THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares of Kiu Hung International Holdings Limited, you should at once hand this circular and the accompanying 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.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

Kiu Hung International Holdings Limited
僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

(1) MAJOR TRANSACTION IN RELATION TO ACQUISITION OF 51% EQUITY INTERESTS IN THE TARGET COMPANY INVOLVING ISSUE OF THE CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (2) NOTICE OF SPECIAL GENERAL MEETING

Capitalised terms used in this cover page shall have the same meanings as defined in this circular.

The notice convening the SGM of Kiu Hung International Holdings Limited (the "**Company**") to be held at Harbour Plaza Room I, B1/F, Harbour Plaza, North Point, 665 King's Road, North Point, Hong Kong on Monday, 19 April 2021 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

30 March 2021

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

"Acquisition"	the acquisition of the Sale Interests pursuant to the terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement);
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Business Day(s)"	a day (other than a Saturday, a Sunday or a public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours;
"BVI"	British Virgin Islands;
"Company"	Kiu Hung International Holdings Limited (Stock Code: 381), a company incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange;
"Completion"	the completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement);
"Completion Date"	the third Business Day immediately following the date that the Conditions having been fulfilled or waived (as the case may be) by not later than the Long Stop Date;
"Condition(s)"	the conditions precedent of the Completion, details of which are set out in the paragraph headed "Conditions Precedent" of this circular;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Consideration"	the total consideration payable by the Purchaser to the Vendor (or its nominee) for the Sale Interests, being HK$170 million;

"Conversion Price"	the conversion price of HK$2 per Conversion Share of the Convertible Bonds (subject to adjustment as set out and in accordance with the terms and conditions of the Convertible Bonds);
"Conversion Shares"	a maximum of 85,000,000 new Shares to be allotted and issued by the Company upon conversion of the Convertible Bonds at the Conversion Price;
"Convertible Bonds"	the aggregate of the 1st to 5th Tranche Convertible Bonds (as defined in the section headed "Consideration" in the letter from the Board to this circular) in the aggregate principal amount of up to HK$170,000,000 at the Conversion Price and for a conversion period of three years from the date of issue with zero coupon to be issued by the Company to the Vendor in accordance with the terms and conditions of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) for satisfying the Consideration;
"Director(s)"	the director(s) of the Company;
"Enlarged Group"	the Group as enlarged by the Target Group upon Completion;
"Group"	the Company and its subsidiaries;
"Guarantor"	Mr. Lin;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	the independent third party who is, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, independent of and not connected with the Company and its connected person(s);
"Joint Financial Advisers"	Chanceton Capital Partners Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO and Bison Corporate Finance Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO, being the joint financial advisers to the Company;
"Last Trading Day"	10 September 2019, being the last trading day immediately before the entering into of the Sale and Purchase Agreement;

"Latest Practicable Date"	26 March 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	31 May 2021 or such later date as the parties to the Sale and Purchase Agreement may agree in writing;
"Mr. Lin"	Mr. Lin Wei (林烽先生);
"mu"	Chinese Mu, one of which equals approximately 667 square meters;
"New Procurement Agreements"	the Chinese herbs procurement agreements, entering into between the Target Company and new customers;
"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
"PRC GAAP"	Generally accepted accounting principles in PRC;
"Procurement Agreement"	the Chinese herbs procurement agreement, entering into between the Target Company and Sinopharm;
"Public Float Requirement"	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules;
"Purchaser"	Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司), a company incorporated in PRC with limited liability;
"Reorganisation"	Mr. Lin to transfer his 51% equity interests in the Target Company to the Vendor, and upon completion of such reorganisation, the Vendor will hold a 51% equity interests in the Target Company;
"Reporting Accountant"	Prism CPA Limited, independent Certified Public Accountants;
"RMB"	Renminbi, the lawful currency of the PRC;

"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 11 September 2019, entered into among the Vendor, the Purchaser and the Guarantor in relation to the Acquisition;
"Sale Interests"	51% equity interests in the Target Company;
"Second Supplemental Agreement"	the second supplemental agreement dated 23 March 2021, entering into among the Vendor, the Purchaser and the Guarantor in the relation to the Acquisition;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve the Acquisition, the Specific Mandate and the transactions contemplated thereunder;
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company;
"Shareholders"	the holders of Shares;
"Sinopharm"	Sinopharm Holding Hunan Co., Ltd* (國藥控股湖南有限公司), a non-wholly owned subsidiary of Sinopharm Group Co., Ltd (a company listed on the Stock Exchange);
"Specific Mandate"	a specific mandate to be sought from the Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules at the SGM to allot and issue the Conversion Shares upon exercising the conversion rights attached to the Convertible Bonds;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supplemental Agreement"	the supplemental agreement dated 20 July 2020, entered into among the Vendor, the Purchaser and the Guarantor in relation to the Acquisition;
"Supplemental Procurement Agreements"	the supplemental Chinese herbs procurement agreements, entering into between the Target Company and Sinopharm;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Target Company"	Hubei Jincaotang Pharmaceutical Co., Ltd.* (湖北金草堂藥業有限公司), a company incorporated in PRC with limited liability;

"Third Supplemental Agreement"	the third supplemental agreement dated 25 March 2021 entered into among the Vendor, the Purchaser and the Guarantor in the relation to the Acquisition to amend the Conversion Price to HK$2 per Conversion Share of the Convertible Bonds (subject to adjustment as set out and in accordance with the terms and conditions of the Convertible Bonds) in view of the Company's capital reorganisation, in particular, the share consolidation of every twenty (20) then existing issued and unissued Shares of HK$0.1 each into one (1) consolidated Share of HK$2 each, has become effective on 17 September 2020;
"Updated Valuation"	the valuation prepared by the Valuer regarding the valuation of the Target Company as at 30 June 2020;
"Updated Valuation Report"	the valuation report dated 30 March 2021 issued by the Valuer regarding the valuation of the Target Company as at 30 June 2020. A copy of the valuation report including assumptions, basis and methodology of the valuation, have been included in Appendix V in this circular;
"Valuation"	the valuation prepared by the Valuer regarding the valuation of the Target Company as at 31 August 2019;
"Valuation Report"	the valuation report dated 30 March 2021 issued by the Valuer regarding the valuation of the Target Company as at 31 August 2019. A copy of the valuation report including assumptions, basis and methodology of the valuation, have been included in Appendix VI in this circular;
"Valuer"	an independent professional valuation firm namely LCH (Asia-Pacific) Surveyors Limited;
"Vendor"	Sheen World International Holdings Limited, a company incorporated in BVI with limited liability;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"%"	percent.

For the purpose of this circular, unless otherwise indicated, the conversion of RMB into HK$ are calculated at the approximate exchange rate of RMB1.00 to HK$1.1. This exchange rate is for purpose of illustration only and does not constitute a representation that any amount has been, could have been, or may be, exchanged at this or another rate.

Kiu Hung International Holdings Limited
僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

Executive Directors:
Mr. Zhang Qijun *(Chairman)*
Mr. Chen Jian
Mr. Liu Mingqing

Independent non-executive Directors:
Mr. Cheung Ho On
Mr. Kong Chun Wing
Mr. Wang Xiao Ning
Mr. Lai Chi Yin, Samuel
Ms. Chen Yuxin

Registered office:
Continental Buildings, 3rd Floor
25 Church Street
Hamilton HM12
Bermuda

Head office and principal place of business in Hong Kong:
Flat E, 20th Floor Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

30 March 2021

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION IN RELATION TO ACQUISITION OF 51% EQUITY INTERESTS IN THE TARGET COMPANY INVOLVING ISSUE OF THE CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (2) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

References are made to the announcements of the Company dated 11 September 2019, 21 October 2019, 23 October 2019, 15 November 2019, 11 February 2020, 20 July 2020, 23 March 2021 and 25 March 2021 respectively in relation to the Group's acquisition of 51% of equity interests in Target Company.

LETTER FROM THE BOARD

The Board is pleased to announce that on 11 September 2019 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) with the Vendor and the

Guarantor, pursuant to which, among other things, the Company conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell the Sale Interests, which shall represent 51% of the total equity interest in the Target Company.

The purposes of this circular are to provide you with, among other things, (i) further details of the Acquisition and the transactions contemplated thereunder; (ii) other information as required to be disclosed under the Listing Rules; and (iii) a notice of the SGM.

THE SALE AND PURCHASE AGREEMENT AND THE SUPPLEMENTAL AGREEMENTS

Date of the Sale and Purchase Agreement:	11 September 2019
Date of the Supplemental Agreement:	20 July 2020
Date of the Second Supplemental Agreement:	23 March 2021
Date of the Third Supplemental Agreement:	25 March 2021
Parties:	(1) Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司), as the Purchaser (2) Sheen World International Holdings Limited, as the Vendor (3) Lin Wei (林烽), as the Guarantor

As at the Latest Practicable Date, the Vendor is wholly-owned by Mr. Lin. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner and the Guarantor are Independent Third Parties.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement), the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Interests. The Sale Interests represent 51% of the entire equity interests in the Target Company.

Consideration

The Consideration of the Sale Interests is HK$170 million, which shall be satisfied by the issue of the Convertible Bonds by the Company to the Vendor (or its nominee) in the following manners:

- as to HK$51 million by the issue of the 1st tranche convertible bonds (the "**1st Tranche Convertible Bonds**") in the principal amount of HK$51 million on Completion (the "**Initial Payment**");

- as to a maximum of HK$34 million (subject to adjustment under the paragraph headed "Consideration adjustment involving guaranteed profits") by the issue of the 2nd tranche convertible bonds (the "**2nd Tranche Convertible Bonds**") in the maximum principal amount of HK$34 million (the "**First Consideration Payable**") if the audited net profit after taxation (excluding extraordinary items) (the "**Actual Profits**") of the Target Company for the 6-month period after Completion (the "**First Relevant Period**") of RMB20 million (equivalent to approximately HK$22 million) is attained;

- as to a maximum of HK$34 million (subject to adjustment under the paragraph headed "Consideration adjustment involving guaranteed profits") by the issue of the 3rd tranche convertible bonds (the "**3rd Tranche Convertible Bonds**") in the maximum principal amount of HK$34 million (the "**Second Consideration Payable**") if the Actual Profits of the Target Company for the 6-month period after the First Relevant Period (the "**Second Relevant Period**") of RMB20 million (equivalent to approximately HK$22 million) is attained;

- as to a maximum of HK$34 million (subject to adjustment under the paragraph headed "Consideration adjustment involving guaranteed profits") by the issue of the 4th tranche convertible bonds (the "**4th Tranche Convertible Bonds**") in the maximum principal amount of HK$34 million (the "**Third Consideration Payable**") if the Actual Profits of the Target Company for the 6-month period after the Second Relevant Period (the "**Third Relevant Period**") of RMB21 million (equivalent to approximately HK$23.1 million) is attained; and

- as to a maximum of HK$17 million (subject to adjustment under the paragraph headed "Consideration adjustment involving guaranteed profits") by the issue of the 5th tranche convertible bonds (the "**5th Tranche Convertible Bonds**") in the maximum principal amount of HK$17 million (the "**Final Consideration Payable**") if the Actual Profits of the Target Company for the 6-month period after the Third Relevant Period (the "**Final Relevant Period**") of RMB21 million (equivalent to approximately HK$23.1 million) is attained. (any two or all of the First Relevant Period, Second Relevant Period, Third Relevant Period and Final Relevant Period is collectively known as the "**Relevant Periods**"and each of them, the "**Relevant Period**"and any two or all of the First Consideration Payable, Second Consideration Payable, Third Consideration Payable and the Final Consideration Payable collectively, the "**Consideration Payables**"and each of them, the "**Consideration Payable**".)

Save for the differences in the principal amount and the Maturity Date due to the different timing in the settlement of the Consideration, all other terms of each of the 1st to 5th Tranche Convertible Bonds shall be the same. No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock or securities exchange. Subject to the result of the Consideration adjustments detailed under the paragraph headed ‘‘Consideration adjustment involving guaranteed profits’’ at each payment interval, application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares by tranches under the Specific Mandate in accordance with the terms of the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement.

Payment terms of the Consideration comprise (i) the Initial Payment (representing 30% of the Consideration) to be settled upon Completion; and (ii) the provision by the Vendor and the Guarantor of the Aggregate Guaranteed Profit of RMB82 million (equivalent to approximately HK$90.20 million) in return for the Consideration Payables of HK$119 million (representing 70% of the Consideration) over the Relevant Periods. The Initial Payment was determined after arm's length negotiations between the Purchaser and the Vendor having made reference to payment terms of publicly available transactions of similar deal structures with the Acquisition (i.e. acquisition with guaranteed profits by the targets) disclosed by listed companies in Hong Kong since January 2020, which initial payments to total consideration were ranged from approximately 60% to 100%.

Based on the above and having considered (i) the 30% Initial Payment upon Completion is comparatively better than the researched publicly available transactions of similar deal structures with the Acquisition of other listed companies in Hong Kong; (ii) despite the Initial Payment will be released to the Vendor upon Completion, the Initial Payment will also be subject to Consideration adjustment such that the Vendor would be obliged to compensate the Purchaser if future financial performance of the Target Company could not meet the Guaranteed Profits in whole or in part; and (iii) the Aggregate Guaranteed Profit over the Relevant Periods of RMB82 million or represents an average annual guaranteed profit of RMB41 million was made reference to the forecast annual net profits of the Target Company of RMB46.36 million where the Updated Valuation was based. The allowance of approximately11.5% discount was the result of commercial negotiation between the parties to the Sale and Purchase Agreement in view of the unpredictable development of the COVID-19 epidemic.

The Convertible Bonds

The following summarises certain of the principal terms of the Convertible Bonds:

Principal amount:	HK$170,000,000
Maturity Date:	the date falling on the third anniversary of the date of issue for each tranche of the Convertible Bonds
Interest rate:	the Convertible Bonds do not bear any interest

Conversion period:	the period commencing on the date of issue of the Convertible Bonds and expiring on the maturity date.
Conversion price:	HK$2 per Conversion Share, subject to adjustments by the adjustment provisions summarised below. the Conversion Price represents: (a) a premium of approximately 316.67% to the closing price of HK$0.480 per Share as quoted on Stock Exchange on the date of the Sale and Purchase Agreement; and (b) a premium of approximately 313.22% to the average closing price of approximately HK$0.484 per Share for the last five consecutive trading days as quoted on the Stock Exchange immediately preceding to the date of the Sale and Purchase Agreement. (c) a premium of approximately 1,718.18% to the closing price of HK$0.110 per Share as quoted on the Stock Exchange on the Latest Practicable Date. The Conversion Price was determined after arm's length negotiations between the Company and the Vendor with reference to the prevailing market price and recent trading performance of the Shares.
Conversion Shares:	based on the Conversion Price of HK$2, a maximum of 85,000,000 Conversion Shares will be issued, representing approximately 11.16% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 10.04% of the Company's then issued share capital as enlarged by the issue of the Conversion Shares. The allotment and issue of the Conversion Shares will not result in a change of control of the Company.
Conversion rights:	subject to the terms and conditions of the Convertible Bonds, the holder(s) of the Convertible Bonds shall be entitled to convert, in whole or in part, the Convertible Bonds into Conversion Shares. Any conversion shall be made in amounts of not less than a whole multiple of HK$100,000 on each conversion unless the amount of the outstanding Convertible Bonds is less than HK$100,000 in which case the whole (but not part only) of that amount shall be convertible.

