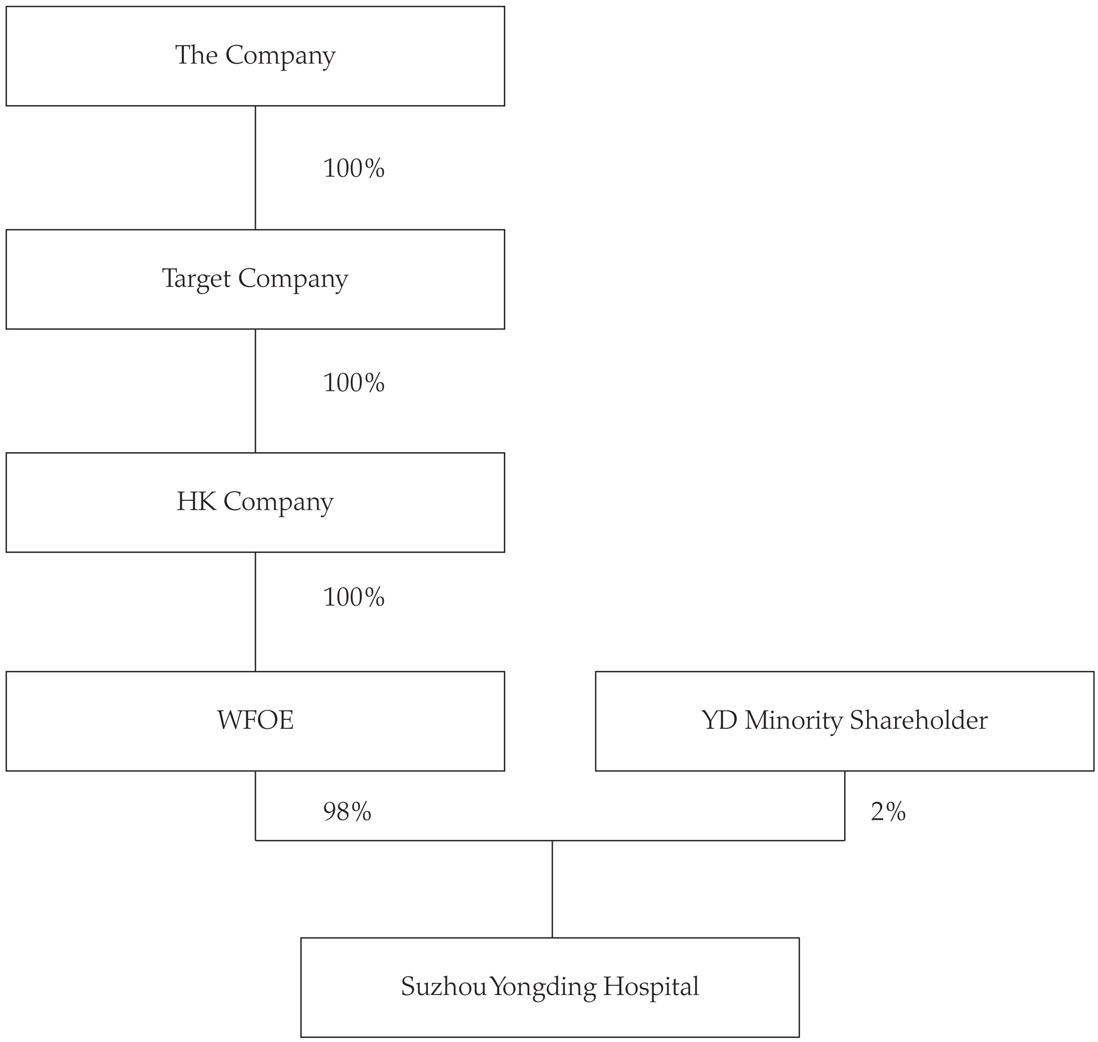
	As of December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	586,979	642,535	706,239
Net assets	350,625	424,677	483,854

Revenue and net profit of the Target Group for the year ended December 31, 2020 decreased by 4.9% and 19.9%, respectively, compared to that for the year ended December 31, 2019, primarily due to the impact of the COVID-19 epidemic at the beginning of 2020. In particular, revenue and net profit of the Target Group for the first half of 2020 decreased compared to the same period of 2019 while they were bounced back for the second half of 2020 compared to the same period of 2019.

Shareholding Structure of the Target Group before Completion



Shareholding Structure of the Target Group after Completion



Information of the Vendor

The Vendor is wholly-owned by ACP Fund I, which is ultimately managed by Ascendent Capital Partners I GP Limited and advised by Ascendent Capital Partners (Asia) Limited, a private equity investment management firm focused on Greater China-related investment opportunities, managing over USD2 billion in assets for global institutional investors, including sovereign wealth funds, endowments, pensions and foundations.

Information of the YD Minority Shareholder

The YD Minority Shareholder holds the remaining 2% equity interest in Suzhou Yongding Hospital, and is a wholly state-owned limited liability company established in Wujiang District, Suzhou City, Jiangsu Province, the PRC on November 9, 2001 with a registered capital of RMB3.6 billion.

Information of the Company

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

E. REASONS FOR AND BENEFITS OF THE ACQUISITION

Suzhou Yongding Hospital is a Class II general hospital with years of operating experience and notable market influence in Suzhou City. It currently has sufficient room to accommodate more than 1,000 beds, having the potential for being upgraded to a Class III hospital, and enough space for conducting multi-disciplinary oncology diagnosis and treatment businesses such as radiotherapy services. The Acquisition will bring outstanding synergy effects for the Group and Suzhou Yongding Hospital.

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

(1) Suzhou Yongding Hospital is located in Wujiang District, Suzhou City, Jiangsu Province, the most populous municipal district with the largest land area in Suzhou City. Seated in the core area of the Yangtze River Delta region, Wujiang District has a developed economy with strong purchasing power and experiences continuous net inflow of population, while the demands of oncology patients are far from being met due to the shortage of local oncology medical resources, especially radiotherapy resources. As such, positioning in such area is in line with the Group's expansion strategies. Since commencing its operation in 2007, Suzhou Yongding Hospital, with its high-caliber and experienced professional medical team, has established good reputation in Wujiang District and even in Suzhou City;

(2) with years of operating efforts, Suzhou Canglang Hospital, an existing private for-profit general hospital of the Group, has built strong brand influence in Suzhou City, and has maintained a CAGR of over 43% in terms of revenue in the past three years. Considering that the existing premises of Suzhou Canglang Hospital are close to full capacity, which may limit its sustainable and rapid development in the future, the Group has been actively seeking for solutions for further expansion in Suzhou City. As Suzhou Yongding Hospital currently has room for more beds as well as sufficient land resources for further construction, this Acquisition could offer the Group larger room and space for its business developments in Suzhou City;

(3) after the Completion, the Group will integrate the resources of Suzhou Canglang Hospital and Suzhou Yongding Hospital to further strengthen its oncology-related businesses, in which the Group has competitive strengths, in

Suzhou City and to develop Suzhou Yongding Hospital into an oncology-focused general hospital. Besides, the facilities and medical equipment of Suzhou Yongding Hospital could support the Group's construction of an multi-disciplinary oncology diagnosis and treatment center covering various treatment methods including radiotherapy, surgery and chemotherapy, thus practically satisfying the increasing needs of oncology patients in the Yangtze River Delta region; and

(4) the Acquisition of Suzhou Yongding Hospital will further expand the healthcare service network of the Group, which is of great significance and value for increasing the oncology-related healthcare service revenue of the Group and its share in the oncology healthcare service market. After the Completion, the market share of the Group in the healthcare service market in the Yangtze River Delta region will continue to grow and its market influence in the surrounding areas will further expand, which will lay a solid foundation for the Group to establish its three-tier hospital network in the Yangtze River Delta region.

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

(1) introducing the Group's centralized and standardized management system to Suzhou Yongding Hospital to reduce its operational expenses and improve its overall operational efficiency;

(2) implanting the oncology specialties of the Group into Suzhou Yongding Hospital to enrich its oncology treatment methods and increase utilization rates of beds so as to further increase its revenue and profit level; and

(3) developing Suzhou Yongding Hospital's multi-disciplinary oncology diagnosis and treatment businesses covering various treatment methods including radiotherapy, surgery and chemotherapy and providing one-stop oncology treatment services to satisfy the increasing demand of oncology patients.

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

F. FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Company becomes a direct wholly-owned subsidiary of the Company and Suzhou Yongding Hospital becomes an indirect non-wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the financial statements of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix IV to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that the Completion had taken place on December 31, 2020, the total assets of the Group would have increased from approximately RMB4,701.3 million to approximately RMB6,679.8 million on a pro forma basis, whereas the total liabilities of the Group would have increased from approximately RMB359.9 million to approximately RMB2,338.1 million on a pro forma basis.

Earnings

As set out in the accountant's report on historical financial information of the Target Group in Appendix II to this circular, the revenue and net profit of the Target Group for the year ended December 31, 2020 were approximately RMB492.1 million and RMB60.6 million, respectively.

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

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

G. LISTING RULES IMPLICATIONS

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

To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, no Shareholder has any material interest in the Acquisition, and therefore, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. Pursuant to Rule 14.44 of the Listing Rules, the Company may apply the written shareholders' approval in lieu of holding a general meeting of the Company to approve the Acquisition.

The Company has obtained a written approval on the Share Purchase Agreement and the Acquisition from a closely allied group of Shareholders who together held a total of 347,373,856 Shares, representing approximately 56.21% of the total number of Shares in issue as of the date of the Share Purchase Agreement. As such, the Company is not required to convene a general meeting to consider and approve the Acquisition.

Name of Shareholders	Number of Shares held	Approximate percentage of shareholding
Century River [(1)]	111,668,436	18.07%
Red Palm and Amber Tree [(2)]	165,549,382	26.79%
Spruce Wood Investment Holdings Limited [(3)]	2,400,000	0.39%
Fountain Grass [(4)]	67,756,038	10.96%
Total	347,373,856	56.21%

Notes:

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

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

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

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

H. RECOMMENDATION

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

I. ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

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

The audited consolidated financial statements of the Group for the year ended December 31, 2020 are set out from pages 84 to 165 in the annual report of the Company for the year ended December 31, 2020 (the "**2020 Annual Report**") published on April 29, 2021. The 2020 Annual Report is also published and available on the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042901731.pdf) and the website of the Company (http://www.hygeia-group.com.cn/UploadFiles/AnnouncementType/20210430090426400.pdf).

2. INDEBTEDNESS

Borrowings

As of the close of business on March 31, 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had outstanding current bank borrowings of RMB85.0 million. All of the bank borrowings were unsecured and unguaranteed.

Lease liabilities

As of the close of business on March 31, 2021, the Enlarged Group has lease liabilities of approximately RMB2.2 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as of the close of business on March 31, 2021, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, mortgages, charges, debentures, obligations under hire purchase contracts or finance leases or guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

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

4. MATERIAL ADVERSE CHANGE

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

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

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

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

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

pwc 羅兵咸永道

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

Introduction

We report on the historical financial information of Etern Group Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-58, which comprises the consolidated and company statements of financial position as at December 31, 2018, 2019 and 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 (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-58 forms an integral part of this report, which has been prepared for inclusion in the circular of Hygeia Healthcare Holdings Co., Limited (the "**Company**") dated May 14, 2021 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's 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 accountant considers internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at December 31, 2018, 2019 and 2020 and the consolidated financial position of the Target Group as at December 31, 2018, 2019 and 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
May 14, 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*5*	470,508	517,498	492,099
Cost of revenue	*8*	(336,279)	(375,476)	(372,273)
Gross profit		134,229	142,022	119,826
Selling expenses	*8*	(2,515)	(2,369)	(2,550)
Administrative expenses	*8*	(29,790)	(34,888)	(38,309)
Other income	*6*	6,238	5,634	16,644
Other gains/(losses) – net	*7*	654	(957)	(6,068)
Operating profit		108,816	109,442	89,543
Finance income	*10*	356	707	495
Finance costs	*10*	(4,398)	(3,041)	(3,283)
Finance costs – net		(4,042)	(2,334)	(2,788)
Profit before income tax		104,774	107,108	86,755
Income tax expense	*11*	(32,784)	(31,456)	(26,178)
Profit and total comprehensive income for the year		71,990	75,652	60,577
Profit and total comprehensive income attributable to				
– Owners of the Target company		70,546	74,107	59,336
– Non-controlling interests		1,444	1,545	1,241

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*12*	313,270	319,331	314,397
Intangible assets	*13*	85,778	85,080	87,943
Total non-current assets		399,048	404,411	402,340
Current assets				
Inventories	*15*	15,073	16,437	19,493
Trade, other receivables and prepayments	*18*	10,307	21,308	35,008
Amounts due from related parties	*29*	–	133,250	146,000
Financial assets at fair value through profit or loss	*16*	1,000	1,000	–
Cash and cash equivalents	*19*	161,551	66,129	103,398
Total current assets		187,931	238,124	303,899
Total assets		586,979	642,535	706,239
EQUITY				
Equity attributable to owners of the Target Company				
Share capital and premium	*20*	165,886	165,886	165,886
Other reserves	*21*	26,993	34,569	40,654
Retained earnings	*22*	154,317	220,848	274,099
		347,196	421,303	480,639
Non-controlling interests		3,429	3,374	3,215
Total equity		350,625	424,677	483,854

		As at December 31,		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	*14*	15,148	14,519	13,868
Deferred revenue		442	309	223
Lease liabilities	*24*	466	240	–
Total non-current liabilities		16,056	15,068	14,091
Current liabilities				
Trade and other payables	*25*	119,089	132,648	162,349
Amounts due to related parties	*29*	8	8	8
Contract liabilities	*26*	432	170	232
Current income tax liabilities		15,490	14,738	15,465
Lease liabilities	*24*	279	226	240
Borrowings	*23*	85,000	55,000	30,000
Total current liabilities		220,298	202,790	208,294
Total liabilities		236,354	217,858	222,385
Total equity and liabilities		586,979	642,535	706,239

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, **2018** *RMB'000*	**2019** *RMB'000*	**2020** *RMB'000*
ASSETS				
Non-current assets				
Investment in a subsidiary	*30*	165,764	165,764	165,764
Total non-current assets		165,764	165,764	165,764
Current assets				
Trade, other receivables and prepayments		9	9	–
Cash and cash equivalents		880	872	997
Total current assets		889	881	997
Total assets		166,653	166,645	166,761
Equity				
Equity attributable to owners of the Target Company				
Share capital and premium	*20*	165,886	165,886	165,886
Retained earnings	*22*	759	751	867
Total equity		166,645	166,637	166,753
Current liabilities				
Amounts due to related parties	*29*	8	8	8
Total current liabilities		8	8	8
Total liabilities		8	8	8
Total equity and liabilities		166,653	166,645	166,761

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Target Company					
		Share capital and premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 20)	*(Note 21)*				
Balance at January 1, 2018		165,886	19,925	105,269	291,080	3,585	294,665
Comprehensive income							
Profit for the year	22	–	–	70,546	70,546	1,444	71,990
Total comprehensive income for the year		–	–	70,546	70,546	1,444	71,990
Transactions with owners in their capacity as owners							
Transfer to statutory reserves	22	–	7,068	(7,068)	–	–	–
Dividends	22	–	–	(14,430)	(14,430)	(1,600)	(16,030)
Total transactions with owners in their capacity as owners		–	7,068	(21,498)	(14,430)	(1,600)	(16,030)
Balance at December 31, 2018		165,886	26,993	154,317	347,196	3,429	350,625

	Notes	Attributable to owners of the Target Company					
		Share capital and premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 20)	*(Note 21)*				
Balance at January 1, 2019		165,886	26,993	154,317	347,196	3,429	350,625
Comprehensive income							
Profit for the year	22	–	–	74,107	74,107	1,545	75,652
Total comprehensive income for the year		–	–	74,107	74,107	1,545	75,652
Transactions with owners in their capacity as owners							
Transfer to statutory reserves	22	–	7,576	(7,576)	–	–	–
Dividends		–	–	–	–	(1,600)	(1,600)
Total transactions with owners in their capacity as owners		–	7,576	(7,576)	–	(1,600)	(1,600)
Balance at December 31, 2019		165,886	34,569	220,848	421,303	3,374	424,677

		Attributable to owners of the Target Company					
	Notes	**Share capital and premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 20)	*(Note 21)*				
Balance at January 1, 2020		165,886	34,569	220,848	421,303	3,374	424,677
Comprehensive income							
Profit for the year	22	–	–	59,336	59,336	1,241	60,577
Total comprehensive income for the year		–	–	59,336	59,336	1,241	60,577
Transactions with owners in their capacity as owners							
Transfer to statutory reserves	22	–	6,085	(6,085)	–	–	–
Dividends		–	–	–	–	(1,400)	(1,400)
Total transactions with owners in their capacity as owners		–	6,085	(6,085)	–	(1,400)	(1,400)
Balance at December 31, 2020		165,886	40,654	274,099	480,639	3,215	483,854

CONSOLIDATED STATEMENTS OF CASH FLOW

	Notes	Year ended December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000
Cash flows from operating activities				
Cash generated from operations	28	158,631	122,291	104,604
Interest received		356	707	495
Income tax paid		(33,204)	(32,837)	(26,102)
Net cash generated from operating activities		125,783	90,161	78,997
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		(36,559)	(20,665)	(17,867)
Proceeds from disposal of property, plant and equipment	28	234	211	590
Entrust loan to a related party		–	(130,000)	(627,000)
Repayment of Entrust loan from a related party		–	–	611,000
Interest proceeds from Entrust loan to related parties		–	–	18,493
Payments for financial assets at fair value through profit or loss	3	(1,071,297)	(936,869)	(628,000)
Proceeds from disposal of financial assets at fair value through profit or loss	3	1,079,073	937,970	629,477
Net cash used in investing activities		(28,549)	(149,353)	(13,307)

	Notes	Year ended December 31, 2018 RMB'000	2019 RMB'000	2020 RMB'000
Cash flows from financing activities				
Dividends paid to controlling shareholders	27	(14,430)	–	–
Dividends paid to non-controlling shareholders		(1,100)	(2,800)	–
Borrowing interest paid		(4,306)	(3,109)	(3,292)
Repayments of bank borrowings	28	(105,000)	(85,000)	(55,000)
Proceeds from bank borrowings	28	85,000	55,000	30,000
Repayment to related parties	28	(7,406)	–	–
Payments of lease liabilities	24	(316)	(317)	(250)
Net cash used in financing activities		(47,558)	(36,226)	(28,542)
Net increase/(decrease) in cash and cash equivalents		49,676	(95,418)	37,148
Effect on exchange rate difference		223	(4)	121
Cash and cash equivalents at beginning of the year		111,652	161,551	66,129
Cash and cash equivalents at end of the year		161,551	66,129	103,398

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

The Target Company is a company with limited liability incorporated in the British Virgin Islands ("**BVI**") on February 18, 2014. Its immediate holding company is Ascendent Healthcare (Cayman) Limited ("**Ascendent Healthcare**"), a company incorporated in the Cayman Islands, and its ultimate holding company is Ascendent Capital Partners I GP Limited ("**Ascendent Capital**") incorporated in the Cayman Islands, which is owned by Mr. Meng Liang. The principal place of business of the Target Company is No.1388 Gaoxin Road, Songling Town,Wujiang District, Suzhou, Jiangsu Province, PRC, respectively.

On May 28, 2014, the Target Group acquired 100% of the equity interest in 蘇州永鼎醫療管理服務有限公司 ("**Yongding Healthcare**") at a cash consideration of RMB222,572,000 from Yongding Group Co., limited. Yongding Healthcare owns 98% of the equity interest in 蘇州永鼎醫院有限公司 ("**Yongding Hospital**"), which is a privately-owned Class II general hospital in the PRC providing healthcare services (the "**Hospital Business**").

On July 26, 2017, China Automation Group Limited ("**CAG**") purchased 600 ordinary shares of United States Dollar ("**USD**") 1.00 par value each in the Target Company from Ascendent Healthcare and become the legal and beneficial owner of 600 ordinary share in the Target Company, representing 60% of the entire issued and outstanding shares of the Target Company ("**2017 Acquisition**"). Ascendent Healthcare has continued to own 40% of the entire issued and outstanding shares of the Target Company since the completion of the 2017 Acquisition.