If the issue of Conversion Shares following the exercise by a bondholder of the conversion rights attaching to the Convertible Bonds held by such bondholder would result in:

(i) Such bondholder and parties acting in concert with it (within the meaning of the Takeover Code), taken together, directly or indirectly controlling or being interested in 30% or more of the entire issued voting share capital of the Company (or such other percentage as may from time to time be specified in the Takeovers Code as being the level of triggering a mandatory general offer) as at the date of conversion; or

(ii) the Company not meeting the Public Float Requirement immediately after the conversion,

then the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not in the reasonable opinion of the Company result in a breach of the Public Float Requirement or mandatory general offer being triggered under the Takeovers Code (as the case may be) and the balance of the conversion rights attaching to the Convertible Bonds which the bondholder sought to convert shall be suspended until such time when the Company is able to issue additional Share in satisfaction of the exercise of the said balance of conversion rights attaching to the Convertible Bonds and at the same time comply with the Public Float Requirement or without triggering a mandatory general offer under the Takeovers Code. The Company will seek advice from professional parties in forming its opinion in relation to the above to ensure the Company's rule compliance.

Redemption at maturity: unless previously purchased or converted for the Conversion Shares, the Company shall on the maturity date redeem the outstanding principal amount of the Convertible Bonds.

Transfer restrictions: holder(s) of the Convertible Bonds may freely transfer the Convertible Bonds to the transferee other than to connected person(s) which must be subject to compliance with any applicable requirements of the Stock Exchange, the Listing Rules, applicable laws and regulations, and with the prior written consent of the Company. Any assignment or transfer of the Convertible Bonds shall be in respect of the whole or any part (in multiples of HK$1,000,000) of the outstanding principal amount of the Convertible Bonds and the Company shall facilitate any such assignment or transfer of the Convertible Bonds.

Adjustments to the Conversion Price: the Conversion Price shall be adjusted and only be applicable for adjustment after Completion and upon occurrence of the following corporate activities if conducted by the Company:

(a) Consolidation or subdivision of the Shares:

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the date on which the consolidation or sub-division becomes effective.

(b) Capitalisation of profits or reserves (other than in lien of a cash dividend):

If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or, if any, capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the issued Shares immediately after such issue.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

(c) Capital distribution to the Shareholders or grant to the Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries:

If and whenever the Company shall make any capital distribution (except where, and to the extent that, the Conversion Price falls to be adjusted under subparagraph (b) above) to Bondholders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{B}$$

where:

A = the market price of one Share on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by a reputable commercial bank or an authorized financial advisor or auditors of the Company for the time being, of the portion of the capital distribution or of such rights which is attributable to one Share.

Provided that:

(i) if in the opinion of the reputable commercial bank or the relevant authorized financial advisor or auditors of the Company (as the case may be), the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event, the above formula shall be construed as if B meant the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and

(ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution or grant.

(d) Offer of new Shares for subscription by way of rights issue or open offer, or a grant of options or warrants to subscribe for new Shares, at a price which is less than 80% of the then market price per Share to Shareholders:

If and whenever the Company shall offer to the Shareholders to subscribe for any new Shares by way of rights or public offering, or shall grant to the Shareholders to subscribe for any new Shares by way of any options or warrants, in each case at a price which is less than 80 per cent of the market price on the last dealing day preceding the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately on the last dealing day preceding the date of the announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount (if any) payable for the rights, or for the options or warrants or other rights issued by way of rights, and for the total number of Shares comprised therein would purchase at such market price per Share; and

C = the aggregate number of Share for subscription issued by the Company by way of offer, options or warrants.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer.

(e) (i) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80 per cent. of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

(ii) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (i) of this sub-paragraph (e) are modified so that the total Effective Consideration per Share initially receivable for such securities shall be less than 80 per cent. of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such modification

B = the number of Shares which the total Effective Consideration receivable by the Company for the securities to be issued at the modified conversion or exchange price would purchase at the market price of one Share at the date of the announcement of such modification

C = the number of Shares to be issued upon conversion or exchange of or the exercise in full of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (e) (i) and (ii), the "**total Effective Consideration**" receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(f) If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 80 per cent. of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.

(g) If and whenever the Company shall issue Shares for the acquisition of asset at a total Effective Consideration per Share (as defined below) which is less than 80 per cent of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator shall be the total Effective Consideration per Share and the denominator shall be such market price. Each such adjustment shall be effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which the Company determines the issue price for such Shares.

For the purpose of this sub-paragraph (g) ''**total Effective Consideration**'' shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the ''**total Effective Consideration per Share**'' shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

Events of default: if any of the events specified below occurs, the Company shall on demand of a holder(s) of the Convertible Bonds forthwith redeem the Convertible Bonds in full in cash or the holder(s) of the Convertible Bonds may convert the Convertible Bonds into Conversion Shares:

(a) the Company fails to pay the principal on the Convertible Bonds when due on the maturity date;

(b) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Sale and Purchase Agreement which default is incapable of remedy or, if capable of remedy, is not in the reasonable opinion of the holder(s) of the Convertible Bonds remedied within 14 days after notice of such default shall have been given to the Company by the holder of the Convertible Bonds;

(c) any present or future indebtedness of the Company for or in respect of any bonds, debentures, notes or similar instruments of indebtedness or any other monies borrowed or raised becomes due and payable prior to its stated maturity otherwise than at the option of the Company, or is not paid when due or as the case may be, within any applicable grace period and the amount of such indebtedness exceeds the equivalent of HK$10,000,000;

(d) a security holder takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of the Company;

(e) the Company becomes insolvent or the Company shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, composition or insolvency law or scheme of arrangement while insolvent and such proceedings shall not have been discharged or stayed within a period of 30 days;

(f) an order of court is made or an effective resolution of shareholders is passed for the winding up of the Company or the Company ceases or threatens to cease carrying on all or substantially all or a material part of its business or operations;

(g) a moratorium is agreed or declared in respect of any indebtedness of the Company or any governmental authority or agency seizes, compulsorily purchases, expropriates or nationalizes all or a substantial part of the assets of the Company;

(h) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or any part of the property, assets or revenues of the Company and is not discharged or stayed within 45 days;

(i) proceedings shall have been initiated (that is, issued and served) against the Company under any applicable bankruptcy, composition or insolvency law or scheme of arrangement while insolvent and such proceedings shall not have been discharged or stayed within a period of 60 days;

(j) any warranty is or proves to have been incorrect or misleading in any material respect when made or deemed to be made, or there is a material breach by the Company of any warranty or obligation under the Sale and Purchase Agreement;

(k) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Convertible Bonds; (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Convertible Bonds admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done by the requisite time or, if in the opinion of the holder of the Convertible Bonds such situation is capable of remedy, within 30 days of the time when the Company becomes (or ought reasonably to have become) aware of the same; or

(l) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under the Convertible Bonds.

Application for listing: no application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock or securities exchange. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.

Ranking: the Conversion Shares shall rank *pari passu* with all other Shares in issue as at the date on which the conversion rights to be attached to the Convertible Bonds are exercised and be entitled to all dividends and other distributions the record date of which falls on a date on or after the such conversion date.

Consideration adjustment involving guaranteed profits

The Vendor and the Guarantor unconditionally and irrevocably guaranteed the Purchaser that the aggregate Actual Profits (the "**Aggregate Guaranteed Profits**") throughout the Relevant Periods shall be no less than RMB82 million (equivalent to approximately HK$90.20 million). The Aggregate Guaranteed Profits shall be split into four tranches for settlement throughout the Relevant Periods, as follow:

(i) the Actual Profits of the Target Company for First Relevant Period shall be not less than RMB20 million (the "**First Guaranteed Profits**");

(ii) the Actual Profits of the Target Company for the Second Relevant Period shall be not less than RMB20 million (the "**Second Guaranteed Profits**");

(iii) the Actual Profits of the Target Company for the Third Relevant Period shall be not less than RMB21 million (the "**Third Guaranteed Profits**"); and

(iv) the Actual Profits of the Target Company for the Final Relevant Period shall be not less than RMB21 million (the "**Final Guaranteed Profits**").

The Actual Profits or loss in a Relevant Period shall have an accumulative effect and the Actual Profits/loss in a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

The Company and the Vendor shall jointly procure an auditor to audit the financial statements of the Target Company within 2 months from the end of each Relevant Period and the auditor shall also issue a certificate for the Actual Profits of the Target Group to the Company and the Vendor (the "**Auditor's Certificate**") for each Relevant Period. The cost of issuing the Auditor's Certificates for each Relevant Period shall be borne by the Company.

The adjustment mechanism on the Consideration which may be downwardly adjusted based on any shortfall between actual profits and the guaranteed profits shall have an accumulative effect. Therefore, any accumulated actual loss incurred in previous Relevant Period(s) will be carried forward to the next Relevant Period to offset any Actual Profit generated in such next Relevant Period and vice versa, in determining whether the accumulated Actual Profits can meet the Aggregate Guaranteed Profits up to such next Relevant Period.

In the event the Actual Profits for the First Relevant Period is less than RMB20 million (equivalent to approximately HK$22 million) but more than HK$0, then the Company shall issue such portion of principal amount of the 1st Tranche Convertible Bonds to the Vendor (or its nominee) based on the follow formula:

$$\text{First Consideration Payable} \times \frac{\text{Actual Profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

In the event the result of the above formula recorded a negative figure (i.e. a loss-making situation), then the 1st Tranche Convertible Bonds will not be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor. If the Actual Profits for the First Relevant Period exceed the First Guaranteed Profits, no upward adjustment will be allowed, however, the amount exceeding the First Guaranteed Profits will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor.

In the event the Actual Profit(s) in a Relevant Period plus all previous accumulated Actual Profits/loss of all previous Relevant Period(s) is less than the amount of the Aggregate Guaranteed Profits up to such Relevant Period, then the Company shall issue such portion of the principal amount of the Consideration Payable(s) to the Vendor (or its nominee) for such Relevant Period based on the following formula:

$$\begin{array}{c}\text{Aggregate Consideration}\\ \text{Payable(s) up to such}\\ \text{Relevant Period}\end{array} \times \frac{\begin{array}{c}\text{Accumulated Actual Profits/}\\ \text{loss up to such Relevant Period}\end{array}}{\begin{array}{c}\text{Aggregate Guaranteed Profits}\\ \text{up to such Relevant Period}\end{array}} - \begin{array}{c}\text{All previous paid}\\ \text{Consideration Payable(s)}\\ \text{immediately prior to}\\ \text{such Relevant Period}\end{array}$$

In the event result of the above formula in the Second Relevant Period and/or the Third Relevant Period recorded a negative figure, then no part of the 2nd Tranche Convertible Bonds and/or the 3rd Tranche Convertible Bonds will be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor. If the accumulated Actual Profits up to a Relevant Period exceed the Aggregate Guaranteed Profits up to the same Relevant Period, no upward adjustment will be allowed, however, the amount exceeding the Aggregate Guaranteed Profits up to a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

Pursuant to the Consideration adjustment mechanism, the ceiling of the maximum compensation shall be the accumulated amount of Consideration Payables received by the Vendor immediately before closing of the Final Relevant Period. In the event the result of the above formula in the Final Relevant Period recorded a negative figure, then no part of the 5th Tranche Convertible Bonds will be issued to the Vendor and the Vendor and the Guarantor shall compensate the Purchaser equals to such amount but subject to a maximum limit of HK$102,000,000 since the Final Consideration Payable will not be released to the Vendor. (i.e. (i) assuming that the Target Company has fulfilled the First, Second and Third Guaranteed Profits and received the First, Second and Third Consideration Payables in an aggregate sum of HK$102,000,000; and (ii) the Target Company has made lost in the Final Relevant Period to the extent that would eliminate all previous accumulated Actual Profits achieved and the Final Consideration Payable has not been released to the Vendor).

For the avoidance of doubt, the actual amount to be paid at a Relevant Period may exceed the above-mentioned maximum Consideration Payable of the same Relevant Period due to the cumulative nature of the Consideration adjustment. However, the maximum total payout by the Company upon the end of the Relevant Periods will be equal to the Consideration.

Further adjustment to the Initial Payment

In the event the accumulated Actual Profits throughout the Relevant Periods is less than the Aggregate Guaranteed Profits throughout the Relevant Periods but more than HK$0, then the Vendor and the Guarantor shall compensate the Purchaser the portion of the Initial Payment based on following formula:

$$\text{Initial Payment} \quad \times \quad \frac{\begin{array}{c}\text{(Aggregate Guaranteed Profits throughout the Relevant Periods}\\ \text{— accumulated Actual Profits throughout the Relevant Periods)}\end{array}}{\text{Aggregate Guaranteed Profits}}$$

No upward adjustment to the Consideration is allowed in the event the accumulated Actual Profits throughout the Relevant Period is more than the Aggregate Guaranteed Profits throughout the Relevant Periods. The maximum possible amount of the compensation at the end of the Relevant Period is limited to the Initial Payment plus any accumulate Consideration Payables paid out i.e. HK$153,000,000 since the Final Consideration Payable will not be released to the Vendor in the event the financial performance of the Target Company is so unsatisfactory that would result in the maximum compensation situation.

Any compensation amount, if materialized, shall be compensated by the Vendor and the Guarantor to the Purchaser within fifteen (15) Business Days from the date of confirmation on the result of the fulfillment of the Aggregate Guaranteed Profits by the auditor and in the following order of priority:

- by reducing the principal amount of any issued and outstanding Convertible Bonds; and

- by way of cash and/or cash equivalent and/or any asset acceptable to the Group as to any outstanding balance of the compensation amount in the event the principal amount of any issued and outstanding Convertible Bonds is not sufficient to meet the compensation.

The Company will by way of formal announcements and in the upcoming annual reports update the Shareholders and potential investors regarding the fulfillment of the guaranteed profits as above-mentioned.

In the event that the Vendor and the Guarantor fails to pay the compensation amount in full in accordance with the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement), the Vendor and the Guarantor shall continue to fulfill their obligation for compensation and pay late payment interest calculated on a daily basis until the date when compensation amount is fully paid. The daily interest rate shall be 0.05% of unpaid compensation amount.