On March 13, 2020, CAG and Ascendent Healthcare have mutually agreed to cancel and unwind the 2017 Acquisition by an agreement ("**Cancellation**"). As part of Cancellation, CAG agreed to sell and Ascendent Healthcare agreed to purchase 600 ordinary issued and outstanding shares of the Target Company that was owned by CAG after the 2017 Acquisition. Since then, Ascendent Healthcare hereby has become the immediate holding company of the Target Company.

During the Track Record Period and as at the date of this report, the Target Company has direct or indirect equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ acquisition	Issued and fully paid up share capital	Principal activities	Effective interest held by the Group As at December 31, 2018	2019	2020	As the date of report	*Note*
Directly held:								
Etern Healthcare (HK) Limited (永鼎醫療(香港)有限公司) ("**Etern Healthcare**")	Hong Kong, February 28, 2014	Hong Kong Dollar ("**HKD**")[1]	Investment holding	100%	100%	100%	100%	*(i)*
Indirectly held:								
Yongding Healthcare* (蘇州永鼎醫療管理服務有限公司)	PRC, May 28, 2014	RMB80,000,000	Investment holding	100%	100%	100%	100%	*(ii)*
Yongding Hospital* (蘇州永鼎醫院有限公司)	PRC, May 28, 2014	RMB75,000,000	Healthcare services	98%	98%	98%	98%	*(ii)*

Notes:

(i) The statutory financial statements for the years ended December 31, 2018 and 2019 were audited by C.C. HO & Company.

(ii) The statutory financial statements for the years ended December 31, 2018, 2019 and 2020 were audited by BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)).

* The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or are available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (financial assets at "**FVPL**"), which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

All effective standards, amendments to standards and interpretations of IFRS, which are mandatory for the financial year beginning January 1, 2018, 2019 and 2020, including IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases", are consistently applied to the Target Group for the Track Record Period.

2.1.1 New standards and interpretations not yet been adopted

New standards, amendments and interpretations that have been issued but not yet effective on December 31, 2020 and have not been early adopted by the Target Group during the Track Record Period, are as follows:

		Effective for annual periods beginning on or after
Amendments to IFRS 9, International Accounting Standards ("**IAS**") 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2	January 1, 2021
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2023
Amendments to IFRS 3	Reference to the conceptual framework	January 1, 2022
Amendments to IAS 37	Onerous Contracts-Cost of fulfilling a contract	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment-Proceeds before Intended Use	January 1, 2022
Annual improvements project	Annual improvements 2018-2020 cycle	January 1, 2022
IFRS 17	Insurance contracts	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Target Group has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to the Target Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Target Group is expected when they become effective.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Target Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Business combination

The Target Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Target Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Target Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets including goodwill in the historical financial information.

2.3 Segment reporting

The directors are identified as the chief operating decision maker (the "**CODM**") of the Target Group for the purposes of resources allocation and performance assessment. The Target Group currently operates Hospital Business which is considered to be a single operating segment. A single report for the entire Target Group is provided to the CODM to assess the Target Group's performance and allocate the resources as a whole. Accordingly, no segment information is reported. During the Track Record Period, all revenue and non-current assets of the Target Group are derived and located in the PRC.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). Since the majority of the assets and operations of the Target Group are located in the PRC, the Historical Financial Information are presented in RMB, which is the Target Company's functional and the Target Group's presentation currency.

2.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income within "other gains/(losses) – net".

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Buildings	**Shorter of the term of remaining title to the land or estimated useful life**
Medical equipment	5-10 years
Transportation equipment	5 years
Office equipment and furniture	5 years
Right-of-use for properties	Remaining lease term
Right-of-use for lands	Remaining lease term
Leasehold improvements	Shorter of remaining lease term or estimated useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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 (Note 2.7).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amounts. These are included in the consolidated statements of comprehensive income.

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

2.6 Intangible assets

2.6.1 Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("**CGUs**") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or the groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the hospital (Note 13).

2.6.2 Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortized using the straight-line method over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognized as expense as incurred.

2.6.3 Medical licenses

Medical Licenses acquired in a business combination are recognized at fair value at the acquisition date. These medical Licences have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of 30 years. In considering the estimated useful lives, renewal periods are considered only if there is evidence to support renewal by the group without significant cost.

2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets, except for goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(i) Classification

The Target Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

– those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

See Note 17 for details about each type of financial assets.

The Target Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and measurement

At initial recognition, the Target Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety 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:

– Amortized 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 amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

– Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses) – net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) – net and impairment expenses in other expenses.

– FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statements of profit or loss within other gains/(losses) – net in the period in which it arises.

(iii) Impairment of financial assets

The Target Group has the following types of financial assets subject to IFRS 9's new expected credit loss model:

– trade receivables for sales of goods or provision of services; and

– other receivables and amounts due from related parties.

While cash and cash equivalents and term deposits with initial term of over three months are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Target Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.2 details how the Target Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Target Group applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognized from initial recognition of the receivables.

Impairment of other receivables and due from related parties are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(iv) Derecognition of financial instruments

Financial assets

The Target Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Target Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Target Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

– the carrying amount of the financial asset transferred; and

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Target Group currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Target Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2.12 Trade and other receivables

Trade receivables are amounts due from patients and governments' social insurance schemes for pharmaceutical sales and service rendered in the ordinary course of business. Majority of other receivables are staff advance and deposit receivables. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.8 for a description of the Target Group's impairment policy for trade and other receivables.

2.13 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash at bank and in hand, and term deposits with financial institutions that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

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

2.17 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable or recoverable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.18.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting dates in the countries where the Target Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.18.2 Deferred income tax

(i) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the historical financial information. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2.18.3 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

2.19.1 Pension obligations

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

2.19.2 Housing funds, medical insurances and other social insurances

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

2.19.3 Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees rendered the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statements of financial position.

2.19.4 Employee leave entitlement

Employee entitlement to annual leave are recognized when they have accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to each reporting date. Employees entitlement to sick leave and maternity leave are not recognized until the time of leave.

2.19.5 Bonus plan

The expected cost of bonuses is recognized as a liability when the Target Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.20 Provisions

Provisions are recognized when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.21 Revenue recognition

During the years ended December 31, 2018, 2019 and 2020, the Target Group operates Hospital Business.

Revenue is measured at the fair value of the consideration received or receivable for the goods or services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales between the Group companies. The Group recognizes revenue when it transfers control of the goods or services to a customer.

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

(a) Out-patient services

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

(b) In-patient services

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

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

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

2.22 Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

2.23 Leases

The Target Group as the lessee:

The Target Group leases various land and properties. Rental contracts are typically made for a fixed period of 3 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable

– variable lease payment that are based on an index or a rate

– amounts expected to be payable by the lessee under residual value guarantees

– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and

– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability

– any lease payments made at or before the commencement date less any lease incentives received

– any initial direct costs, and

– restoration costs

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

The Target Group as the lessor:

Lease classification is made at the inception date and is reassessed only if there is a lease modification. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. If there are variable lease payments and as a result of which the lessor does not transfer substantially all such risks and rewards, it would be an operating lease.

Lease income from operating leases where the Target Group is a lessor is recognized as income on a straight-line basis over the lease term (Note 6). The respective leased assets are included in the balance sheet based on their nature.

2.24 Dividend distribution

Dividend distribution to the shareholders is recognized as a liability in the historical financial information in the period in which the dividends are approved by the entities' shareholders or directors, where appropriate.

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment, and other non-current assets are included in the current liabilities and are credited to consolidated statements of profit or loss on a straight- line basis over the expected lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Group's financial performance. Risk management is carried out by the senior management of the Target Group.

3.1.1 Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Target Group entities' functional currency. The Target Group has no significant foreign currency risk as all of the operations of the group entities are dominated in RMB which is also the functional currency of the relevant group entities.

(ii) Cash flow and fair value interest rate risk

The Target Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Target Group to fair value interest-rate risk. The Target Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits and entrust loans, the Target Group has no other significant interest-bearing assets. The directors of the Target Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposits are not expected to change significantly and interest on entrust loans is computed on the basis of the loan contract which stipulates a fixed interest rate of 12%.

As at December 31, 2018 and 2019 and 2020, bank and other borrowings of the Target Group which were bearing at floating rates amounted to approximately RMB85,000,000, 55,000,000, and 30,000,000, respectively. For the years ended December 31, 2018 and 2019 and 2020, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year end December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
(Decrease)/increase			
– 0.5% higher	(359)	(225)	(316)
– 0.5% lower	359	225	316

The interest rates and terms of repayment of borrowings of the Target Group are disclosed in Note 23.

3.1.2 Credit risk

The Target Group is exposed to credit risk in relation to its trade and other receivables, amounts due from related parties, financial assets at FVPL and cash deposits at banks. The carrying amount of each class of the above financial assets represents the Target Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, financial assets at FVPL and cash deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

The Target Group's trade receivable are mainly from providing medical service to patients. The Target Group, being a provider of healthcare service to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Target Group has concentrated debtor's portfolio, as majority patients will claim their medical bill from public medical insurance program. The reimbursement from these organizations may take one to twelve months. The Target Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organizations' policy, provided fulfilling all ethics and moral responsibilities as a healthcare provider.

For other receivables and amount due from related parties, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience. The directors believe that there is no material credit risk inherent in the Target Group's outstanding balance of other receivables and amounts due from related parties as the Target Group closely monitors their repayment.

The Target Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Target Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

– internal credit rating

– external credit rating

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations

– actual or expected significant changes in the operating results of the debtor

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

– significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtors in the Target Group and changes in the operating results of the debtor.

The Target Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Target Group's expected credit loss model is as follows:

Category	**Group definition of category**	**Basis for recognition of expected credit loss provision**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 90 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than 120 days past due and there is no reasonable expectation of recovery	Asset is written off

The Target Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Target Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(i) Trade receivables

The Target Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the months on book based on invoice dates.

The historical loss rates for each aging bucket are derived base on the probability of a receivable progressing through successive stages of delinquency to write-off.

The historical loss rates are adjusted to expected loss rates to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparty to settle the receivables.

The directors of the Target Company use roll rate method to assess the expected credit loss rate and assume that trade receivables will experience loss when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, a failure to make contractual payments for a period of greater than 2 years since invoice date. Based on the roll rate model built, the majority of the trade receivables were within the aging bucket of 90 invoice days as at December 31, 2018, 2019 and 2020, the directors of the Target Company considered that the expected credit loss of trade receivables were immaterial.