Having considered that in the event the Target Company recorded zero profits throughout the Relevant Periods, no Consideration will be satisfied by the Purchaser to the Vendor, the Company is of the view that such Consideration adjustment mechanism would provide further protection to the interests of the Company and the Shareholders as a whole in this regards.

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor taking into account, among others, (i) future business prospects of the Target Company and health product industry; and (ii) the preliminary valuation of the Target Company of RMB302 million (equivalent to approximately HK$332.10 million) as at 31 August 2019 prepared by the Valuer adopting the market approach.

As disclosed in the Company's announcement dated 11 September 2019, the Consideration was initially made reference to the preliminary appraised value of the Target Company of RMB310 million (equivalent to approximately HK$341 million) as at 31 July 2019 prepared by the Valuer adopting market approach. Subsequently, as the financial statements of the Target Company as at 31 August 2019 are available, the valuation date has been updated to 31 August 2019 accordingly. Consistent with the preliminary valuation of the Target Company as at 31 July 2019, the forward P/E ratio under the Market Approach was also applied to arrive at the Valuation of RMB302 million (equivalent to approximately HK$332.1 million) as at 31 August 2019. Changes in the key parameters in the Valuation include (i) the increase in the forward P/E ratio from 11.06 to 11.10 with reference to the identified comparable companies; and (ii) the decrease in the projected net profit in the next 12 months from approximately RMB32.2 million to approximately RMB31.2 million, compared with the preliminary valuation as at 31 July 2019. As the Valuation did not have material differences when compared with the preliminary valuation as of 31 July 2019, the Directors considered it was appropriate to use the Valuation as one of the basis of Consideration in this regard.

However, due to various reasons including but not limited to the COVID-19 epidemic and additional time to prepare comprehensive information in the circular, the Acquisition progress has been hindered obviously. The Company is aware that the Valuation represents a valuation date of a prolonged period since the date of the Sale and Purchase Agreement, to re-assess whether there will be any changes in the business development of the Target Company and as a due diligence process, the Company has, right after China has relaxed from the peak period of the COVID-19 epidemic, (i) liaised with the Target Company to reassess the actual and expected future business performance of the Target Company based on the business development of the Target Company since August 2019 (including but not limited to the expected increase in future income stream from the entering into of the New Procurement Agreements); and (ii) requested the Valuer to perform a follow-up valuation on the Target Company as at 30 June 2020 based on an updated 12-months period financial forecast of the Target Company from 1 July 2020 to 30 June 2021 (the "**Updated Valuation**") instead of using the available actual financial information of the Target Company after considering that (i) operation of the Target Company had been unavoidably forced to temporarily suspend in February and March of 2020 due to the strict control measures implemented by the PRC government to prevent the spread of COVID-19 epidemic; (ii) the Target Company had entered into the New Procurement Agreements in January and February of 2020 which actual financial information of the Target Company could not fully reflect the economic benefits to be contributed from the New Procurement Agreements; and (iii) the Chinese Herbs Business and Decoction Business which contributed a majority of revenue and gross profit, commenced in November 2019, therefore the actual financial information for the period from 1 September 2019 to 31 August 2020 cannot fully reflect the profitability of the Target Company. The appraised valuation of the Target Company in the Updated Valuation Report adopting the same valuation approach with the forecasted trailing 12-month financial of the Target Company ending 30 June 2021 prepared by the management of the Target Company is RMB428 million (equivalent to approximately HK$470.8 million), representing an increase of approximately 41.72% when compared with the appraised value of the Target Company as of 31 August 2019 of RMB302 million (equivalent to approximately HK$332.1 million). Based on the above, the Company considers that the Updated Valuation can reflect the latest status of the Target Company.

However, having considered that (i) the initial intention of the Board for the decision to enter into the legally binding Sale and Purchase Agreement with the Vendor in September 2019 was to early capture the investment opportunity with the Vendor prior to the potential business high growth period of the Target Company given the optimistic view of the Board on the potential business development of the Target Company in particular, the expected expansion of business scale and the broadening of future clientele base bring from the gaining exposure to the PRC Chinese medicine market of the Target Company benefited from the commencement of cooperation between the Target Company and Sinopharm under the Procurement Agreement; (ii) the purpose of the Updated Valuation is to provide the management of the Company to understand the latest financial and business performance as well as future prospect of the Target Company throughout and after the peak period of the COVID-19 epidemic; and (iii) if the Consideration is to be determined with reference to the Updated Valuation would contradict to the initial intention of the Board to early capture the investment opportunity at a lower price and make the Acquisition no longer attractive to the Company, the Company and the Vendor has mutually agreed that the Consideration shall remain unchanged and the Company is of the view that the above-mentioned decision is fair and reasonable and to the interest of the Company and the Shareholders as a whole.

The Company has compared the 12-month forecast financial information of the Target Company for the period from 1 September 2019 to 31 August 2020 adopted in the Valuation with the actual financial performance of the Target Company for the same period, details of which are set out below:

	Forecast figures	**Actual figures**	**Differences**
	RMB'000	*RMB'000*	*(%)*
Revenue	90,991	73,746	-19.00%
Net profit after tax	31,218	27,638	-11.47%

Based on the above table, the Company is aware that there exists a shortfall between the actual financial performance of the Target Company with the forecast figures for the same periods in terms of revenue and net profit. The Company has enquired the Target Company and was given to understand that such shortfall was mainly due to the negative impact on the outbreak of the COVID-19 epidemic in China in early 2020 to the business operation of the Target Company, in particular, Hubei Province is one of the most severely affected areas. The Hubei Provincial government had implemented strict epidemic prevention and control on Hubei Province from late January 2020 until early April 2020, such measures including but not limited to traffic control and crowd control, corporate operation control. In order to cooperate with the government's epidemic prevention measures and in light of the fact that Target Company's staff were unable to return to work after the Lunar New Year holiday due to the strict control measures implemented in the PRC, the management of the Target Company was of no choice but to temporarily suspend the operation of the Target Company in February and March of 2020. Therefore, the original forecasted revenue of approximately RMB15.12 million in February 2020 and March 2020 could not be achieved by the Target Company. Since the resumption of operations in early April 2020, the business performance of the Target Company has gradually in line with the forecasted financial performance of the Target Company throughout the remaining forecast period.

As the Target Company has completed its annual audit for the year ended 31 December 2020, the Company has also compared the audited financial information of the Target Company for the year ended 31 December 2020 with the forecast financial figures for the same period extracted from the updated financial projections of the Target Company in preparing the Updated Valuation, details of which are set out below:

	Forecast figures	**Actual figures**	**Differences**
	RMB'000	*RMB'000*	*(%)*
Revenue	90,052	93,963	+4.34%
Net profit after tax	35,324	35,335	+0.03%

Based on the outcome of the above table, the Company is of the view that the business performance of the Target Company is in line with the forecasted financial performance of the Target Company. Apart from reviewing the audited result of the Target Company for the year ended 31 December 2020, the Company has obtained and reviewed the latest production schedule, budget plan and meeting notes between the Target Company and its' customers and noted that the schedule and budget plan are in line with the Procurement Agreement and New Procurement Agreements. The Company has also observed publicly available news released by Zhushan local government and noted that Zhushan local government remained positive and proactive in promoting agricultural poverty alleviation in Zhushan and the Company did not aware of any new policy released by the Zhushan local government which may have a negative impact to the business of the Target Company. Based on the above, the Company is of the view that the Target Company could achieve the trailing 12-month net profit of RMB46 million for the 12 months ending 30 June 2021 which the Updated Valuation was based.

Valuation

In preparing the Valuation, the Valuer has applied the forward P/E ratio under market approach and adopted certain assumptions. Certain principal assumptions extracted from the Valuation that the Board would like to highlight are as follows:

- The Valuation was performed based on the forward P/E ratio under market approach with the forecasted trailing 12-month financial of the Target Company ended 31 August 2020 (the ''**Forecasted Financial**'') prepared by the management of the Target Company. After considering (i) historical financial performance of the Target Company for the year ended 31 December 2018 did not reflect the full capacity of the Target Company's production base resulted from the strategic move to temporarily downscaling the business of the plantation, initial processing and sale of Anoetochilus Formosanus (the ''**Anoetochilus Formosanus Business**'') in 2018 initiated by the management of the Target Company with the intention to prepare for the diversification of product mix under the Procurement Agreement; and (ii) the business of procure, initial processing and sale of other species of Chinese herbs (the ''**Chinese Herbs Business**'') and the business of procure, medium processing and sale of Chinese herbs decoction pieces and related products (the ''**Decoction Business**'') to Sinopharm under the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) commenced in November 2019, forward P/E ratio is more capable of factoring in the future profitability and growth potential of the Target Company;

- Size premium has been added to arrive the forward P/E ratio to incorporate the difference in size between the identified comparable companies and the Target Company (Details of the basis and calculation are stated under the sub-heading ''Selection of comparable companies and relevant size adjustment in determining the forward P/E multiple'' in the ''**Letter from the Board**'');

- The forward P/E ratio of 11.10 after adjustments on the size and exclusion of outliers is adopted to derive the Valuation (Details of the basis and calculation are stated under the sub-heading ''Selection of comparable companies and relevant size adjustment in determining the forward P/E multiple'' in the ''**Letter from the Board**''); and

- The discount on lack of marketability of 31% and the control premium of 27% were adopted respectively (Details of the basis are stated under the sub-heading ''Discount on Lack of Marketability (DLOM)'' and the ''Control Premium'' respectively in the ''**Letter from the Board**'');

The Directors are aware of and have performed the following actions and assessment in order to comply with the "guidance note on directors' duties in the context of valuations in corporate transactions involving listed companies" issued by the SFC on 15 May 2017:

Qualification of the Valuer

The Board has reviewed the corporation information and personnel background of the Valuer The signatory of the Valuation Report, Ms. Elsa Ng Hung Mui has over 20 years experiences in the valuation industry. She has extensive experience in handling valuations of various assets including agricultural property assets, financial assets, and mineral extraction resources. Currently, she is a fellow member of the HKIS and a registered professional surveyor in the General Practice Division in Hong Kong. The Directors are of the view that Ms. Elsa Ng Hung Mui and the Valuer are qualified to prepare the Valuation Report.

Valuation methodology including the adoption of forward P/E multiple

Prior to preparing the Valuation for assessment by the Valuer, the Board, together with other professional parties involved in the Acquisition, have conducted an on-site due diligence exercise on the Target Company and have enquired and understood the business model and business plan with the management of the Target Company. The Company has also requested and reviewed the supporting documents including but not limited to the Procurement Agreement, confirmation of the monthly procurement schedule signed by Sinopharm and the Target Company, the execution plan of purchasing raw Chinese herbs for the Chinese Herbs Business and Decoction Business, details of the Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Programme, financial statements and relevant accounting schedules and ledgers of the Target Company as well as the Forecasted Financial.

Apart from assessing documents of the Target Company, the Company has requested and the Target Company has arranged face-to-face communications among the Company, the Target Company with representatives of Zhushan local government and Sinopharm respectively to have a better understanding on the details of the Chinese Medicine Industry Poverty Alleviation Cooperation Programme and the Procurement Agreements.

Details of the business model and business development of the Target Company, the Chinese Medicine Industry Poverty Alleviation Cooperation Programme and the Procurement Agreement are disclosed in the section headed "INFORMATION ON THE TARGET COMPANY" in the letter from the Board to this circular.

In assessing the fairness and reasonableness of the Valuation methodology, the Directors have reviewed the Valuation Report and have discussed with the Valuer on the methodology adopted in arriving at the Valuation. The Directors noted that the Valuer has considered three generally accepted business enterprise appraisal approaches, namely, the asset-based approach, the income approach and the market approach, in arriving at the Valuation. As advised by the Valuer, market approach was adopted as the business nature of the Target Company is not capital intensive nor asset heavy and (i) the asset-based approach is not appropriate for the Target Company because, among other things, the asset-based approach does not take into account the profits-generating capabilities of the Target Company in the future and it tends to understate the value of an income-generating business of the Target Company, which is mainly attributable to its ability to generate income through selling its Chinese medicine products in the past and in the future rather than the value of or replacement costs of its assets. Therefore, the asset-based approach is incapable to reliably reflect the value of the Target Company's equity interests; and (ii) the income approach is also not appropriate for the Target Company as a long term cashflow forecast and detailed financial projection are usually required for the income approach which involves substantive subjective judgment and assumptions to be made on the cashflow forecast and financial projections of the Target Company, however, given the fact that the Target Company would only commence the Chinese Herbs Business and the Decoction Business in November 2019 which were expected to contribute more than 70% of the sales revenue and almost 90% of the gross profit, meaning no historical business performance could be made reference to in connection with the Chinese Herbs Business and the Decoction Business and as such, a reliable judgement and assumptions to prepare such a long-term financial projections of the Target Company may not be available in this regard. The Directors concur with the rationales of the Valuer in adopting market approach for the Valuation in this regard.

To further understand and assess how the Valuer determines the appraised value of the Target Company under market approach, the Directors have reviewed the Valuation Report and noted that the Valuer has made reference to the Forecasted Financial and applied the forward P/E multiple ("**Forward Multiple(s)**") under market approach in preparing the Valuation. As such, the Company has enquired the Valuer as to the reasonableness in preparing market approach using Forward Multiple for the Target Company and was advised that a multiple is meaningful only if the profit on which it is based is indicative of future profit potential. Where this is not the case, one should either exclude exceptional items if using historical profits or use forecasted rather than historical profits.

As further explained by the Valuer, empirical evidence shows that forward-looking multiples are more accurate predictors of value, especially considering also that the Chinese Herbs Business and the Decoction Business only commenced in November 2019 which cannot be reflected at all in historical profits. In this regard, the Valuer has provided further information to the Directors and explained that Jing Liu, Doron Nissim, and Jacob Thomas, professors of finance of world-class universities, for example, compared the characteristics and performance of historical and forward industry multiples for a subset of trading companies (Jing Liu, Doron Nissim, and Jacob K. Thomas, "**Equity valuation using multiples**," Journal of Accounting Research, Volume 40, Number 1, pp. 135–72). They found that the 1-year forward earnings-to-price (E/P) ratios have shown less dispersion than historical E/P ratios against the industry mean and that forward-looking multiples promoted greater accuracy in pricing. Similarly, Moonchul Kim and Jay Ritter, professors of finance of world-class universities, compared the pricing power of historical and forecast earnings for initial public offerings, and they found that the latter had better results with less average prediction errors (Moonchul Kim and Jay R. Ritter, "**Valuing IPOs**," Journal of Financial Economics, Volume 53, Number 3, pp. 409–37).

The Directors noted that although the Chinese Herbs Business and the Decoction Business of the Target Company were commenced in November 2019, the newly commenced businesses were expected to contribute more than 70% of the revenue and almost 90% of the gross profit incurred in the coming 12-month period from the date of the Valuation with reference to the terms of the Procurement Agreement and the Forecasted Financial which the Directors have performed assessment and due diligence on the assumptions. (Details of the assumptions of the Forecasted Financial and assessment by the Board are disclosed in the section headed "Assumptions adopted in the Forecasted Financial" in the letter from the Board to this circular). Therefore, the Directors are of the view that historical profits of the Target Company, being solely contributed from the Anoetochilus Formosanus Business, were considered incapable of factoring in the future profit potential of the Chinese Herbs Business and the Decoction Business, which is forecasted to contribute a majority of the revenue to the Target Company and achieve a comparatively higher gross margin than the Anoetochilus Formosanus Business. Therefore, the Directors considered it would be more meaningful to adopt Forward Multiples under the market approach in this regard.

Besides obtaining explanation from the Valuer on the justification in adopting market approach using Forward Multiples in the Valuation, the Company has, on best effort basis, researched and reviewed details of certain publicly available transactions which have adopted the same valuation methodology with the Valuation from the website of the Stock Exchange and noted that the basis for adopting market approach using Forward Multiples for those transactions were in line with the explanation of the Valuer (i.e. to reflect future profit potential of the targets due to new business plans/developments to be implemented where historical performance of those targets could not reflect the potential financial performance from such business plans/developments).

As further advised by the Valuer, the concept behind the use of the Forward Multiples is that companies are more comparable when they have reached a more mature phase. According to the financial projections of the Target Company, starting from the 2nd year after the Valuation Date, the revenues and net profits of the Target Company are forecasted to increase by approximately 2.7% per annum, which is mainly due to expected inflation. As such, the forecasted profit in the next 12 months was considered to be sufficiently normalized and stable.

Based on the above, the Forward Multiple has been adopted as this more forward-looking measure can factor in the Procurement Agreements and supplemental agreements entered by the Target Company and the Target Company's recent participation in the Chinese Herbs Business and the Decoction Business and thus is more indicative of future profit potential of the Target Company.

Considering that (i) the adoption of market approach using the forward P/E ratio can better reflect current market expectations and consensus on future growth potentials of companies in the relevant industry; (ii) the historical profits of the Target Company did not reflect any performance, profitability and potential of the Chinese Herbs Business and the Decoction Business while the Target Company is expected to derive sustainable and significant profits from operations of the Chinese Herbs Business and the Decoction Business starting from November 2019; (iii) there exists a reasonable number of guideline publicly traded companies available in the market, the Company and Valuer are of the view that it is justifiable to evaluate the value of the Target Company by adopting market approach using Forward Multiples and the Chinese Herbs Business and the Decoction Business can be fairly estimated based on the forward P/E ratio.

Regarding the reason for applying forecasted annual growth rate of approximately 2.7% in the financial projections of the Target Company, notwithstanding that the Company is optimistic about the potential business growth of the Target Company, the management of the Company had, in negotiating the financial projections of the Target Company where the Consideration was based at the time of entering into of the Sale and Purchase Agreement in September 2019, bargained with the management of the Target Company and the management of the Target Company had agreed to adopt a conservative approach to only (i) made reference to the historical performance of the Anoectochilus Formosanus Business; (ii) made reference to the contracted sale amount of the Chinese medicinal herbs and decoction pieces products to be contributed pursuant to the Procurement Agreement; and (iii) assigned a forecast annual growth rate of 2.7% which was based on (a) the terms of the Procurement Agreement allowing purchase prices to be adjusted in accordance with any changes in future market prices of the contracted Chinese herbs; (b) the flat historical financial performance of the Anoectochilus Formosanus Business; and (c) the researched year-on-year change in China's consumer price index in September 2019 of 2.7%, to avoid making too optimistic growth assumptions which uncertainties may arise as to whether the Target Company could achieve the said optimistic projected business growth given the flat historical financial performance of the Anoectochilus Formosanus Business and that the Target Company would only commence the Chinese Herbs Business and the Decoction Business in November 2019.

Subsequent to the entering into of the Sale and Purchase Agreement, the Target Company has achieved the following business developments which had not been taken into account in the financial projections of the Target Company in determining the Consideration:

- the launching of "Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Programme" between the Zhushan local government and the Target Company for a term of 10 years until September 2029. As a result of the commencement of the programme, not only revenue stream of the Target Company has been broadened by supplying Chinese herb seedlings to the Zhushan local government and local agricultural cooperative, the Target Company could also be provided with a sufficient supply of stable quality raw materials from local farmers and agricultural cooperative at a more stable price as the Target Company and the local government of Zhushan has been jointly providing and will continue to jointly provide support and guidance to those local farmers and agricultural cooperative and the Zhushan local government has been introducing and will continue to introduce appropriate policies to support the business development of local Chinese medication enterprises and alleviate poverty through employment in Zhushan, throughout the terms of the programme; and

- the entering into of the New Procurement Agreements between January 2020 and February 2020 for terms ranged from 35 months to 36 months with an aggregate contract value of approximately RMB91.6 million, and the New Procurement Agreements has been contributing revenue to the Target Company since the first half of 2020.

Given the above and despite the result of the Updated Valuation, having taken into account the subsequent business development of the Target Company, has indicated that the fair value of the Target Company as of 30 June 2020 was RMB428 million, representing an increase of approximately 41.72% when compared with the fair value of the Target Company as of 31 August 2019 of RMB302 million (equivalent to approximately HK$332.2 million) at the time when determining the Consideration, the Company has successfully bargained with the Vendor to remain the Consideration unchanged.

For illustrative purposes, when comparing the trailing 12-month revenue and net profit of the Target Company up to and including 31 August 2020 in the original financial projections adopted in the Valuation of approximately RMB91 million and RMB31.2 million respectively with the trailing 12-month revenue and net profit of the Target Company ending 31 August 2021 in the updated financial projections (having taken into account the business development of the Target Company after the date of the Sale and Purchase Agreement) adopted in the Updated Valuation of approximately RMB115.9 million and RMB46.6 million respectively, the annual growth rates, in terms of revenue and net profit, were approximately 27.4% and approximately 49.4% respectively which were beyond the original forecast annual growth rate of 2.7%.

Having considered (i) the projected annual growth rate of 2.7% according to the financial projections of the Target Company at the time when entering into of the Sale and Purchase Agreement was the adoption of a more conservative approach notwithstanding that the Company is optimistic about the potential business growth of the Target Company; (ii) the annual growth rate was indeed well beyond 2.7% according to the updated financial projections of the Target Company (having taken into account the business development of the Target Company after the date of the Sale and Purchase Agreement as mentioned above) adopted in the Updated Valuation; (iii) the Consideration remain unchanged; and (iv) the entire Consideration is subject to Consideration adjustment mentioned in the section headed ''Consideration adjustment involving guaranteed profits'' in the letter from the Board of this circular, the Company is of the view that the Acquisition and the Consideration is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

In addition, the Valuer further explained that the P/E multiple considers the cost structure as well as the profitability of a company, which are considered primary indicators affecting the value of a company. It is a common valuation method for the assessment of the value of companies with profitable businesses. Capturing all operating variations between companies, it is effective for companies in the same sector. Generally, both historical and forecasted earnings are more easily available. This multiple is more suitable when earnings are representative of future earnings and the trend in those earnings.

Based on the above explanations from the Valuer and assessment by the Directors, the Directors are of the view that the approach adopted by the Valuer for the Valuation (including the adoption of Forward Multiples) is justifiable in this regard.

Selection of comparable companies and relevant size adjustment in determining the forward P/E multiple

In relation to the comparable companies, the Board understands from the Valuer that in the course of identifying the comparable companies to determine the forward P/E ratio, the Valuer has selected 7 suitable comparable companies, via Bloomberg, based on the following criteria:

- The companies are principally engaged in the provision of traditional Chinese medicine similar to the Target Company;
- The companies have sufficient listing and operating histories;
- The financial information of the companies is available to the public; and
- The companies are with available forecasted earnings.

As advised by the Valuer, among the publicly available information, the Valuer was not aware of any listed comparable companies that could directly compare with the Target Company's Anoetochilus Formosanus Business. As the Target Company was going to commence the Chinese Herbs Business and Decoction Business in November 2019 which were expected to generate a majority of the forecasted revenue of the Target Company, the Valuer then expanded the search criteria to include listed comparable companies involved in providing traditional Chinese medicine and has reviewed the business description of the list of searched comparable companies and the major geographical and operational segments of the searched comparable companies. As such, the Valuer and the Company considered the comparable companies are fair and form a representative industry benchmark of the provision of traditional Chinese medicine in the geographical region the Target Company is principally engaged in.

Details of the comparable companies are as follows:

Comparable Companies	Stock Code of Comparable Companies	Business nature	Market Capitalization (in RMB million) as at 31/8/2019	Historical trailing 12-month net sales (in RMB million)	Forecasted trailing 12-month net sales (in RMB million)
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd.	600436 CH	manufactures and markets Chinese traditional medicines, including Pientzehuang, Pientzehuang capsules, Pientzehuang lozenge, cough syrup, and other related products.	60,157	5,257	6,767
Jiangsu Kanion Pharmaceutical Co., Ltd.	600557 CH	manufactures and markets Chinese traditional pharmaceutical preparations and healthcare products. The company's products include capsules, electuaries, pills, and liquid medicines.	10,203	4,242	5,310
Hunan Hansen Pharmaceutical Co., Ltd	002412 CH	develops, produces and sells gastroenterologic, bone-healing, cardiovascular, and cerebrovascular Chinese medicine. The company's products are in the form of syrup, capsule, and injection.	5,042	913	1,105
China Shineway Pharmaceutical Group Limited	2877 HK	develops, manufactures, and sells modern Chinese medicines in the Peoples Republic of China. The company also produces and sells a series of western pharmaceuticals.	5,510	2,633	3,090

Comparable Companies	Stock Code of Comparable Companies	Business nature	Market Capitalization (in RMB million) as at 31/8/2019	Historical trailing 12-month net sales (in RMB million)	Forecasted trailing 12-month net sales (in RMB million)
Beijing Tongrentang Co., Ltd.	600085 CH	develops, manufactures, and markets Chinese traditional medicines and medicinal wines. The company also operates pharmaceutical retail businesses and provides consulting services.	38,127	14,098	15,707
Tong Ren Tang Technologies Co. Ltd.	1666 HK	manufactures medical products. The company produces Chinese patent medicines, biological preparations, antibiotics, biochemical medicines, and other products. Tong Ren Tang Technologies also operates import and export businesses.	9,948	4,731	4,960
Consun Pharmaceutical Group Limited	1681 HK	research, manufacturing and sale of modern Chinese medicines and medical contrast medium in the People's Republic of China.	3,392	1,916	2,177

Source: bloomberg

The principal businesses of the adopted comparable companies are summarized as follows:

1. 600436 CH (Zhangzhou Pientzehuang Pharmaceutical Co Ltd)

   Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. manufactures and markets Chinese traditional medicines, including Pientzehuang, Pientzehuang capsules, Pientzehuang lozenge, cough syrup, and other related products. The company was incorporated in 1956 as Zhangzhou Pharmaceutical Factory firstly in Zhangzhou City. It has gained reputation of its Chinese medicines among Asia, because it owns a precious formula of Chinese herbal medicine namely Pian Zai Zhang, which was innovated in Ming dynasty and was one of the only 4 varieties of Chinese herbal formulas protected by China nationally.

   The company owns manufacturing bases to cultivate and process the important medical raw materials for Pian Zai Zhang formula, including 7 unique breeding bases of moschus berezovskii* (林麝) in Shanxi Province and Sichuan Province to process musk* (麝香), several united cultivating bases of notoginseng* (三七), golden lotus* (金錢蓮), dendrobium officinale* (鐵皮石斛) and magnolia* (厚朴). The important components for Pian Zai Zhang series products include musk, bezoar* (牛黃), snake gall* (蛇膽) and notoginseng.

2. 600557 CH (Jiangsu Kanion Pharmaceutical Co Ltd)

Jiangsu Kanion Pharmaceutical Co., Ltd. manufactures and markets Chinese traditional pharmaceutical preparations and healthcare products. The company's products include capsules, electuaries, pills, and liquid medicines. The company was incorporated in 1975 in Jiangsu Province, mainly engaged in developing, producing and selling Chinese prepared medicines, herbal decoction pieces and injections.

By 2019, the company had totally 203 varieties of products registered officially, of which 43 varieties have been included in the National Essential Drugs List, and 105 varieties have been covered by the National Medical Insurance Drug Catalogue. The products owned by the company include Guizhi Fuling Tablets* (桂枝茯苓片), Tianshu Tablets* (天舒片), Xiaoyao Tablets* (逍遙片), Rhodiola Rosea Tablet* (大株紅景天片) etc. In 2019, approximately 45% of the total revenue of the company was derived from Chinese oral medicines.

3. 002412 CH (Hunan Hansen Pharmaceutical Co., Ltd)

The company was incorporated in 1969 in Hunan Province, operated as Yiyang pharmaceutical factory firstly. It owns over 40 years' experience in producing traditional Chinese prepared medicines. The principal business of the company is producing and selling Chinese prepared medicines. By 2019, the company had 197 official registrations of production, of which 129 varieties had been listed in the National Medical Insurance.

In 2019, approximately 87% of revenue was from Chinese herbal medicines providing solutions for the areas of digestive system, cardiovascular and cerebrovascular, respiratory and trauma.

4. 2877 HK (China Shineway Pharmaceutical Group Ltd)

China Shineway Pharmaceutical Group Limited develops, manufactures, and sells modern Chinese medicines in the People's Republic of China. The company was incorporated in 1974 and its headquarter is located in Hebei Province in China. The main business of the company is developing, producing and selling TCM (Traditional Chinese Medicine) injections and formula granules. The company was the first one to be approved by the Yunnan Medical Products Administration for the production and clinical use of TCM formula granules. The major products of the company have successfully been listed in the National Guideline for Chinese Medicine Diagnosis and Treatment in Viral Myocarditis, ranked among the top ten in Chinese Medicine Clinical Evidence Evaluation Index.

The company also has diversified varieties of Chinese medicines, by 2019, there were a total of more than 110 products regularly manufactured by the company, including 18 products admitted in the National Essential Drugs List and 23 products were included in the National Low-priced Medicine Catalogue. The products cover 5 major therapeutic areas, including cardiovascular and cerebrovascular, respiratory system, digestive system, pediatric medications and orthopedic medications. In 2019, the company recorded 54.7% of its total revenue from oral Chinese medicines.

5. 600085 CH (Beijing Tongrentang Co Ltd)

Beijing Tongrentang Co., Ltd. develops, manufactures, and markets Chinese traditional medicines and medicinal wines. The company is held by its parent company namely Tong Ren Tang Group Co., Ltd., which built its first pharmacy under Tong Ren Tang trademark since 1669 in Qing dynasty. The company was incorporated in 1997 in China, with the business of producing, marketing and selling Chinese herbal decoction and prepared medicines under Tong Ren Tang through its branched pharmacies.