(ii) Other receivables and due from a related party

Other receivables measured at amortized cost mainly include deposits receivables. Due from a related party is entrust loan to a related party.

As at December 31, 2018, 2019 and 2020, the directors of the Target Company considered that other receivables and due from a related party were performing and within stage 1. The Target Group considered the 12-month expected credit losses of the other receivables and due from related parties are immaterial.

3.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The policy of the Target Group is to regularly monitor the Target Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below set out the Target Group's financial liabilities grouped into relevant maturity groupings based on their contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**	**Carrying Amounting**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2018						
Borrowings	87,656	–	–	–	87,656	85,000
Trade and other payables excluding salaries payable and other tax payable	71,597	–	–	–	71,597	71,597
Lease liabilities	317	250	250	–	817	745
Amounts due to related parties	8	–	–	–	8	8
Total	159,578	250	250	–	160,078	157,350

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying Amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2019						
Borrowings	57,087	–	–	–	57,087	55,000
Trade and other payables excluding salaries payable and other tax payable	71,607	–	–	–	71,607	71,607
Lease liabilities	250	250	–	–	500	466
Amounts due to related parties	8	–	–	–	8	8
Total	128,952	250	–	–	129,202	127,081
As at December 31, 2020						
Borrowings	30,140	–	–	–	30,140	30,000
Trade and other payables excluding salaries payable and other tax payable	90,085	–	–	–	90,085	90,085
Lease liabilities	250	–	–	–	250	240
Amounts due to related parties	8	–	–	–	8	8
Total	120,483	–	–	–	120,483	120,333

3.2 Capital management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The Target Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt/(cash) is calculated as total borrowings, lease liabilities and loan from related parties less cash and cash equivalents. Total capital include the capital (including "equity" as shown in the consolidated statements of financial position) plus net debts. For the years ended December 31, 2018, 2019 and 2020, the gearing ratio of the Target Group were as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Net cash	(75,798)	(10,655)	(73,150)
Total capital	274,827	414,022	410,704
Gearing ratio	N/A	N/A	N/A

3.3 Fair value estimation

The Target Group made judgements and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Target Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Target Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As at December 31, 2018, 2019 and 2020, the Target Group had no level 1 and level 2 financial instruments. And the Target Group had level 3 instrument represented the financial assets at FVPL as at December 31, 2018 and 2019.

There were no changes in valuation techniques during the years ended December 31, 2018, 2019 and 2020. And there were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the years ended December 31, 2018, 2019 and 2020.

The Target Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Target Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included financial assets at FVPL. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows approach.

(a) The following table presents the changes in level 1 instruments during the Track Record Period, respectively.

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of the year	5,044	–	–
Additions	179,357	30,180	–
Changes in fair value	882	31	–
Disposals	(185,283)	(30,211)	–
Balance at end of the year	–	–	–

The level 1 instruments are the one-year fixed rate financial bonds issued by China Development Bank which fair value traded in active markets is based on quoted market prices at the end of the reporting period.

(b) The following table presents the changes in level 3 instruments during the Track Record Period, respectively.

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of the year	2,000	1,000	1,000
Additions	891,940	906,689	628,000
Changes in fair value	850	1,070	477
Disposals	(893,790)	(907,759)	(629,477)
Balance at end of the year	1,000	1,000	–

The unobservable inputs of wealth management products are expected return rate and discounted rate. The higher the expected return rate, the higher the fair value; the higher the discounted rate, the lower the fair value. The expected annual return rate of the investments in wealth management products with floating rate range 2.3% to 4.6%. If the fair value of financial assets at FVPL held by the Target Group had been 1% higher/lower, the profit before income tax for the years ended December 31, 2018 and 2019 would have been approximately RMB10,000 and RMB10,000 higher/lower respectively.

The wealth management products of banks and investment in funds are denominated in RMB, with expected rates of returns ranging from 2.3%-2.8%, 2.3%-4.2% and 2.3%-4.2% per annum for the years ended December 31, 2018, 2019 and 2020, respectively. The returns on all these wealth management products are not guaranteed.

The carrying amounts of the Target Group's financial assets and liabilities, including cash and cash equivalents, term deposits with initial term of over three months, amounts due from related parties, trade and other receivables (excluding prepayments), borrowings, trade and other payables (excluding non-financial liabilities), and amounts due to related parties approximated their fair values due to their short maturities.

4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of the Historical Financial Information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Target Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Estimated impairment of goodwill

The Target Group performed impairment assessment at each balance sheet date to assess whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates and judgements. The key assumptions used in the value-in-use calculations were: compound growth rate of revenue, cost and operating expense's percentage of revenue, long-term growth rate and pre-tax discount rate. Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test. This is further described in Note 13.

There was no impairment of goodwill during the years ended December 31, 2018, 2019 and 2020.

(b) Current and deferred income taxes

The Target Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Target Group assesses the likelihood that the deferred income tax assets may be recovered. Deferred tax assets are recognized based on the Target Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

5 REVENUE

The directors are identified as the chief operating decision maker (the "**CODM**") of the Target Group for the purposes of resources allocation and performance assessment. The Target Group currently operates Hospital Business which is considered to be a single operating segment. A single report for the entire Target Group is provided to the CODM to assess the Target Group's performance and allocate the resources as a whole. Accordingly, no segment information is reported.

(a) Revenue by business line and nature:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Hospital Business			
– Out-patient services	198,741	224,426	199,260
– In-patient services	271,767	293,072	292,839
Total revenue	470,508	517,498	492,099

The Target Group derives revenue from the transfer of goods and services over time and at a point in time as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Over time	10,959	11,006	10,861
At a point in time	459,549	506,492	481,238
	470,508	517,498	492,099

(b) Geographical information

The Target Company is domiciled in the British Virgin Islands while the Target Group's non-current assets and revenues are substantially located in and derived from the PRC, therefore, no geographical segments are presented.

(c) Information about major customers

All the revenues derived from single external customers were less than 10% of the Target Group's total revenues during the Track Record Period.

6 OTHER INCOME

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	4,648	433	–
Interest gained from entrust loans (a) *(Note 29)*	–	3,250	15,243
Lease income	–	322	451
Parking service revenue	790	829	820
Management service revenue gained from medical service team of Huagang Clinic	800	800	130
	6,238	5,634	16,644

(a) Yongding Hospital lends entrust loan through the Agriculture Bank of China, Wujiang Sub-branch to a related party, Beijing Consen Automation Control Co. Ltd ("**Consen**"), at a fixed interest rate of 12%. And as at December 31, 2019 and 2020, the balances were unsecured and collectable on demand with accruals and are denominated in RMB.

7 OTHER GAINS/(LOSSES) – NET

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Realised and unrealised gains on financial assets at FVPL	1,732	1,101	477
Losses on disposal of property, plant and equipment	(461)	(69)	(108)
Net foreign exchange gains	223	(4)	121
Compensation paid to settle medical disputes	(865)	(1,818)	(2,583)
Surcharge for tax overdue payment	–	(202)	(467)
Default Compensation paid to Huagang Clinic medical service team (a)	–	–	(3,500)
Others	25	35	(8)
	654	(957)	(6,068)

(a) Huagang Clinic is a separated out-patient service department which held by Yongding Hospital. In 2014, Yongding Hospital signed a contract with an independent medical service team to operate the Huagang Clinic from August 1, 2014 to April 30, 2022. The independent medical service team paid fixed management fees every year for getting management and medical service assistance from Yongding Hospital. In 2020, due to changes in Yongding Hospital's business strategy, the original contract was terminated and Yongding Hospital compensated the independent medical service team for the default in accordance with the contract.

8 EXPENSES BY NATURE

	Year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Employee benefits expenses *(Note 9)*	115,196	124,291	124,188
Cost of pharmaceutical, consumables and other inventories	191,061	215,781	212,001
Consultancy and professional service fees	14,530	16,277	20,115
Advertising and promotion	2,023	1,783	1,969
Depreciation and amortization *(Notes 12, 13)*	15,385	17,994	18,890
Utilities, cleaning and afforestation expenses	10,752	10,723	10,723
Travelling, entertainment, vehicle and office expenses	6,700	9,982	7,790
Trademark license expenses	2,000	2,000	2,000
Repair and maintenance	4,096	6,283	6,102
Taxation expenses	2,015	2,228	3,280
Auditor's remuneration			
– Audit	963	122	352
– Non-audit	–	–	–
Testing expenses	2,238	2,728	2,822
Other expenses	1,625	2,541	2,900
	368,584	412,733	413,132

9 EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses are analysed as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and bonuses	87,308	96,149	101,067
Employer's contribution to retirement benefit plan *(a)*	14,098	13,700	9,648
Allowances and benefits in kind	12,878	13,475	12,431
Pension costs – defined contribution plans	912	967	1,042
	115,196	124,291	124,188

(a) During the year ended December 31, 2020, since the government reduced the employers' contribution in retirement benefit plan due to the COVID-19 pandemic, the Target Group's contribution has been decreased.

10 FINANCE COSTS

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Finance income:			
Interest income of bank deposits	356	707	495
Finance costs:			
Interest expense on borrowings	(4,344)	(3,003)	(3,259)
Interest expense on lease liabilities	(54)	(38)	(24)
	(4,398)	(3,041)	(3,283)
Finance costs – net:	(4,042)	(2,334)	(2,788)

11 INCOME TAX EXPENSE

(a) Income tax expense

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
– Corporate income tax	30,837	32,085	26,829
– Withholding income tax on distributed profits	2,500	–	–
Deferred income tax *(Note 14)*			
– Corporate income tax	(553)	(629)	(651)
	32,784	31,456	26,178

The Target Group's principal applicable taxes and tax rates are as follows:

British Virgin Islands

The Target Group's entity incorporated in the British Virgin Islands are not subject to tax on income or capital gains.

Hong Kong

The Target Group's entity incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5%.

PRC corporate income tax ("CIT")

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

Withholding tax on undistributed profits

According to the relevant tax rules and regulations of the PRC, distribution to foreign investors of profits earned by PRC companies since January 1, 2008 is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors' foreign incorporated immediate holding companies. Accordingly, withholding income tax had been provided at 10% of the dividends to be distributed by the PRC subsidiaries of the Group.