In 2019, the company had 78.71% of the total revenue from patent medicines and decoction pieces. The top 5 products contributing the most revenue in 2019 were Angong Niuhuang Wan series* (安宮牛黃系列), Tongren Niuhuang Qingxin series* (同仁牛黃清心系列), Tongren Dahuoluo Dan series* (同仁大活絡系列), Liu Wei Di Huang Wan series* (六味地黃系列), Jin Gui Shen Chi Wan series* (金匱腎氣系列).

6. 1666 HK (Tong Ren Tang Technologies Co Ltd)

Tong Ren Tang Technologies Co. Ltd. manufactures medical products. The company produces Chinese patent medicines, biological preparations, antibiotics, biochemical medicines, and other products. The main business of the company is manufacturing and selling Chinese prepared medicines and Chinese decoction pieces through its subsidiaries under the trademark of Tong Ren Tang. By 2019, the company had totally 46 principal subsidiaries operated as the bases of cultivating, processing and selling Chinese medicinal raw materials. The company sold Chinese medicinal raw materials and prepared medicines both overseas and in China. The company's main products include Liu Wei Di Huang Wan* (六味地黃丸), Niu Huang Jie Du Pian* (牛黃解毒片), Ganmao Qingre Keli* (感冒清熱顆粒) and Jin Guii Shen Chi Wan* (金匱腎氣丸) etc.

By 2019, the company had several major bases, such as Beijing Tong Ren Tang Medicine Processing Base (北京同仁堂中藥加工基地) located in Daxing Biomedicine Industrial Base in Beijing, Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Base (北京同仁堂延邊中藥材基地), Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Base (北京同仁堂安徽中藥材) and the 2 newly built manufacturing bases located in Tangshan City.

7. 1681 HK (Consun Pharmaceutical Group Ltd)

Consun Pharmaceutical Group Limited is a pharmaceutical company engaged in the research, manufacturing and sale of modern Chinese medicines and medical contrast medium in the People's Republic of China. The company was incorporated in 1997, mainly engaged in the developing, manufacturing and selling of Chinese prepared medicines in the area of nephrology, bone injury, skin, hepatobiliary and maternal and child. The company has 2 bases of manufacturing located in Inner Mongolia and Guangzhou Province, respectively. In 2019, the revenue from producing and selling medicines occupied around 90% of total revenue.

The company also has high diversity of products, owning 147 varieties of which 70 varieties of products have been admitted to the National Medical Insurance Drug Catalogue, including the major products of the company such as Uremic Clearance Granule* (尿毒清顆粒), Yishen Huashi Particles* (益腎化濕顆粒), Iron-dextrin Oral Solution* (右旋糖酐鐵口服液) and Centirizine Hydrochloride Oral Solution* (鹽酸西替利真口服溶液) by 2019.

Although the Chinese Herbs Business and the Decoction Business of the Target Company was newly commenced without sufficient track record, the Target Company has incurred proven positive earnings records since the commencement and the Target Company is expected to derive sustainable profits from operations especially the Chinese Herbs Business and the Decoction Business. With a reasonable number of guideline publicly traded companies available in the market, the forecasted earnings of these comparable companies engaging in similar Chinese herbs and decoction businesses can act as a representative industry benchmark of the future profitability and growth potential of the Target Company.

As advised by the Valuer, as the above-mentioned comparable companies are listed companies and the Target Company is a private company, it is typical for the comparable companies to have larger market capitalization, sales and scale, as well as longer operating history than the Target Company. As the comparable companies are listed companies which are considered to be more mature and sizable than the Target Company, size premium has been added when arriving at the P/E multiple to incorporate the difference in size between the identified comparable companies and the Target Company. The size premium was referenced to Duff & Phelps Cost of Capital Navigator. The Company was given to understand that Duff & Phelps is a global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. They work with clients across diverse sectors, mitigating risk to assets, operations and people.

Upon further enquiry, the Company was given to understand that the adjustment was made by adding the difference in size premium between the comparable company and the Target Company, to the reciprocal of the multiple. The reciprocal of the adjusted result would represent the multiple of the comparable company as if it were at the same size as the Target Company. The comparable companies (i) with negative forecasted net margin; (ii) without available forecasted earnings in the next 12 months; or (iii) with their adjusted P/E multiples as outliers, were excluded in calculating the average multiple as the adopted P/E ratio. The adjustment was made based on the following formula:

$$\text{Adjusted } \frac{P}{E} \text{ Ratio} = \frac{1}{\dfrac{1}{\frac{P}{E}\text{ Ratio}} + \text{Adopted Size Premium}}$$

Where the Adopted Size Premium of each of the comparable companies is derived by the following formula:

Adopted Size Premium = the Target Company's Size Premium (i.e. 5.22%) — Size Premium for each of the comparable companies (with the Size Premium of the Target Company and the comparable companies obtained with reference to Duff & Phelps Cost of Capital Navigator)

According to the representations made by Duff & Phelps, the CRSP Deciles Size Premia include 10 portfolios (i.e., deciles) sorted from largest to smallest by market capitalization for which size premia are calculated. Decile 1 is comprised of the largest companies, and decile 10 is comprised of the smallest companies. The CRSP Deciles Size Study provides a single way to match the subject company's market capitalization with the appropriate size premium. The CRSP Deciles Size Study provides the traditional "risk premia over CAPM", commonly referred to as "size premia". Size premia represent the difference between historical (observed) excess return and the excess return predicted by the Capital Asset Pricing Model (CAPM). Size premia can be added to cost of capital estimation models as an adjustment for the additional risk of smaller companies relative to large companies. The size premium of 5.22% was referenced to the smallest decile with the market capitalization ranged between US$2.455 million and US$321.578 million. This size premium applied to the Target Company was considered to be within generally accepted and commonly adopted range for business enterprise valuations of private companies. In addition, the concluded Valuation of the Target Company at RMB 302 million as at 31 August 2019 as well as the concluded Updated Valuation of the Target Company at RMB428 million as at 30 June 2020 also fall within the range indicated by the smallest decile upon which the size premium was based.

As advised by the Valuer, the above-mentioned formula is a common practice considered by valuers in determining adjusted P/E multiples.

Details of the comparable companies and the process of determining the size adjustments are shown as follows:

Comparable Companies	Reciprocal of Forward P/E ratio Before size adjustment extracted from Duff & Phelps (A)	Market Capitalization (in US$ million) as at 31/8/2019 (B)	Difference in size premium or adopted size premium (C)	Reciprocal of Forward P/E ratio After size adjustment (A+C)	Forward P/E ratio After size adjustment 1/(A+C)	No. of Standard Deviations away from Mean	Outlier
600436 CH	Approx. 0.03	8,406	4.41%	Approx. 0.07	13.9	0.93	Yes
600557 CH	Approx. 0.06	1,426	3.64%	Approx. 0.09	10.5	0.00	No
002412 CH	Approx. 0.04	705	2.76%	Approx. 0.07	14.6	1.12	Yes
2877 HK	Approx. 0.11	770	3.42%	Approx. 0.14	6.9	1.01	Yes
600085 CH	Approx. 0.03	5,327	4.37%	Approx. 0.08	13.1	0.72	No
1666 HK	Approx. 0.07	1,390	3.64%	Approx. 0.10	9.6	0.26	No
1681 HK	Approx. 0.17	474	2.76%	Approx. 0.20	5.1	1.51	Yes

The outliers were identified based on the distance from other observations, which was measured by the difference from the average of all comparable companies in terms of standard deviations. Referring to the above table and as advised by the Valuer, comparable companies with the largest two and the smallest two forward P/E ratios after size adjustment were regarded as outliers. Also, these outliers lie at least nearly one standard deviation away from the mean. In general, the further away from the mean, the more extreme the forward P/E ratio of the particular comparable companies is. Both 600085 CH (13.14x) and 600436 CH (13.90x) have higher P/E multiples than the average of all comparable companies after size adjustment. However, the P/E multiple of 600436 CH was even higher than that of 600085 CH, implying a larger difference from the average than 600085 CH as well. In terms of standard deviations, the P/E multiple of 600436 CH was higher than the average by almost 1 standard deviation while the P/E multiple of 600085 CH was higher than the average by approximately 0.7 standard deviations only. In this sense, only 600436 CH was regarded as an outlier but 600085 CH was adopted in arriving at the adopted P/E multiple.

As further explained by the Valuer, the P/E multiples indicated by all of the 7 comparable companies ranged from approximately 5.1x to 14.6x, with an average of 10.5x. However, the distribution of the 7 comparable companies has exhibited a negative skew, meaning the distribution has a tail which extends towards the lower values, and the data points are more concentrated at the higher end. In particular, the smallest multiple, i.e. 5.1x, lies about 1.5 standard deviations from the average while the largest multiple, i.e. 14.6x, lies only about 1.1 standard deviations from the average. Excluding the smallest P/E multiple of 5.1x would result in the average P/E multiple of 6 comparable companies at 11.4x. If the maximum and minimum P/E multiples of 5.1x and 14.6x are both excluded as outliers, the average P/E multiple of the remaining 5 comparable companies would increase to about 10.8x, from the original average of all of the 7 comparable companies at 10.5x.

After excluding the maximum and minimum multiples as outliers, the P/E multiples indicated by the remaining 5 comparable companies ranged from approximately 6.9x to 13.9x, with an average of 10.8x. Similarly, the remaining data points are more concentrated at the higher end with the currently lowest multiple, i.e. 6.9x (the 2nd lowest in all of the 7 comparable companies) significantly deviating from the other observations. In particular, the currently lowest multiple, i.e. 6.9x, lies about 1.4 standard deviations from the average of the remaining 5 comparable companies while the currently highest multiple, i.e. 13.9x, lies only about 1.1 standard deviations from the average of the remaining 5 comparable companies.

As such, it is still considered reasonable to make reference to the range of P/E multiples of all the 7 comparable companies first. Subsequently, in view of the negative skewness of the distribution of the P/E multiples and the exclusion of outliers to mitigate the distortion by more extreme data, the adoption of the 3 comparable companies around the central tendency of the distribution was considered fair and reasonable. Depending on the number of P/E multiples regarded as outliers excluded in calculating the average, the number of comparable companies eventually considered to arrive at the average adopted P/E multiple would vary. Nonetheless, even after removing the outliers, the resulted average P/E ratio of 11.1x does not differ significantly from the original average of all the 7 comparable companies at 10.5x.

As further advised, although only 3 comparable companies were eventually adopted in calculating the average and the 3 comparable companies were much larger than the Target Company in terms of market capitalization and business scale, however, as the comparable companies are listed companies and the Target Company is a private company, it is typical for the comparable companies to have larger market capitalization, sales and scale, as well as longer operating history and more mature operations than the Target Company. In light of the above, size premium has been considered and adopted by the Valuer when arriving at the P/E multiple to incorporate the difference in size between the identified comparable companies and the Target Company. All other factors held constant, the larger the difference between the company size of the comparable company and the Target Company, the more significant the resulted P/E multiple of that particular comparable company would be lowered correspondingly after the size adjustment.

Moreover, the P/E multiples of the 3 comparable companies are more concentrated with less dispersion and the resulted average forward P/E ratio of 11.1x falls within the reasonable range of P/E multiples indicated by all of the 7 comparable companies. Based on the above explanations from Valuer and upon further enquiries and assessment by the Directors, the Directors are given to understand that (i) all comparable companies were identified based on fair and reasonable criteria; (ii) all comparable companies are sourced from Bloomberg which is a well-known global media and financial data and analytics conglomerate; (iii) the 3 comparable companies fully fulfilled the selection criteria and not regarded as outlier; (iv) the 3 comparable companies and the Target Company are domiciled in China and derive their revenue mainly from China; (v) the 3 comparable companies and the Target Company are engaged in the provision of traditional Chinese medicines; and (vi) most of the major customers of the 3 comparable companies and the Target Company are listed companies, therefore, the Directors are of the view that the samples size of 3 comparable companies adopted in the Valuation is appropriate and representative in this regard.

All in all, the Directors consider that (i) the selection criteria set by the Valuer is fair and reasonable; (ii) the basis of calculation of the forward P/E multiples (including the adjustment of size premium) is justifiable; (iii) the samples size of 3 comparable companies adopted in the Valuation in arriving at the adopted forward P/E multiples is appropriate and representative, the result of which represents a more concentrated with less dispersion and falls within the reasonable range of P/E multiples indicated by all of the 7 comparable companies.

*Discount on Lack of Marketability ("**DLOM**")*

The Board is given to understand that, the ownership interests in closely held companies are typically not readily marketable, and not as liquid and as easily converted to cash compared to similar interests in the public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. With reference to the 2019 edition of the Mergerstat Review, a marketability discount of 31% was adopted in arriving at the market value of the Target Company as at the date of the Valuation since the Target Company is a private company.

Upon enquiry, it was advised that the Mergerstat Review was published by Factset Mergerstat LLC ("**Factset Mergerstat**"), an information provider providing merger and acquisition ("**M&A**") information for the local, regional, national, and international financial news media, and offering daily M&A transaction data, in-depth historical deal information, and trend analysis for various M&A market sectors and industries. Factset Mergerstat engages in publishing annual, monthly, and weekly M&A publications, and provides M&A and private equity information through its online database. Factset Mergerstat compiles statistics on publicly announced mergers, acquisitions and divestitures involving operating entities. Factset Mergerstat has tracked these statistics and published its findings for over 45 years. The 2019 edition marks the 37th publication of Mergerstat Review. Transaction information is gathered throughout each day using a variety of electronic and print sources. The Mergerstat Review includes formal transfers of ownership of at least 5% of a company's equity and where at least one of the parties is a United States entity.

The Mergerstat Review computes the price offered as a multiple of the acquired company's earnings ("**P/E**") when both the price and the earnings are disclosed. Factset Mergerstat excludes negative P/E multiples and P/E multiples larger than 100. The median P/Es offered for public companies and private companies from 2009 to 2018 was studied in the Mergerstat Review. Over the last 10 years, the median P/Es offered for public companies ranged from 19.5 to 26.7 while the median P/Es offered for private companies ranged from 12.5 to 19.7 over the same period. A total of 1750 and 526 acquisitions of public and private companies from 2009 to 2018 were examined respectively in the Mergerstat Review. The DLOM was the percentage difference between the median P/Es offered for public companies and private companies. The Mergerstat Review was adopted for arriving at the DLOM since there is a lack of similar studies in other countries and there is no conclusive evidence that suggests any significant relationships between the DLOM and country of domicile or between the DLOM and industry. Therefore, the use of the average discount on the median P/Es offered for private companies compared with public companies as the DLOM was considered fair and reasonable for the valuation of the Target Company.

*Control Premium ("**CP**")*

Regarding the control premium, the Board understands from the Valuer that, the share prices of the selected comparable companies are deemed to be non-controlling interest when applying the market approach. A controlling ownership interest is typically more valuable than a pro-rata share of a minority interest as the minority owner does not have control over important business decision. With reference to the Control Premium Study (2nd Quarter 2019) published by Factset Mergerstat LLC (the "**Control Premium Study**"), the Valuer has adopted a control premium of approximately 27% which was the 12-month median premium extracted from the Control Premium Study in estimating the entire equity interests in the Target Company as at the date of the Valuation.

Upon enquiry, it was advised that the Control Premium Study examined completed transactions whereby 50.01% or more of a company was acquired and the target company was publicly traded. The control premium is the percentage difference computed by comparing the per share total consideration price for one share of the target company's common stock to the target company's preannouncement common stock price per share unaffected by the acquisition announcement. For the trailing 12-month period from the 3rd quarter of 2018 to the 2nd quarter of 2019, 571 transactions (both United States and international) were covered by the Control Premium Study, with the 12-month median CP (excluding negative premiums) of approximately 27%. The Control Premium Study was adopted for arriving at the CP since it examines worldwide transactions and there is no conclusive evidence that suggests any significant relationships between the CP and country of domicile or between the CP and industry. Therefore, considering that (i) a trailing 12-month period can ensure more extensive and sufficient transactions were adopted to arrive at a more normalized and less fluctuating premium; (ii) the median measure is less vulnerable to the impact of extreme premiums compared with the average measure in view of the wide range of observed premiums; (iii) the adopted control premium of 27% was considered to be within generally accepted and commonly adopted range; and (iv) the 3-month median premium as at the 2nd quarter of 2019 was approximately 28% which was not significantly different from the adopted control premium, the use of the 12-month median premium as the CP was considered fair and reasonable for the valuation of the Target Company.

Subsequent reassessment on the valuation of the Target Company

The Company is aware that the Valuation represents a valuation date of a prolonged period prior to the Latest Practicable Date. Therefore, the Company has (i) liaised with the Target Company to reassess the actual and expected future business performance of the Target Company based on the business development of the Target Company since August 2019 (including but not limited to the expected increase in future income stream from the entering into of the New Procurement Agreements); and (ii) the Valuer on the revision of the existing valuation based on the latest development of the Target Company. The Updated Valuation was adopting the same valuation approach with the forecasted trailing 12-month financial of the Target Company ended 30 June 2021 prepared by the management of the Target Company which involved projections of profits, earnings and cash flow and are regarded as profit forecast under Rule 14.61 of the Listing Rules. After considering (i) the historical financial performance of the Target Company for the 12 months ended 30 June 2020 did not fully reflect the income potential of the Chinese Herbs Business and the Decoction Business with Sinopharm under the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) which commenced only in November 2019; and (ii) the business of the Target Company in the first half of 2020 was disrupted by the outbreak of the COVID-19 and the nationwide lockdown imposed when China was being hit worst by the COVID-19, resulting in minimal operations and income particularly in February and March 2020, the adoption of the forward P/E ratio is still considered suitable for the Updated Valuation. The Valuer has indicated that the Updated Valuation is RMB428 million (equivalent to approximately HK$470.8 million), representing an increase of approximately 41.72% when compared with the appraised value of the Target Company as of 31 August 2019 of RMB302 million (equivalent to approximately HK$332.1 million). However, the Company and the Vendor have mutually agreed that the Consideration will not be adjusted.

Following tables set out the differences of data/parameters used in the Valuation and the Updated Valuation:

	The Valuation (31 August 2019)	**Updated Valuation (30 June 2020)**
Forecasted net profit *(note 1)*	RMB31.2 million	RMB46.4 million
Adopted P/E ratio *(note 2)*	Approx. 11.10	Approx.10.05
Adopted DLOM	31%	31%
Adopted CP *(note 3)*	27%	33%
Valuation	RMB302 million	RMB428 million

Note(s):

1. the difference between forecasted net profit of RMB46.4 million used in the update forecast compared with forecasted net profit of RMB31.2 million used in the previous forecast is mainly attributed to (i) the inclusion of expected future financial benefits arising from the New Procurement Agreements; (ii) the different 12-month financial forecast period applied to reflect the latest development of the Target Company for the purpose of preparing the Updated Valuation.

2. The difference of the adopted P/E ratio was arising from the differences of forward P/E ratios of the comparable companies from the same data source as of the two valuation dates respectively, as follow:

Stock Code of Comparable Companies	**Forward P/E ratio After size adjustment (31 August 2019)**	**Forward P/E ratio After size adjustment (30 June 2020)**
600557 CH	10.54	10.22
2877 HK	Not adopted as it was resulted as outlier*	5.74
600085 CH	13.14	14.29
1666 HK	9.62	9.93
Average forward P/E ratio adopted	11.10	10.05

* *As advised by the Valuer, there are only 6 comparable companies with available forecasted earnings from Bloomberg as at 30 June 2020, instead of 7 comparable companies as at 31 August 2019. Outliers with larger deviations from the mean were excluded but also to ensure there are sufficient comparable companies in the calculation of the average P/E multiple adopted. The comparable company China Shineway Pharmaceutical Group Ltd (2877 HK) was excluded as*

outlier in the Valuation as at 31 August 2019 but instead, was included in the calculation of the adopted forward P/E multiple in the Updated Valuation as at 30 June 2020. The P/E ratio of China Shineway Pharmaceutical Group Ltd deviated away from the mean by less standard deviation as at 30 June 2020 compared to 31 August 2019. As such, the difference in value was considered as normal market data fluctuation between the 2 different valuation dates.

3. The difference of the adopted CP was arising from the differences of the referenced CP obtained from the same data source as at the two valuation dates respectively. As such, the difference in value was considered as normal market data fluctuation between the 2 different valuation dates.

A copy of the Valuation Report and the Updated Valuation Report, including details of the assumptions, basis and methodology of the Valuation and the Updated Valuation, have been included in Appendix VI and Appendix V in this circular, respectively.

Assumptions adopted in the Forecasted Financial

The Board has reviewed the bases and assumptions adopted in the Forecasted Financial of the Target Company including but not limited to revenue, cost of sales, sales expenses, administrative expenses, tax expense. Set out below are certain bases and assumptions adopted in the Forecasted Financial that the Board considers significant and the assessment by the Board:

1. Revenue

- The forecasted revenue of the Target Company is derived from the Anoectochilus Formosanus Business, the Chinese Herbs Business and the Decoction Business;
- The Target Company keeps its existing scale of Anoectochilus Formosanus Business with moderate growth;
- The Anoectochilus Formosanus Business is subject to seasonal effect and the majority of the revenue of the Target Company is generated in winter;
- The Chinese Herbs Business and the Decoction Business commence in November 2019.
- The forecasted revenue of the Chinese Herbs Business and Decoction Business were projected base on the terms of the Procurement Agreement including the selling price and quantities and monthly procurement schedule of the contracted products;

Board assessment:

The Board has conducted site visit to the Target Company and enquired and understood the business model and business plan with the management of the Target Company. Furthermore, the Board has requested and reviewed monthly financial statements of the Target Company for each of the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and noted that the revenue from the Anoectochilus Formosanus Business recorded in the last quarter of each of the year 2017, 2018 and 2019 represented approximately 86%, 88% and 47% of the annual revenue contributed from the Anoectochilus Formosanus Business respectively and concur with the assumption that the Anoectochilus Formosanus Business is subject to seasonal effect and the majority of the revenue of the Target Company is generated in winter.

In respect of the forecasted revenue of the Anoectochilus Formosanus Business, the Board has reviewed and compared the forecasted revenue of the Anoectochilus Formosanus Business with the Target Company's historical revenue of the Anoectochilus Formosanus Business and is of the view that the forecasted revenue of the Anoectochilus Formosanus Business match with the historical revenue of the Anoectochilus Formosanus Business and considered the forecasted revenue is fair and reasonable.

In relation to the commencement of the Chinese Herbs Business and the Decoction Business, the Board has obtained and reviewed the relevant operating and financial documentations, including (i) the Procurement Agreement; (ii) confirmation of the monthly procurement schedule; (iii) goods delivery notes; (iv) monthly goods receipt statement between the Target Company and Sinopharm; and (v) key financial figures of the Target Company in January 2020 and noted that the Target Company has successfully fulfilled its duties of supplying the Chinese herbs. The Board has also appointed representatives to visit the Target Company and examine the substance of the Target Company in commencing the Chinese Herbs Business and the Decoction Business and were given to understand that the products delivered by the Target Company in November 2019 have passed the quality assurance procedure of Sinopharm.

Having considered (i) the Target Company has commenced the Chinese Herbs Business and the Decoction Business; (ii) the Target Company is capable to fulfill the terms and conditions of the Procurement Agreement and the monthly delivery schedule; (iii) the requested operating and financial documentations of the Target Company in relation to the commencement of the Chinese Herbs Business and the Decoction Business in November 2019 match with the monthly delivery schedule; and (iv) the information of the monthly delivery schedule match with the forecast revenue. The Directors are of the view that the forecast revenue of the Chinese Herbs Business and the Decoction Business is fair and reasonable.

2. Forecasted cost of sales

- The forecasted cost of sales of the Anoectochilus Formosanus Business includes raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense;

- The forecasted cost of sales of the Anoectochilus Formosanus Business was estimated with reference to the historical cost of sales of the Target Company as the Target Company targeted to keep its existing scale of the Anoectochilus Formosanus Business without significant expansion;

- The forecasted cost of sales of the Chinese Herbs Business and the Decoction Business include raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense with raw material cost accounted for a majority of the cost;

- The forecasted raw material cost of Chinese Herbs Business and the Decoction Business were estimated based on negotiation result among the Target Company, the local government and the farmers on the purchase price of the raw Chinese herbs;

- The forecasted raw material cost of Chinese Herbs Business and the Decoction Business were referenced to the redhead letter issued by Yishui Town People's Government on 8 January 2020 which has set out poverty protection purchase price for the Chinese herbs with at most 3% annual adjustment on the price;

- The other cost of sales of the Chinese Herbs Business and the Decoction Business were estimated based on experience and expertise of the management of the Target Company;

- The forecasted cost of sales to revenue ratio of the Anoectochilus Formosanus Business was estimated to be approximately 80%;

- The forecasted cost of sales to revenue ratio of the Chinese Herbs Business was estimated to be approximately 90%;

- The forecasted cost of sales to revenue ratio of the Decoction Business was estimated to be approximately 40% as the selling price of Chinese herbs decoction pieces are generally higher than the Chinese herbs products due to the more complicated processing procedure, while the unit purchase price of raw root type Chinese herbs, being the raw material of the Decoction Business is much cheaper than raw leaf type Chinese herbs, being the raw material of the Chinese Herbs Business;

- The overall forecasted cost of sales to revenue ratio was estimated to be approximately 53.5%.

Board assessment:

In respect of the forecasted cost of sales of the Anoectochilus Formosanus Business, the Board has reviewed and compared the forecasted cost of sales to revenue ratio of the Anoectochilus Formosanus Business with the Target Company's historical cost of sales to revenue ratio of the Anoectochilus Formosanus Business and is of the view that the forecasted cost of sales of the Anoectochilus Formosanus Business match with the historical cost of sales of the Anoectochilus Formosanus Business (approximately 80% to revenue) and considered the forecasted cost of sales of the Anoectochilus Formosanus Business is fair and reasonable.

Regarding the forecasted cost of sales of the Chinese Herbs Business and the Decoction Business, the Board have discussed with the management of the Target Company to understand the execution plan of the Target Company on the Chinese Herbs Business and the Decoction Business and have requested and obtained documentations indicating (i) the availability of the farmers and there were sufficient supply of raw Chinese herbs to the Target Company; (ii) the purchase price of raw Chinese herbs and (iii) the redhead letter issued by Yishui Town People's Government on 8 January 2020. Having reviewed the documentations and having assessed the expertise background of the management of the Target Company, the Directors are of the view that the forecast cost of sales of the Chinese Herbs Business and the Decoction Business is fair and reasonable.

3. ***Forecasted sales expenses***

- The forecasted sales expenses mainly comprise marketing expense, packaging and sales commission.

- The forecasted sales expense was estimated with reference to the historical sales expenses to revenue ratio of approximately 0.25%.

4. ***Forecasted administrative expenses***

- The forecasted administrative expenses mainly comprise staff remuneration, office expenses, office utility expenses, research and development expenses, car rental, depreciation and amortization.

- The forecasted administrative expenses do not have rental expenses as the office and plant currently consumed by the Target Company was provided by the local government of Zhushan County without consideration.

- The forecasted administrative expense was estimated with reference to the historical administrative expenses (excluding depreciation and amortization) to revenue ratio of approximately 5.6% plus depreciation and amortization in accordance with such schedules.

5. ***Forecasted tax expenses***

- No taxation is provided for the Anoetochilus Formosanus Business in the Forecasted Financial since the income from the Anoetochilus Formosanus Business is in line with the scope of corporate income tax exemption and can enjoy the corresponding preferential policies;

- A lower profit tax rate of 15% is provided for the Chinese Herbs Business and the Decoction Business since the Target Company has been issued a High-tech Enterprise Certificate* (高新技術企業證書).

Board assessment:

The Board has reviewed the High-tech Enterprise Certificate and obtained a legal opinion from the Company's PRC legal adviser regarding tax implication on the business of the Target Company. The Directors are of the view that the tax estimation provided by the management of the Target Company is fair and reasonable.

The Company aware that at the time when entering into the Sale and Purchase Agreement, the Target Company has been conducting the Anoectochilus Formosanus Business and the Target Company has only entered into the Procurement Agreement to commence the Chinese Herbs Business and the Decoction Business, which the profitability of the Chinese Herbs

Business and the Decoction Business were uncertain. As such, the Company has discussed and understood the business model of the Chinese Herbs Business and the Decoction Business (details were disclosed under the paragraph headed ''Business Model'' in this circular) in reviewing the financial projections of the Target Company.

The Company was given to understand that cost of sales of the Chinese Herbs Business and the Decoction Business include raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense with raw material cost accounted for majority of the cost. Regarding raw material cost, the Company has been provided with the Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Agreement entered into between the local government of Zhushan and the Target Company for a term of 10 years until September 2029 and the subsequent correspondences confirming the purchase prices and price adjustment mechanism of raw materials from local farmers and agricultural cooperatives. The Company has also, together with representatives of the target company and relevant professional parties involved in the Acquisition, visited and discussed with the responsible person of the local government of Zhushan in charge of the Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Programme to have an in-depth understanding on the programme including but not limited to the purpose of the programme, execution plan of the programme and relevant roles of the Target Company, the local government and the farmers and agricultural cooperatives. The Company has also obtained understanding from the Target Company on the utilisation rate and other essential expenses to produce the products under the Chinese Herbs Business and the Decoction Business. The Company believes the management of the Target Company has sufficient expertise and technical know-how to estimate the above (details of the expertise of the Target Company were disclosed in the paragraph headed ''expertise'' in this circular). Based on the above, majority of the cost of sales could be reasonably ascertained.