As at 31 December, 2018, 2019 and 2020, the retained earnings of the Group's PRC subsidiaries not yet remitted to holding companies incorporated outside the PRC, for which no deferred income tax liability had been recognised, were approximately RMB10,206,000, RMB17,257,000 and RMB23,425,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries for reinvestment purposes and would not be remitted to their overseas holding companies in the foreseeable future based on management's best estimates of the Group's overseas funding requirements.

Numerical reconciliation of income tax expense

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	104,774	107,108	86,755
Tax calculated at applicable statutory tax rate of 25%	26,194	26,777	21,689
Effect of different tax rates	(24)	8	(24)
Tax effect of unrecognized tax losses *(i)*	–	24	24
Items not deductible for tax purposes	4,387	4,647	4,489
Utilisation of previously unrecognised tax losses	(273)	–	–
Withholding tax on the earnings from subsidiaries	2,500	–	–
	32,784	31,456	26,178

(i) *Unrecognized tax losses*

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Unused tax losses for which no deferred tax asset has been recognized	2,666	2,813	2,960
Potential tax benefit	440	464	488

The unused tax losses for which no deferred tax asset has been recognized as at December 31, 2018, 2019 and 2020 were from Etern Healthcare.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Right-of-use for properties	Right-of-use for lands	Medical equipment	Transportation equipment	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018								
Cost	260,244	2,076	48,885	125,428	3,760	10,868	1,545	452,806
Accumulated depreciation	(35,089)	(1,158)	(10,370)	(92,731)	(3,033)	(7,511)	–	(149,892)
Net book amount	225,155	918	38,515	32,697	727	3,357	1,545	302,914
Year ended December 31, 2018								
Opening net book amount	225,155	918	38,515	32,697	727	3,357	1,545	302,914
Additions	6,240	–	–	13,099	608	1,106	4,721	25,774
Transfers upon completion	2,612	–	–	–	–	–	(2,612)	–
Disposals	–	–	–	(662)	(15)	(18)	–	(695)
Depreciation	(5,932)	(244)	(1,022)	(6,404)	(273)	(848)	–	(14,723)
Closing net book amount	228,075	674	37,493	38,730	1,047	3,597	3,654	313,270
At December 31, 2018								
Cost	269,096	2,076	48,885	130,974	4,071	11,657	3,654	470,413
Accumulated depreciation	(41,021)	(1,402)	(11,392)	(92,244)	(3,024)	(8,060)	–	(157,143)
Net book amount	228,075	674	37,493	38,730	1,047	3,597	3,654	313,270

	Buildings	Right-of-use for properties	Right-of-use for lands	Medical equipment	Transportation equipment	Office equipment and furniture	Buildings improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2019									
Opening net book amount	228,075	674	37,493	38,730	1,047	3,597	–	3,654	313,270
Additions	43	–	–	10,023	304	2,187	5,978	4,486	23,021
Transfers upon completion	–	–	–	–	–	–	6,168	(6,168)	–
Disposals	–	–	–	(60)	(13)	(207)	–	–	(280)
Depreciation	(5,932)	(195)	(1,023)	(7,607)	(324)	(892)	(707)	–	(16,680)
Closing net book amount	222,186	479	36,470	41,086	1,014	4,685	11,439	1,972	319,331
At December 31, 2019									
Cost	269,139	2,076	48,885	139,882	4,114	13,534	12,146	1,972	491,748
Accumulated depreciation	(46,953)	(1,597)	(12,415)	(98,796)	(3,100)	(8,849)	(707)	–	(172,417)
Closing net book amount	222,186	479	36,470	41,086	1,014	4,685	11,439	1,972	319,331

	Buildings	Right-of-use for properties	Right-of-use for lands	Medical equipment	Transportation equipment	Office equipment and furniture	Buildings improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2020									
Opening net book amount	222,186	479	36,470	41,086	1,014	4,685	11,439	1,972	319,331
Additions	–	–	–	9,322	85	594	60	3,098	13,159
Transfers upon completion	–	–	–	–	–	–	2,250	(2,250)	–
Disposals	–	–	–	(85)	–	(25)	(588)	–	(698)
Depreciation	(5,931)	(185)	(1,023)	(7,531)	(310)	(1,251)	(1,164)	–	(17,395)
Closing net book amount	216,255	294	35,447	42,792	789	4,003	11,997	2,820	314,397
At December 31, 2020									
Cost	269,139	2,076	48,885	147,632	4,199	13,942	13,868	2,820	502,561
Accumulated depreciation	(52,884)	(1,782)	(13,438)	(104,840)	(3,410)	(9,939)	(1,871)	–	(188,164)
Closing net book amount	216,255	294	35,447	42,792	789	4,003	11,997	2,820	314,397

Depreciation of the Target Group's property, plant and equipment has been recognized in the consolidated statements of profit or loss as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	11,557	13,003	13,413
Administrative expenses	3,166	3,677	3,982
	14,723	16,680	17,395

13 INTANGIBLE ASSETS

	Goodwill	Software	Medical license	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018:				
Cost	72,638	1,802	10,600	85,040
Accumulated amortization	–	(773)	(1,265)	(2,038)
Net book amount	72,638	1,029	9,335	83,002
Year ended December 31, 2018:				
Opening net book amount	72,638	1,029	9,335	83,002
Additions	–	3,438	–	3,438
Amortization	–	(309)	(353)	(662)
Net book amount	72,638	4,158	8,982	85,778
At December 31, 2018:				
Cost	72,638	5,240	10,600	88,478
Accumulated amortization	–	(1,082)	(1,618)	(2,700)
Net book amount	72,638	4,158	8,982	85,778
Year ended December 31, 2019:				
Opening net book amount	72,638	4,158	8,982	85,778
Additions	–	616	–	616
Amortization	–	(961)	(353)	(1,314)
Net book amount	72,638	3,813	8,629	85,080

	Goodwill	Software	Medical license	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2019:				
Cost	72,638	5,856	10,600	89,094
Accumulated amortization	–	(2,043)	(1,971)	(4,014)
Net book amount	72,638	3,813	8,629	85,080
Year ended December 31, 2020:				
Opening net book amount	72,638	3,813	8,629	85,080
Additions	–	4,358		4,358
Amortization	–	(1,142)	(353)	(1,495)
Net book amount	72,638	7,029	8,276	87,943
At December 31, 2020:				
Cost	72,638	10,214	10,600	93,452
Accumulated amortization	–	(3,185)	(2,324)	(5,509)
Net book amount	72,638	7,029	8,276	87,943

(a) Impairment test for goodwill

Goodwill arised from the acquisition of Yongding Healthcare through business combination on May 28, 2014. For the purpose of impairment testing, the carrying amounts of goodwill has been allocated to the CGU comprising Yongding Hospital.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Yongding Hospital

	Years ended December 31,		
	2018	**2019**	**2020**
Revenue (% compound growth rate)	2%	1%	3%
Costs and operating expenses (% of revenue)	82%	84%	85%
Long-term growth rate	3%	3%	3%
Pre-tax discount rate	19.28%	19.11%	18.71%
Recoverable amount of the CGU exceeding its carrying amount (RMB'000)	312,125	310,248	378,310

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the goodwill. Based on review of the recoverable amount, the directors are of the view that no impairment on goodwill was required during Track Record Period.

(b) Amortization

Amortization of the Target Group's intangible assets has been recognized in the consolidated statements of profit or loss as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	353	353	353
Administrative expenses	309	961	1,142
	662	1,314	1,495

14 DEFERRED INCOME TAX

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax liabilities			
– to be realised within 12 months	(510)	(501)	(392)
– to be realised after more than 12 months	(14,853)	(14,352)	(13,960)
	(15,363)	(14,853)	(14,352)
Deferred tax Assets			
– to be realised within 12 months	–	–	30
– to be realised after more than 12 months	215	334	454
	215	334	484

The analysis of deferred tax assets is as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
The balance comprises temporary differences attributable to:			
Amortisation of intangible assets	215	334	484
Total deferred tax assets	215	334	484
Set-off of deferred tax assets pursuant to set-off provisions	(215)	(334)	(484)
Net deferred tax Assets	–	–	–

(i) Deferred tax Assets

Movements	Amortisation of intangible assets *RMB'000*
At January 1, 2018	179
Credit to the consolidated statements of profit or loss	36
At December 31, 2018	215
At January 1, 2019	215
Credit to the consolidated statements of profit or loss	119
At December 31, 2019	334
At January 1, 2020	334
Credit to the consolidated statements of profit or loss	150
At December 31, 2020	484

The analysis of deferred tax liabilities is as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
The balance comprises temporary differences attributable to:			
Appreciation of assets revalued	(15,363)	(14,853)	(14,352)
Total deferred tax liabilities	(15,363)	(14,853)	(14,352)
Set-off of deferred tax assets pursuant to set-off provisions	215	334	484
Net deferred tax liabilities	(15,148)	(14,519)	(13,868)

(ii) Deferred tax liabilities

Movements	Appreciation of assets revalued
	RMB'000
At January 1, 2018	15,880
Credit to the consolidated statements of profit or loss	(517)
At December 31, 2018	15,363
At January 1, 2019	15,363
Credit to the consolidated statements of profit or loss	(510)
At December 31, 2019	14,853
At January 1, 2020	14,853
Credit to the consolidated statements of profit or loss	(501)
At December 31, 2020	14,352

15 INVENTORIES

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Pharmaceuticals	13,850	14,802	17,366
Medical consumables	1,223	1,635	2,127
	15,073	16,437	19,493

For the years ended December 31, 2018, 2019 and 2020, the cost of inventories recognized as expense and included in "cost of revenue" amounted to RMB191,061,000, RMB215,781,000 and RMB212,001,000, respectively.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,		
	2018	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Long-term life insurance	1,000	1,000	–
	1,000	1,000	–

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortized cost:			
Cash and cash equivalents *(Note 19)*	161,551	66,129	103,398
Amounts due from related parties *(Note 29)*	–	133,250	146,000
Trade and other receivables excluding non-financial assets *(Note 18)*	10,055	21,159	35,008
	171,606	220,538	284,406
Financial assets at fair value through profit or loss	1,000	1,000	–
	172,606	221,538	284,406
Financial liabilities			
Financial liabilities at amortized cost:			
Trade and other payables excluding salaries payable and other tax payable	71,597	71,607	90,085
Amounts due to related parties *(Note 29)*	8	8	8
Borrowings *(Note 23)*	85,000	55,000	30,000
Lease liabilities *(Note 24)*	745	466	240
	157,350	127,081	120,333

18 TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Included in current assets			
Trade receivables	9,245	20,852	34,336
Other receivables			
– Deposits receivables	120	50	50
– Others	690	257	622
	810	307	672
Prepayments to suppliers	252	149	–
	10,307	21,308	35,008

The following is an ageing analysis of trade receivables presented based on invoice date:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	6,523	18,390	30,873
91 to 180 days	1,617	2,429	1,938
181 to 365 days	992	9	1,525
1 to 2 years	113	24	–
	9,245	20,852	34,336

The Target Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9 (Note 3.1.2).

The Target Group's trade receivables were denominated in RMB.

19 CASH AND CASH EQUIVALENTS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	161,551	66,129	103,398
	161,551	66,129	103,398

Cash and deposits were denominated in the following currencies:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
RMB	160,520	65,164	102,358
USD	1,021	958	1,019
HKD	10	7	21
	161,551	66,129	103,398

20 SHARE CAPITAL AND SHARE PREMIUM

The target company and the target group	Number of shares	Nominal value of shares *USD*	Equivalent nominal value of shares *RMB'000*	Share premium *RMB'000*
Authorised:				
Ordinary shares of USD1 each authorised	50,000	50,000	–	–
As of January 1, 2018, December 31, 2018, December 31, 2019 and December 31, 2020	50,000	50,000	–	–
Issued and fully paid:				
Issuance of ordinary shares	1,001	1,001	6	165,880
As of January 1, 2018, December 31, 2018, December 31, 2019 and December 31, 2020	1,001	1,001	6	165,880

(a) In 2014, the Target Company issued 1,001 ordinary shares with par value of USD 1 per share at a subscription price of USD26,980,000 (equivalent to RMB165,886,000) to provide initial capital to the Target Company. The excess to the share capital amounting to USD26,978,999 (equivalent to RMB165,880,000) was credited to share premium accordingly.

21 OTHER RESERVES

	Year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	19,925	26,993	34,569
Transfer to statutory reserve *(a)*	7,068	7,576	6,085
At the end of the year	26,993	34,569	40,654

(a) Statutory reserve in accordance with the PRC regulations, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

22 RETAINED EARNINGS

The Target Group

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	105,269	154,317	220,848
Profit for the year	70,546	74,107	59,336
Transfer to statutory reserves	(7,068)	(7,576)	(6,085)
Dividends	(14,430)	–	–
At the end of the year	154,317	220,848	274,099

The Target Company

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	(90)	759	751
Profit/(loss) for the year	15,279	(8)	116
Dividends	(14,430)	–	–
At the end of the year	759	751	867

23 BORROWINGS

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
– Short term bank borrowings-unsecured	85,000	55,000	30,000
	85,000	55,000	30,000

The weighted average effective interest rates per annum at the balance sheet dates are set out as follows:

	As at December 31,		
	2018	**2019**	**2020**
Bank borrowings	4.44%	4.54%	4.29%

(a) The following tables sets forth the ranges of the effective interest rate per annum of our bank borrowings as at the dates indicated:

	As at December 31,		
	2018	**2019**	**2020**
	%	%	%
Floating-rate bank borrowings *(i)*	Benchmark interest rate for loan+(4 points-69.25 points)	Benchmark interest rate for loan+15 points	Benchmark interest rate for loan+20 points

(i) The benchmark interest rate is borrowing interest rate announced by the People's Bank of China.

(b) The carrying amounts of the borrowings approximated their fair values as at December 31, 2018, 2019 and 2020, as the borrowings carried floating interest rate.

(c) The Target Group's borrowings are repayable based on scheduled repayment as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	85,000	55,000	30,000
	85,000	55,000	30,000

(d) Compliance with loan covenants

The Target Group complied with the financial covenants of its borrowing facilities during the Track Record Period.

24 LEASE LIABILITIES

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Minimum lease payments due			
– Within 1 year	317	250	250
– Between 1 and 2 years	250	250	–
– Between 2 and 5 years	250	–	–
	817	500	250
Less: future finance charges	(72)	(34)	(10)
Present value of lease liabilities	745	466	240
Within 1 year	279	226	240
Between 1 and 2 years	226	240	–
Between 2 and 5 years	240	–	–
	745	466	240

The Target Group leases various properties and equipments to operate its businesses and these lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. No extension options are included in such properties and equipments leases across the Target Group.

The total cash outflows for lease payment including lease liabilities, interest expenses on leases and variable lease payments, for the years ended December 31, 2018, 2019 and 2020 were RMB316,000, RMB317,000 and 250,000, respectively.

25 TRADE AND OTHER PAYABLES

	As at December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Trade payables *(a)*	43,381	49,663	64,186
Salaries payable	46,926	60,330	70,078
Accrual consultancy and professional service fee	11,768	629	1,217
Trademark license expense payable	1,000	1,000	1,000
Deposits payable	1,271	1,615	1,908
Other taxes payable	566	711	2,186
Payable of surcharge for tax overdue payment	–	202	669
Interest payable	179	73	40
Payables for non-current assets	9,862	12,834	12,484
Dividend payable	2,800	1,600	3,000
Others	1,336	3,991	5,581
	119,089	132,648	162,349

(a) The credit period granted by suppliers mainly ranges from 30 to 90 days. The following is an aging analysis of trade payables presented based on the invoice date:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	37,474	39,090	56,448
91 to 180 days	4,010	5,618	4,808
181 to 365 days	1,201	4,042	2,602
Over 1 year	696	913	328
	43,381	49,663	64,186

26 CONTRACT LIABILITIES

The Target Group has recognized the following revenue-related contract liabilities:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
– In-patient services	432	170	232
	432	170	232

(a) Revenue recognized in relation to contract liabilities

The following table shows the revenue recognized during the Track Record Period relates to carried-forward contract liabilities.

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
– In-patient services	287	432	170
	287	432	170

All hospital business contracts are for periods of one year or less.

27 DIVIDENDS

During the year ended 31 December 2018, dividend of approximately RMB14,430,000 has been declared and paid by the Target Company. Save as that, no dividend has been declared for the year ended December 31, 2019 and 2020 by the Target Company.

28 NET CASH GENERATED FROM OPERATION

Reconciliation from profit before income tax to cash generated from operations:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	104,774	107,108	86,755
Adjustment for:			
Interest income *(Note 10)*	(356)	(707)	(495)
Interest expenses *(Note 10)*	4,398	3,041	3,283
Depreciation of property, plant and equipment *(Note 12)*	14,723	16,680	17,395
Amortization of intangible assets *(Note 13)*	662	1,314	1,495
Net loss on disposals of property, plant and equipment *(Note 7)*	461	69	108
Interest gained from entrust loans *(Note 6)*	–	(3,250)	(15,243)
Realised and unrealised gains on financial assets at FVPL *(Note 7)*	(1,732)	(1,101)	(477)
Operating cash flows before changes in working capital	122,930	123,154	92,821
Changes in working capital:			
Increase in inventories	(1,378)	(1,364)	(3,056)
Decrease/(increase) in trade and other receivables, prepayments	20,582	(11,001)	(13,700)
Increase in trade and other payables, and contract liabilities	16,497	11,502	28,539
Cash generated from operations	158,631	122,291	104,604

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Net book amount *(Note 12)*	695	280	698
Net loss on disposal of property, plant and equipment *(Note 7)*	(461)	(69)	(108)
Proceeds from disposal of property, plant and equipment	234	211	590

For the years ended December 31, 2018, 2019 and 2020, the Target Group did not have any material non-cash investing activities.

Net debt reconciliation

This section sets out an analysis of net debt and the movements in the debt for each of the period presented.

	Bank borrowings	Lease liability	Net loan to related party
	RMB'000	*RMB'000*	*RMB'000*
Balance as at January 1, 2018	105,000	1,007	7,414
Cash flows	(20,000)	(316)	(7,406)
Interest expenses	–	54	–
Balance as at December 31, 2018	85,000	745	8
Cash flows	(30,000)	(317)	–
Interest expenses	–	38	–
Balance as at December 31, 2019	55,000	466	8
Cash flows	(25,000)	(250)	–
Interest expenses	–	24	–
Balance as at December 31, 2020	30,000	240	8

29 RELATED PARTY TRANSACTIONS

The Target Group

(a) Names and relationships with related parties

Related parties are those parties that have the ability to control, jointly control or exercise significant influence over the other party in holding power over the investee; exposure or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

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

Name of related parties	Relationship with the Group
Ascendent Healthcare	Immediate holding company
Yali Investment (Shanghai) Co., Limited ("**Yali Investment**") (雅禮投資諮詢(上海)有限公司)	A company controlled by the Ascendent Capital
Consen (北京康吉森自動化設備技術有限公司)	A company under significant influence of Ascendent Capital

(b) Key management compensation

Key management includes directors and the senior management of the Target Group.

The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and bonus	2,745	3,023	4,447
Employer's contribution to retirement benefit plan	127	80	104
Allowances and benefits in kind	67	43	56
Defined contribution plans	14	14	14
	2,953	3,160	4,621

(c) Transactions with related parties

During the Track Record Period, save as disclosed elsewhere in this accountant's report, the following is a summary of the significant transactions carried out between the Target Group and its related parties.

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Entrust loan to a related party			
– Consen	–	130,000	627,000
Repayment of Entrust loan from a related party			
– Consen	–	–	611,000
Interest gained from entrust loan to a related party			
– Consen	–	3,250	15,243
Depreciation on right-of-use assets and interest expense on lease liabilities			
– Yali Investment	63	10	–

Transactions with related companies are determined based on terms mutually agreed between the relevant parties.

(d) Balances with related parties

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties			
Non-trade			
– Receivable of Consen's entrust loan	–	133,250	146,000
	–	133,250	146,000

As at December 31, 2019 and 2020, the balances were unsecured and collectable on demand with accruals and are denominated in RMB.