Regarding the forecast revenue of the Chinese Herbs Business and the Decoction Business, revenue was projected merely based on the contracted term of the Procurement Agreement without making any aggressive assumptions.

Based on the above, the Company is of the view that the uncertain profitability of the Chinese Herbs Business and the Decoction Business has been reasonably accounted for in this regard.

In both the Valuation and the Updated Valuation, forward P/E multiples have been adopted. In deriving the adopted forward P/E multiples from the identified comparable companies, uncertain profitability is also intrinsic in the forecasted earnings of the comparable companies for the next future financial period applied. As companies with a going concern are usually expected to grow in the future, the forward P/E multiples are typically more conservative compared to the historical P/E multiples. In addition to the uncertain profitability implicit in the forecasted earnings of the comparable companies, both the Valuation and the Updated Valuation have factored in additional uncertainty or greater risk associated with privately held companies and companies of smaller size, two features which newly set up companies or businesses like the Target Company are generally considered to share in common, by means of the adoption of the discount on lack of marketability and the size adjustment made to the adopted forward P/E multiples with the highest size premium corresponding to the smallest decile adopted for the Target Company.

In view of the size adjustment and discount of lack of marketability adopted, the Valuation and Updated Valuation are considered to have taken into account the uncertain profitability of the Chinese Herbs Business and the Decoction Business to arrive at the appraised value of the Target Company.

Based on the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the bases and assumptions adopted in the Forecasted Financial of the Target Company and the Consideration is fair and reasonable and on normal commercial terms and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

Due diligence

The Group has conducted relevant due diligence on the financial, business and taxation aspects of the Target Company. The due diligence conducted by the Board includes, among others, (i) the review of the accountants' reports on the Target Company as set out in Appendices II & IV prepared by independent certified public accountants appointed by the Company to understand the financial aspects of the Target Company including the material assets and liabilities and financial performance of the Target Company; (ii) the review of the legal opinion prepared by the PRC legal adviser to confirm the tax issue of the Target Company; (iii) the review of the Valuation Report and the Updated Valuation Report, including but not limited to the valuation methodology adopted by the Valuer, as set out in Appendices V & VI to this circular; and (iv) performing site visit together with Financial Adviser, independent certified public accountants and the Valuer to assess the operation of the Target Company.

In light of the above mentioned, the Directors consider that they have performed sufficient due diligence and have sufficient understanding on the Target Company and the Acquisition.

Conditions Precedent

Completion of the Acquisition is conditional upon the fulfillment of the following Conditions on or before the Long Stop Date:

(a) the Purchaser being satisfied with the result of the due diligence review of the Target Company;

(b) all necessary consents, licences and approvals required to be obtained on the part of the Vendor and the Target Company in respect of the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement, the Third Supplemental Agreement and the transactions contemplated thereby have been obtained and remain in full force and effect;

(c) all necessary consents, licences and approvals required to be obtained on the part of the Purchaser in respect of the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement, the Third Supplemental Agreement and the transactions contemplated thereby have been obtained and remain in full force and effect;

(d) the representations, warranties and undertakings given by the Vendor have remained true and accurate in all respects and not misleading;

(e) the Purchaser having obtained a PRC legal opinion (in the form and substance to the reasonable satisfaction of the Purchaser) from a qualified PRC lawyer appointed by the Purchaser in respect of the transactions contemplated under the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement including but not limited to the due incorporation and subsistence of the Target Company, the legality and validity of the sale of the Sales Shares contemplated under the Sale and Purchase Agreement;

(f) the Purchaser having obtained a valuation report (in the form and substance satisfactory to the Purchaser) from an independent professional valuer appointed by the Purchaser with the valuation of the Target Company of not less than HK$334 million;

(g) the passing by the Shareholders at the SGM to be convened and held of the necessary ordinary resolution(s) to approve, among other things, the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares under the Specific Mandate);

(h) the Purchaser being reasonably satisfied that there has not been any material adverse change on the Target Company since the date of the Sale and Purchase Agreement;

(i) the Stock Exchange granting or agreeing to grant the approval for the listing of and permission to deal in the Conversion Shares of the 1st Tranche Convertible Bonds; and

(j) having completed the Reorganisation pursuant to the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement, the Third Supplemental Agreement and all government approvals, filing and licenses relevant to the Reorganisation having been obtained and/or completed.

The Purchaser may in its absolute discretion at any time waive any of the Conditions (a), (d) and (h), by notice in writing to the Vendor. All other Conditions are incapable of being waived by either the Purchaser or the Vendor.

If any of the above conditions have not been fulfilled or waived (as the case may be) by the Long Stop Date, the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) shall cease and determine and thereafter neither party to the Sale and Purchase Agreement shall have any obligations and liabilities thereunder.

Guarantee

The Guarantor unconditionally and irrevocably guarantees to the Purchaser to procure the due and punctual performance by the Vendor of all the obligations expressed to be imposed on or assumed by it under the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement and undertakes to indemnify and keep effectively indemnified the Purchaser (if necessary by the payment of cash on first demand) against all liabilities, losses, damages, costs and expenses stipulated under the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement or otherwise which the Purchaser may suffer or incur in connection with any default or delay on the part of the Vendor in the performance of such obligations provided that the Guarantor shall be discharged or released from its obligations under the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement after the issue of the 4th Tranche Convertible Bonds or the fulfilment of the obligation for the compensation amount in the event that the principal amount of any issued and outstanding Convertibles Bonds is not sufficient to meet the compensation.

Completion

Subject to the fulfilment or waiver (as the case maybe) of the Conditions (a) to (j) set out above, Completion shall take place on the Completion Date (i.e. the third Business Day after the Conditions (a) to (j) have been fulfilled or waived (or such other date as the parties may agree)).

Upon completion of the Acquisition, the Company will hold a total of 51% equity interests in the Target Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

INFORMATION OF THE VENDOR, THE GUARANTOR

Vendor is a company incorporated in BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Vendor is wholly-owned by Mr. Lin.

Mr. Lin graduated from Xiamen Huatian Foreign Studies College. After graduation, Mr. Lin worked as a researcher in a pharmaceutical technology development company and the deputy director of the project technology department in a Chinese herbal medicine company in Sichuan. Mr. Lin established the Target Company in 2014, and has been focusing on R&D, planting, product processing and sales of rare medicinal plants such as anoectochilus.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established under the laws of the PRC with limited liability on 24 September 2014 with registered capital of RMB30,000,000. As at the Latest Practicable Date, it is owned as to (i) 51% by Mr. Lin; and (ii) 49% by Mr. Guo Dong Li, being an Independent Third Party. The Target Company is principally engaged in the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products. The production base of the Target Company is situated at Zhushan County, Shiyan City, Hubei Province with forest lands with an aggregate total area of 8,757 Chinese mu with production plants and equipment constructed nearby. The Target Company has been awarded Hubei Province Forestry Industrialization Key Leading Enterprise, and Superior Integrity Unit* (星級統計誠信單位) and has been receiving continuous support from PRC local government of Zhushan County.

Business Model

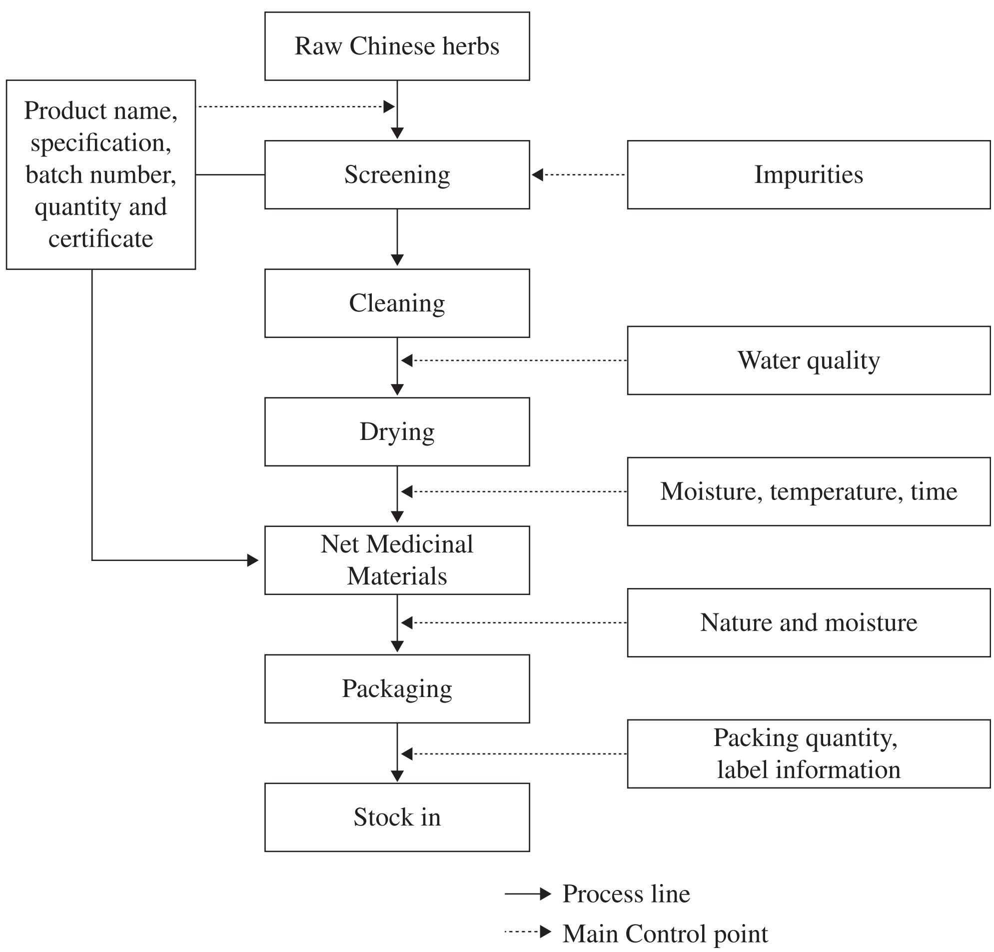
Anoectochilus Formosanus Business

Since the commencement of business in 2015 to the year ended 31 December 2018, the product of the Target Company was solely anoectochilus formosanus (金線蓮). Due to the biological characteristics of anoectochilus formosanus, it is only suitable for planting from spring to summer times while harvesting and sale from autumn times. The Anoectochilus Formosanus Business is subject to seasonal effect and a majority of the revenue of the Target Company are generated in the winter times. The cost of sales of the Anoectochilus Formosanus Business includes raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense.

Chinese Herbs Business

In order to broaden the product mix of the Target Company and to mitigate the business risk of over reliance on a single product with an aim to assist the local government of Zhushan County to drive the local economy and employment, the Target Company has been cooperating with the local government of Zhushan County and professional agricultural cooperatives and Chinese herbs companies in the developing the plantation techniques of other species of Chinese herbs as well as to expand and standardize Chinese herbs market since 2017. As a result of the cooperation with the local government of Zhushan County and other professional agricultural organizations, the Target Company has successfully developed plantation techniques of honeysuckle* (金銀花), a Chinese herb suitable to cultivate and plant in autumn and winter, and has secured the sale of honeysuckle products and other species of Chinese herbs, including white peony* (白芍), huanglian* (黃連), cork* (黃柏), forsythia* (連翹). The products of the Chinese Herbs Business are mainly leaf type Chinese herbs. The operation of the Chinese Herbs Business involve certain procedures, in particular (i) procure and collect suitable raw Chinese herbs from farmers; (ii) undergo initial processing on the raw Chinese herbs. Details of the initial processing are as follow:

Flow Chart of initial processing on the raw Chinese herbs



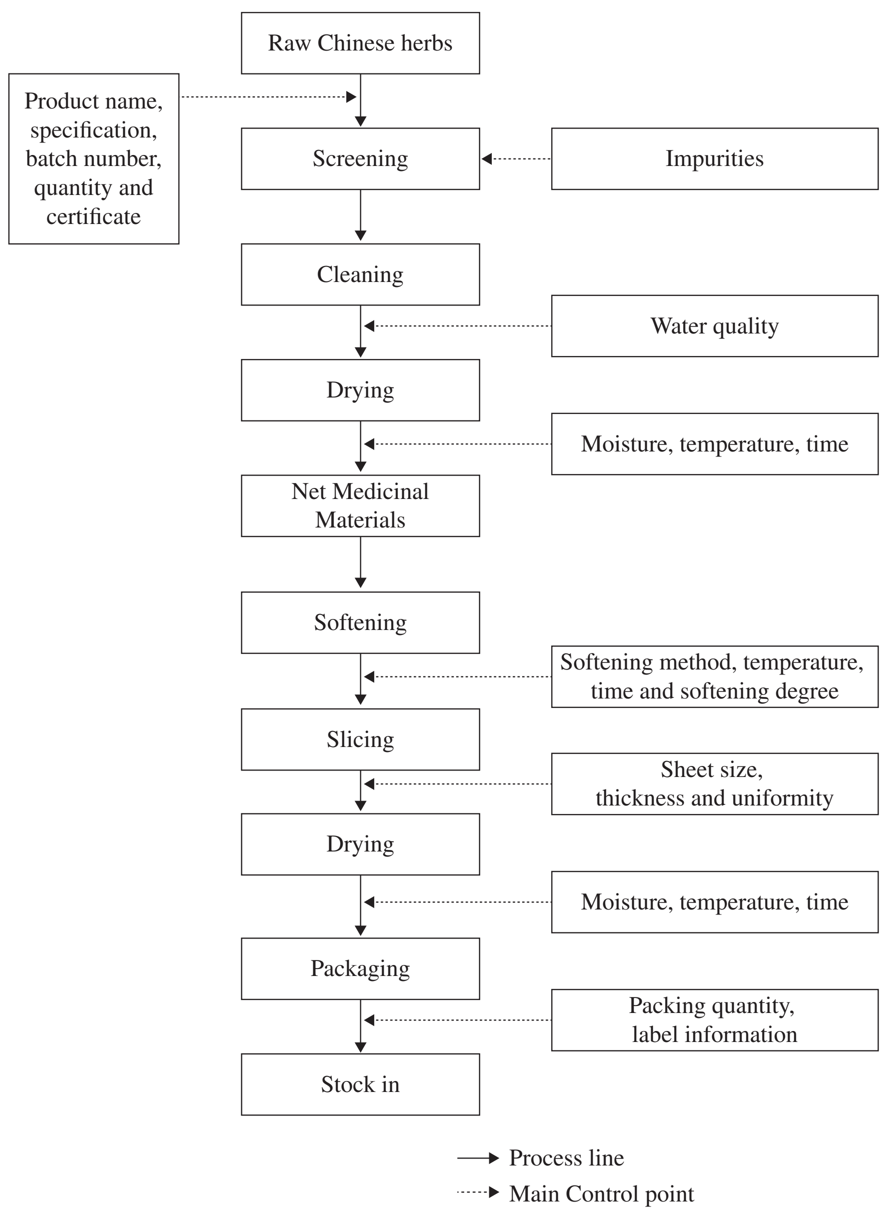
The cost of sales of the Chinese Herbs Business includes raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense, while raw material cost accounted for a majority of the cost. The delivery of these products has taken place and started to generate an income stream to the Target Company from the last quarter of 2019.