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties			
Non-trade			
– Ascendent Healthcare	8	8	8
	8	8	8
Lease liabilities to			
– Yali Investment	65	–	–

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

The Target Company

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to a related party			
– Ascendent Healthcare	8	8	8

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

30 INVESTMENT IN A SUBSIDIARY

The Target Company

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Capital contribution			
– Etern Healthcare	165,764	165,764	165,764

31 COMMITMENTS

The Target Group's capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	560	1,155	12,954
Intangible assets	–	175	891
	560	1,330	13,845

32 CONTINGENT LIABILITIES

As at December 31, 2018, 2019 and 2020, the Target Group did not have any material contingent liabilities.

33 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Target Group after December 31, 2020.

34 BENEFITS AND INTERESTS OF DIRECTORS

The directors' emoluments are borne by Ascendent Capital, the Target Company's ultimate holding company. The corresponding portion attributable to the Target Company was considered insignificant and has not been charged back to the Target Company.

No emoluments have been paid by the Target Company to the directors as an inducement to join or upon joining the Target Company or as compensation for loss of office or no directors waived or agreed to waive any emoluments during the years ended December 31, 2018, 2019 and 2020.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to December 31, 2020 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to December 31, 2020.

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

BUSINESS REVIEW

The Target Company is incorporated under the laws of the BVI and is an investment holding company wholly-owned by the Vendor with its principal assets being its indirect investment in the 98% equity interest in Suzhou Yongding Hospital.

Suzhou Yongding Hospital has commenced its operation as a general hospital since 2007 in Suzhou City, Jiangsu Province, the PRC and is currently a private for-profit Class II general hospital providing extensive healthcare services. Suzhou Yongding Hospital currently holds a valid Medical Institution Practicing License (醫療機構執業許可證) and provides outpatient services, inpatient services and general healthcare services in a wide range of specialties, including but not limited to oncology, general surgery, internal medicine, and traditional Chinese medicine. As of December 31, 2020, it had 540 registered beds. The number of inpatient visits was approximately 20 thousand, and the number of outpatient visits was approximately 482 thousand for the year ended December 31, 2020.

FINANCIAL REVIEW

Revenue

During the Track Record Period, revenue of the Target Group was generated from one single segment, namely the provision of healthcare services. For the years ended December 31, 2018, 2019 and 2020, revenue of the Target Group amounted to RMB470.5 million, RMB517.5 million and RMB492.1 million, respectively. Revenue of the Target Group decreased by 4.9% in 2020 as compared to that in 2019, mainly due to the impact of the COVID-19 epidemic at the beginning of 2020.

Cost of Revenue

During the Track Record Period, cost of revenue of the Target Group primarily consisted of cost of pharmaceuticals, medical consumables and other inventories, employee benefits expenses, consultancy and professional service fees, depreciation and amortization and other related expenses. For the years ended December 31, 2018, 2019 and 2020, cost of revenue of the Target Group amounted to RMB336.3 million, RMB375.5 million and RMB372.3 million, respectively.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020, gross profit of the Target Group amounted to RMB134.2 million, RMB142.0 million and RMB119.8 million, respectively, and gross profit margin of the Target Group was 28.5%, 27.4% and 24.3%, respectively, for the same years.

Selling Expenses

During the Track Record Period, selling expenses of the Target Group primarily consisted of marketing and promotion expenses. For the years ended December 31, 2018, 2019 and 2020, selling expenses of the Target Group amounted to RMB2.5 million, RMB2.4 million and RMB2.6 million, respectively.

Administrative Expenses

During the Track Record Period, administrative expenses of the Target Group primarily consisted of employee benefits expenses, depreciation and amortization, travelling expenses, utilities expenses and other expenses. For the years ended December 31, 2018, 2019 and 2020, administrative expenses of the Target Group amounted to RMB29.8 million, RMB34.9 million and RMB38.3 million, respectively.

Other Income

During the Track Record Period, other income of the Target Group primarily consisted of government grants and interest income from an entrusted loan to a related party. For the years ended December 31, 2018, 2019 and 2020, other income of the Target Group amounted to RMB6.2 million, RMB5.6 million and RMB16.6 million, respectively.

Other Gains/Losses – Net

During the Track Record Period, other gains/losses – net of the Target Group primarily consisted of income from wealth management products, compensation expenditure for medical disputes, compensation expenditure for termination of Huagang Clinic cooperation agreement, and losses from disposal of fixed assets. The Target Group recorded other gains – net of RMB0.7 million for the year ended December 31, 2018, while it recorded other losses – net of RMB1.0 million for the year ended December 31, 2019, primarily attributable to the increase in compensation paid to settle medical disputes of RMB1.0 million, and the decrease in gains on wealth management products of RMB0.6 million. Other losses – net of the Target Group increased from RMB1.0 million for the year ended December 31, 2019 to RMB6.1 million for the year ended December 31, 2020, primarily attributable to the compensation paid for termination of Huagang Clinic cooperation agreement of RMB3.5 million in 2020, the increase in compensation paid to settle medical disputes of RMB0.8 million, and the decrease in gains on wealth management products of RMB0.6 million.

For details of the compensation paid for termination of Huagang Clinic cooperation agreement, please see Note 7 to the accountants' report on historical financial information of the Target Group as set out in Appendix II to this circular.

Finance Income and Costs

During the Track Record Period, finance income of the Target Group consisted of interest income on its bank savings. For the years ended December 31, 2018, 2019 and 2020, finance income of the Target Group amounted to RMB0.4 million, RMB0.7 million and RMB0.5 million, respectively.

During the Track Record Period, finance costs of the Target Group primarily consisted of its interest expenses on bank borrowings and interest expenses on lease liabilities. For the years ended December 31, 2018, 2019 and 2020, finance costs of the Target Group amounted to RMB4.4 million, RMB3.0 million and RMB3.3 million, respectively.

Income Tax Expense

For the years ended December 31, 2018, 2019 and 2020, income tax expense of the Target Group amounted to RMB32.8 million, RMB31.5 million and RMB26.2 million, respectively.

Profit for the Year Attributable to Owners of the Target Company

For the years ended December 31, 2018, 2019 and 2020, the Target Group recorded profit for the year attributable to owners of the Target Company of RMB70.5 million, RMB74.1 million and RMB59.3 million, respectively.

Intangible Assets

Intangible assets of the Target Group primarily consisted of goodwill and software. As of December 31, 2018, 2019 and 2020, intangible assets of the Target Group amounted to RMB85.8 million, RMB85.1 million and RMB87.9 million, respectively.

Capital Structure, Liquidity And Financial Resources

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

Funding and treasury policies

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

Borrowings

The total amount of borrowings (including bank loans and amounts due to related parties) of the Target Group as of December 31, 2018, 2019 and 2020 amounted to RMB85.0 million, RMB55.0 million and RMB30.0 million, respectively. All the outstanding borrowings of the Target Group as of December 31, 2020 had been repaid by February 9, 2021.

All bank borrowings of the Target Group are short-term bank borrowings. The bank borrowings are denominated in RMB. The carried floating rate and the weighted average effective interest rate on such borrowings as of December 31, 2018, 2019 and 2020 was

4.44%, 4.54% and 4.29% per annum, respectively. The amounts due to related parties are unsecured, interest-free, repayable on demand and denominated in RMB.

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

As of December 31, 2020, the Target Group had cash and cash equivalents of RMB103.4 million, which are mainly denominated in RMB. As of December 31, 2020, the Target Group had current assets of RMB303.9 million and net current assets of RMB95.6 million.

As of December 31, 2020, the Target Group had non-current assets of RMB402.3 million, primarily including (i) plant, property and equipment of RMB314.4 million, mainly representing buildings of RMB216.3 million, medical equipment of RMB42.8 million and right-of-use for lands of RMB35.4 million; and (ii) intangible assets of RMB87.9 million, mainly representing goodwill of RMB72.6 million arised from the acquisition of the WFOE through business combination on May 28, 2014.

Gearing ratio

The total equity of the Target Group as of December 31, 2018, 2019 and 2020 amounted to RMB350.6 million, RMB424.7 million and RMB483.9 million, respectively. Gearing ratio of the Target Group was calculated as net debt/(cash) (i.e. total bank borrowings, lease liabilities and loan from related parties less cash and cash equivalents) divided by total equity. The gearing ratio of the Target Group was not applicable due to its net cash position (namely, cash and cash equivalents exceeding total bank borrowings, lease liabilities and loan from related parties) as of December 31, 2018, 2019 and 2020.

Trade and Other Payables

As of December 31, 2018, 2019 and 2020, trade and other payables of the Target Group amounted to RMB119.1 million, RMB132.6 million and RMB162.3 million, respectively.

Pledge of Assets

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

Contract Liabilities

Contract liabilities of the Target Group represented advance payments from its customers while the underlying services had not been provided. As of December 31, 2018, 2019 and 2020, contract liabilities of the Target Group amounted to RMB0.4 million, RMB0.2 million and RMB0.2 million, respectively.

Capital Commitments

Capital commitments that were contracted but not provided for mainly represented commitments arising out of a contractual relationship where the relevant property, plant and equipment or intangible assets were not provided as of the relevant dates. As of December 31, 2018, 2019 and 2020, capital commitments of the Target Group amounted to RMB0.6 million, RMB1.3 million and RMB13.8 million, respectively. Capital commitments of the Target Group as of December 31, 2020 mainly represented (i) construction and decoration of hospitals; and (ii) purchase of large equipment.

Contingent Liabilities

As of December 31, 2018, 2019 and 2020, the Target Group had no contingent liabilities.

Significant Investments, Material Acquisitions and Disposals

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

Future Plan for Material Investments and Capital Assets

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

Material Related Party Transactions

During the Track Record Period, the Target Group and Beijing Consen Automation Control Co., Ltd., a related party of the Target Group, entered into a loan contract. As of the Latest Practicable Date, such loan has been fully settled. For details of the related party transactions, please see Note 29 to the accountants' report on historical financial information of the Target Group as set out in Appendix II to this circular.

Foreign Exchange Risk

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

Remuneration Policies and Employees

The remuneration policies adopted by the Target Group are similar to those of peers in the industry and are reviewed regularly. The remuneration payable to employees is determined with reference to their qualification, experience, responsibilities and prevailing market practice. As of December 31, 2018, 2019 and 2020, the number of employees of the Target Group was 793, 829 and 828, respectively. For the years ended December 31, 2018, 2019 and 2020, the employee benefit expenses amounted to RMB115.2 million, RMB124.3 million and RMB124.2 million, respectively, which primarily consisted of salaries, wages and bonuses, contribution to retirement benefit plan, as well as allowances and benefits in kind.

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

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

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

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

	The Group as at December 31, 2020	The Target Group as at December 31, 2020	Pro-forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
ASSETS					
Non-current assets					
Property, plant and equipment	1,365,850	314,397	53,628		1,733,875
Intangible assets	382,940	87,943	1,222,792		1,693,675
Prepayments for non-current assets	17,885				17,885
Deferred income tax assets	12,289				12,289
Total non-current assets	1,778,964				3,457,724
Current assets					
Inventories	50,957	19,493			70,450
Trade, other receivables and prepayments	276,530	35,008			311,538
Amounts due from related parties	12,824	146,000			158,824
Financial assets at fair value through profit or loss	2,196,926				2,196,926
Cash and cash equivalents	385,104	103,398		(4,157)	484,345
Total current assets	2,922,341				3,222,083
Total assets	4,701,305				6,679,807

	The Group as at December 31, 2020	The Target Group as at December 31, 2020	Pro-forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
LIABILITIES					
Current liabilities					
Trade and other payables	237,268	162,349	747,600		1,147,217
Amounts due to related parties	–	8			8
Contract liabilities	11,456	232			11,688
Current income tax liabilities	30,551	15,465			46,016
Lease liabilities	1,677	240			1,917
Borrowings		30,000			30,000
Total current liabilities	280,952				1,236,846
Non-current liabilities					
Deferred income tax liabilities	43,599	13,868	21,188		78,655
Deferred revenue	26,690	223			26,913
Lease liabilities	807				807
Other non-current liabilities	7,880				7,880
Borrowings	–		987,000		987,000
Total non-current liabilities	78,976				1,101,255
Total liabilities	359,928				2,338,101
Net assets	4,341,377				4,341,706

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP AS AT DECEMBER 31, 2020

Notes:

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

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

3. Upon the completion of the Acquisition, the Target Company will become a 100%-owned subsidiary of the Company, and the identifiable assets and liabilities of the Target Group will be accounted for by the Group at their fair values in accordance with International Financial Reporting Standard ("**IFRS**") 3 (Revised) "Business Combination".

   In order to fund part of the Consideration, on April 25, 2021, the Purchaser (as the borrower) entered into the Facility Agreement with Ping An Bank Co., Ltd. Shanghai Branch (as the lender), which provides for a loan facility in an aggregate principal amount of up to USD152,000,000 (approximately equivalent to RMB987,000,000).

   For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Group as at December 31, 2020 based on a valuation report dated April 26, 2021 prepared by an independent qualified professional valuer ("**Valuation Report**"). The fair value adjustments and the calculation of goodwill are presented as follows:

		RMB'000
Carrying amounts of net assets of the Target Group as at December 31, 2020		483,854
Fair value adjustments on:		
Medical license	*(i)*	31,124
Property, plant and equipment		25,700
Land use right		27,928
Recognition of deferred tax liabilities arising from the fair value adjustments	*(ii)*	(21,188)
Total fair values of identifiable net assets of the Target Group		547,418
Non-controlling interests	*(iii)*	(4,486)
Total fair value of identifiable net assets of the Target Group attributable to the 100% equity interest acquired by Hygeia Healthcare Holdings Co., Limited		542,932
Consideration	*(iv)*	1,734,600
Goodwill attributable to:		
Owners of the Company		1,191,668

(i) The fair values of medical license arising from the Acquisition as at December 31, 2020 were determined by using multi-period excess earnings method. Key assumptions adopted in estimating the fair value of the License are as follows:

Discount rate	16.00%
Amortization period	24 years
Long-term growth rate	3.00%

(ii) The corresponding deferred tax liabilities of RMB21,188,000 are measured at the tax rates that are expected to apply when the related taxable temporary difference are settled, which is from 25%, as applicable to the companies comprising the Target Group.

(iii) The amount of non-controlling interests represents 2% of the fair value of identifiable net assets of a subsidiary of the Target Company, after taking up the fair value adjustments as at December 31, 2020.

(iv) Pursuant to the Share Purchase Agreement, the Consideration shall be USD267,132,781, being the USD equivalent of RMB1,734,600,000 (subject to the Post-Completion Adjustment), which shall be satisfied by cash.

The Consideration will be funded by internal resources of the Group, the portion of the net proceeds from the Global Offering which has been allocated for the purpose of acquiring hospitals, and external loan facilities provided under the Facility Agreement by Hygeia Healthcare Holdings Co., Limited upon the Completion of Acquisition.

In order to fund part of the Consideration, on April 25, 2021, the Purchaser (as the borrower) entered into the Facility Agreement with Ping An Bank Co., Ltd. Shanghai Branch (as the lender), which provides for a loan facility in an aggregate principal amount of up to USD152,000,000. The drawdown period shall be from the date of signing of the Facility Agreement to March 31, 2022. The maturity date shall be April 25, 2022 for 1.3% of the principal drawdown amount, April 25, 2023 for 6.6% of the principal drawdown amount and April 25, 2024 for 92.1% of the principal drawdown amount. Interest shall be accrued on the outstanding drawdown amount from the drawdown date to the repayment date at the three-month London Interbank Offered Rate plus 112 basis points.

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

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

(vi) After the Completion, the Purchaser and the Vendor agree to confirm the following adjustments by November 30, 2021:

(1) the result of the amount of reimbursable medical fees to be received from the Medical Insurance Center that were recorded on the management accounts of Suzhou Yongding Hospital as of December 31, 2020 minus the amount of medical fees that are actually received as of November 30, 2021 in respect of the social medical insurance fees for the year of 2020 (the "**Medical Insurance Adjustment**"); and

(2) the result of the amount of employees remuneration (including but not limited to salaries, bonus, over-time payments, night-time payments and other employment expenses) of the Target Group that were actually paid in April 2021 for the month of March 2021 minus the amount of employees remuneration of the Target Group for the month of March 2021 estimated by the Vendor (the "**Employee Remuneration Adjustment**").

The amount of the Post-Completion Adjustment shall be the USD equivalent of the result calculated in accordance with the following formula:

$A = (0.98 \times 0.75 \times B) + (0.98 \times 0.75 \times C)$

Where:

"A" means the amount of the Post-Completion Adjustment in RMB;
"B" means the amount of the Medical Insurance Adjustment; and
"C" means the amount of the Employee Remuneration Adjustment.

If the amount of the Post-Completion Adjustment is (i) positive, the Consideration shall be adjusted downward by deducting the amount of the Post-Completion Adjustment from the Post-Completion Last Payment; (ii) negative, the Consideration shall be adjusted upward by adding the absolute value of the amount of the Post-Completion Adjustment to the Post Completion Last Payment and the upward adjustment (if any) is expected to be no more than RMB3,000,000; and (iii) zero, no Post-Completion Adjustment will be made.

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

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

5. For the purpose of this Unaudited Pro Forma Financial Information, the balances stated in United States Dollar ("**US$**") are converted into RMB at the rate of US$1 to RMB6.4934. No representation is made that US$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.

6. No other adjustment has been made to the unaudited pro forma statement of assets and liabilities of the Enlarged Group to reflect any trading results or other transactions entered into by the Group or the Target Group subsequent to December 31, 2020.

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

羅兵咸永道

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

To the Directors of Hygeia Healthcare Holdings Co., Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hygeia Healthcare Holdings Co., Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), and Etern Group Ltd. and its subsidiaries (the "**Target Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at December 31, 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-6 of the Company's circular (the "**Circular**") dated May 14, 2021, in connection with the proposed acquisition of the Target Group (the "**Transaction**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-6 of the Circular.

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

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Reporting Accountant's Responsibilities

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

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

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

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

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

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, May 14, 2021

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(1) Interest of Directors and Chief Executive

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

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

Name of Director/ chief executive	**Nature of interest**	**Number of Shares held**	**Approximate percentage of total issued Shares** [(1)]
Mr. Zhu [(2)(3)]	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Mr. Ren Ai [(3)(4)(5)]	Interest in a controlled corporation/Interest of spouse/Beneficial interest	280,260,415 (L)	45.35%
Ms. Cheng Huanhuan	Beneficial interest	49,621 (L)	0.01%
Mr. Zhang Wenshan	Beneficial interest	62,027 (L)	0.01%
Ms. Jiang Hui	Beneficial interest	62,027 (L)	0.01%

Notes:

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

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

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

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

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

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

(b) Interests in the Associated Corporation of the Company

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Century River Investment (1)(3)	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Century River (1)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Ms. Zhu (2)(3)(4)	Interest in a controlled corporation/Interest of concert parties/Interest of spouse	280,260,415 (L)	45.35%
Red Palm Investment (2)(3)	Interest in a controlled corporation/Interest of concert parties	280,260,415 (L)	45.35%
Amber Tree (2)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Red Palm (2)(3)	Beneficial interest/Interest of concert parties	280,260,415 (L)	45.35%
Fountain Grass (5)	Beneficial interest	67,756,038 (L)	10.96%

Notes:

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

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

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

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

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

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

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

3. LITIGATION

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

4. DIRECTORS' SERVICE CONTRACT

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

5. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

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

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

Save for the contractual arrangements and continuing connected transactions as disclosed in the sections headed "Contractual Arrangement" and "Connected Transactions" in the Prospectus and the section headed "Connected Transactions" in the 2020 Annual Report of the Company published on April 29, 2021, as of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at such date and which was significant in relation to the business of the Enlarged Group.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who had given opinion contained in this circular:

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

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

As of the Latest Practicable Date, the above expert was not interested beneficially or otherwise in any Shares or securities in any of subsidiaries or associated corporation (within the meaning of Part XV of the SFO) of the Company and did not have any rights, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or securities in any of subsidiaries or associated corporations of the Company nor did it has any interests, either direct or indirect, in any assets which have been, since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MATERIAL CONTRACTS

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

(1) the Share Purchase Agreement; and

(2) the Facility Agreement.

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

9. GENERAL

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

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

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

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

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

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

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

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

(4) the written consent as set out in the section headed "Qualification and Consent of Expert" in this Appendix;

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

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

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

(8) this circular.