As at the latest Practicable Date, the Target Company has entered into the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) with Sinopharm and the delivery of these products has taken place from the last quarter of 2019. In addition to the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements), the Target Company has entered into New Procurement Agreements with four new customers in January and February of 2020.

Decoction Business

Apart from the Chinese Herbs Business, the Target Company commenced the Decoction Business to broaden the product mix of the Target Company and mitigate the business risk of over reliance on a single product. The products of the Decoction Business, including licorice decoction pieces* (甘草飲片), curcuma decoction pieces* (莪朮飲片) and turmeric decoction pieces* (黃姜飲片) are mainly root type Chinese herbs. The operation of the Decoction Business involves certain procedures, in particular (i) procure and collect suitable raw Chinese herbs from farmers; (ii) undergo medium processing on the raw Chinese herbs. Details of the medium processing are as follow:

Flow Chart of medium processing on the raw Chinese herbs



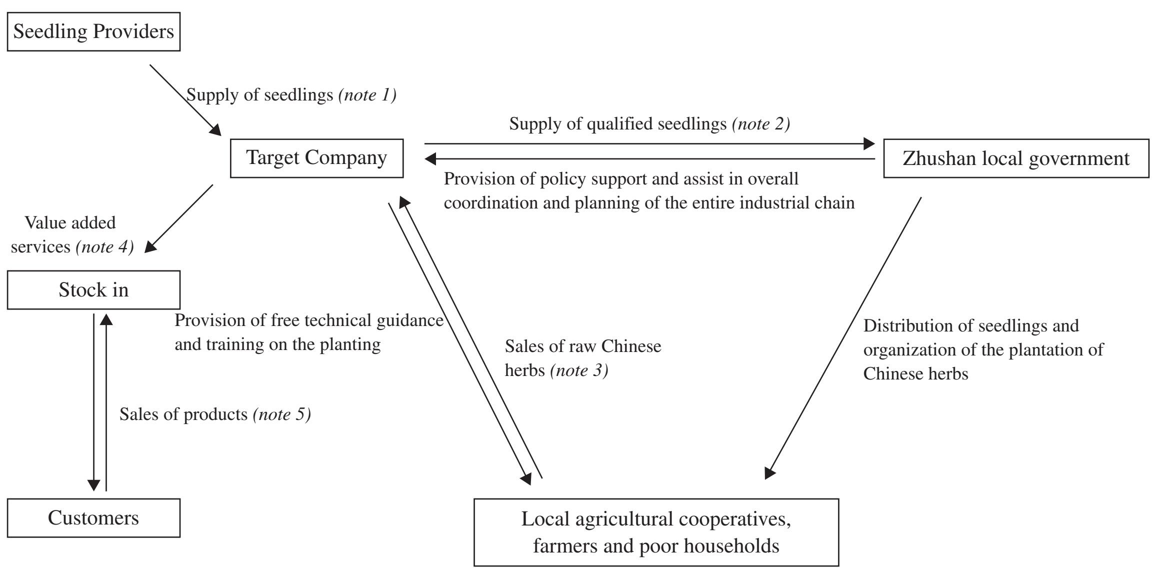
The cost of sales of the Decoction Business includes raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense, while raw material cost accounted for a majority of the cost. The delivery of these products has taken place and started to generate an income stream to the Target Company from the last quarter of 2019.

As at the latest Practicable Date, the Target Company has entered into the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) with Sinopharm and the delivery of these products has taken place from the last quarter of 2019. In addition to the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements), the Target Company has entered into New Procurement Agreements with four new customers in January and February of 2020.

Sales cycle and target customers

Since the commencement of business from 2015 to 2018, the Target Company mainly focus on the Anoectochilus Formosanus Business. The Target Company sources its clients via the business network of the management of the Target Company. The Target Company also cooperates with CCTV mall (央視網商城) to help the Target Company plan and launch different kinds of marketing campaigns including but not limited to launching product launch press conference to promote and increase public awareness of the Target Company's products. The Target Company also leverages on the resources of CCTV mall to explore clients. For each of the year ended 31 December 2017 and 2018, the Anoectochilus Formosanus Business of the Target Company mainly sold its products to bio-tech enterprises in the PRC. The Target Company also packaged its products into gift pack and sold to distributors and individuals. For each of the year ended 31 December 2017 and 2018, the proportion of revenue derived from launching marketing campaigns to total revenue were approximately 22% and 20%, respectively.

Subsequent to the entering into of the Procurement Agreement, the Target Company has commenced the Chinese Herbs Business and the Decoction Business since November 2019 and Sinopharm has become a major customer of the Target Company accounted for approximately 46% of the total revenue of the Target Company for the year ended 31 December 2019. Given the successful commencement of the Chinese Herbs Business and the Decoction Business as well as the successful introduction of Sinopharm into Zhushan County via the entering into of the Procurement Agreement (supplemented by the Supplemental Procurement Agreement) which was being seen as an important milestone to drive the local economy and employment, the Target Company's relationship with the local government has been getting closer. The Target Company has been selling Chinese herbs seedling, including honeysuckle and anoectochilus formosanus seedlings to the Zhushan local government and local agricultural cooperative established with the approval of the Zhushan local government since the second half of 2019. The Zhushan local government is also a strategic partner of the Target Company and the Zhushan local government and the Target Company entered into "Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Programme" for a term of 10 years until September 2029. Pursuant to the programme, the Zhushan local government (i) organizes different local agricultural cooperatives, large Chinese medicinal producers and farmers to plant the Chinese herbs, including honeysuckle and anoectochilus formosanus; (ii) assists the Target Company in the overall coordination and planning of the entire industrial chain of various Chinese herbs within its jurisdiction, and provides the Target Company with corresponding policy support for the Chinese herb industry; and (iii)_unifies the supply of seedlings, planting standards, purchase of raw materials, etc of the Chinese herb industry, including honeysuckle and anoectochilus formosanus. The Target Company is responsible for (i) providing qualified Chinese herbs seedling, including honeysuckle and anoectochilus formosanus; (ii) providing free technical guidance and training on the planting and management of Chinese herbs including honeysuckle and anoectochilus formosanus to the local agricultural cooperatives, farmers or poor households under the jurisdiction of the Zhushan local government; (iii) purchasing the Chinese herbs from the local agricultural cooperatives, farmers and poor households within the jurisdiction of the Zhushan local government. Besides, the Zhushan local government sets out the poverty protection purchase price for the Chinese herbs with at most 3% annual adjustment on the price which has been disclosed in the redhead letter issued by Yishui Town People's Government on 8 January 2020. The flow of the operation is as follows:



Notes and sequences of the flows of revenue recognition and operations of the Target Company:

1. The Target Company purchases seedlings from seedling providers.

2. The Target Company sells qualified seedlings to Zhushan local government after screening and further nurturing with special plantation technique.

3. The Target Company purchases raw Chinese herbs from local agricultural cooperatives, farmers and poor households with poverty protection prices

4. The Target Company undergoes initial/medium processing on the raw Chinese herbs

5. The Target Company sells the products to customers and recognizes the revenue after successfully delivering the promised products to the customers.

The poverty protection purchase price provides the Target Company with a consistent supply of raw material at a stable price, meanwhile the farmer can earn a stable income by supplying the raw material to the Target Company. Apart from the "Traditional Chinese Medicine Industry Poverty Alleviation Cooperation Programme" and the poverty protection purchase price, the Zhushan local government regularly organizes business events and introduces different companies to the Target Company in order to (i) facilitate the cooperation between those companies and the Target Company; (ii) accelerate the development of the Zhushan economy.

Benefited from the exposure to the Chinese medicine market in the PRC of the cooperation between the Target Company and Sinopharm, for the six months ended 30 June 2020, the Target Company has further entered into New Procurement Agreements with 2 existing customers and 2 new customers where 1 of the new customers (Customer A of the New Procurement Agreements under section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" in this circular) is a sizeable PRC based pharmaceutical and bio-tech enterprise with operation base of over 46,000 m^2 and plantation bases of 17,000 mu according to publicly available information.

Expertise

Since the establishment of the Target Company in 2014, the Target Company had been working with Huazhong Agricultural University (華中農業大學) and China State Institute of Pharmaceutical Industry (中國醫藥工業研究總院) on the research and development of plantation technology and application of different species of Chinese herbs for more than three years. The Target Company currently possesses 42 utility model or invention patents. 28 utility model or invention patents including, among others the seedling cultivation, formula and preparation of the final goods, dehydration and drying method, beverage production, are related to Anoectochilus Formosanus Business. 8 utility models or invention patents are related to the fertilization, irrigation, weeding, soil loosening of honeysuckle. The remaining utility model or invention patents are related to steam sterilizer, greenhouse water curtain system, food therapy, etc. The Target Company utilize the utility models and invention patents for their operation and production in order to achieve higher efficiency and better output. The Target Company has been awarded Hi-Tech enterprises certificate (高新技術企業證書) in November 2018.

With reference to the public announcement by Hubei Forestry Bureau (湖北省林業局) (http://lyj.hubei.gov.cn) on 28 November 2018, the Target Company was successfully re-elected as one of the leading enterprises (重點龍頭企業) in Hubei pursuant to the requirement under the Hubei Province Forestry Industrialization Key Provincial-level Leading Enterprises Declaration, Recognition and Moni toring Management Measures* (湖北省林業產業化省級重點龍頭企業申報認定和監測管理辦法) effective from the date of the announcement until December 2021. And going forward, with the cooperation with Sinopharm, the Target Company is aiming to expand its business scale and positioning itself as an interprovincial Chinese medi-tech enterprise.

Set out below are certain audited key financial figures of the Target Company for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020, which were prepared in accordance with the HKFRS:

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the year ended 31 December 2020**
	Approx. RMB'000 (Audited)	*Approx. RMB'000* (Audited)	*Approx. RMB'000* (Audited)
Revenue	19,600	29,740	93,963
Net profit before taxation	3,682	8,730	39,204
Net profit after taxation *(Note 1)*	3,682	8,730	35,335

Notes:

1. According to the information on the website of the Hubei Provincial Electronic Taxation Bureau of the State Administration of Taxation and the legal opinion issued by a PRC legal adviser, the Anoectochilus Formosanus Business of the Target Company is exempted and not subject to any tax in PRC.

2. As at 31 December 2020, the audited net asset value of the Target Company was approximately RMB61.9 million (equivalent to approximately HK$68.1 million).

3. The increase in profit before and after tax for the year ended 31 December 2019 and for the year ended 31 December 2020 were primarily attributable to, amongst other factors,

   i. the commencement of the Chinese Herbs Business and the Decoction Business since November 2019; and

   ii. The entering into of the Procurement Agreement, the Supplemental Procurement Agreements between the Target Company and Sinopharm, and the entering into of the New Procurement Agreement between the Target Company and new customers.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, leisure and culture. The Purchaser is a wholly-owned subsidiary of the Company, which is principally engaged in investment holding.

The Group always aims to strengthen its business and increase the Shareholders' values. Having considered the shift and increasing emphasis on the healthy life style trend in China and the prospect of the Target Company, the Company is of the view that the Acquisition is an attractive opportunity for the Group to enhance the business portfolio and enable the Group to benefit from the positive earnings contribution brought by the Target Company.

The Target Company recorded revenue of approximately RMB94 million for the year ended 31 December 2020, representing an increase of approximately RMB64.2 million or approximately 216% as compared with the revenue of approximately RMB29.7 million for the year ended 31 December 2019. Such increase in revenue was primarily due to the commencement of the Chinese Herbs Business and the Decoction Business since November 2019, the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) entered into between the Target Company and Sinopharm and the New Procurement Agreements entered into between the Target Company and the new customers. The major terms of the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) and the New Procurement Agreements are as follow:

Customers	Approximate Contract Sum (excluding VAT) and (Guaranteed Amount)	Contract Period
	RMB'000	*Month*
Procurement Agreement		
Sinopharm	65,800	60
Sub-total	65,800	
New Procurement Agreements		
Customer A	14,973	35.5
Customer B	19,554	36
Customer C	28,649	35
Customer D	28,378	35
Sub-total	91,554	

Despite the Target Company has a short historical record on the Chinese Herbs Business and the Decoction Business, no matter of the Chinese Herb Business and the Decoction Business are in the same industry of the Anoectochilus Formosanus Business that the management of the Target Company can utilize their knowledge and skills of the Anoectochilus Formosanus Business when operating the Chinese Herbs Business and the Decoction Business. Furthermore, with the effort of the Target Company, both the terms of the Procurement Agreement with Sinopharm (supplemented by the Supplemental Procurement Agreement) and the New Procurement Agreements with new customers are sustainable and has provided safe guard to the Target Company with a term of five year with guaranteed purchase amount.

The Target Company has been awarded Hubei Province Forestry Industrialization Key Leading Enterprise, and the Superior Integrity Unit* (星級統計誠信單位) and has been receiving continuous support from PRC local government of Zhushan County.

Moreover, the Consideration was further secured by the Aggregate Guaranteed Profits. In the event that Target Company recorded zero profits throughout the Relevant Periods, no Consideration will be satisfied by the Purchaser to the Vendor, the Company is of the view that such Consideration adjustment mechanism would provide further protection to the interests of the Company and the Shareholders as a whole. Besides, The conversion price of the Convertible Bonds represents a high premium over the current share price of the Company.

The Directors has conducted business review and feasibility study on the operation of the Target Company which included, among others, requested and obtained relevant operating and financial documentationss, interviewed the management of the Target Company, performed site visit and engaged the consultancy firm to conduct the industry research. The Company has also (i) appointed an independent valuer for the valuation on the Target Company; (ii) engaged the Reporting Accountant to perform the audit works on the Target Company; and (iii) engaged a PRC legal adviser to conduct legal due diligence on the Target Company.

Having considered the above and the results of the due diligence exercises conducted by the Company, the Directors are not aware of any material adverse problems which may prevent the Completion and believe that entering into of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) will provide a great opportunity to the Group to provide sustainable growth to the Company, thus potentially greater return for the Shareholders.

The Directors further consider that the entering into of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) will not change the nature of the Group's principal business but will enhance the Group's business portfolio. In view of the above, the Directors consider that the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) are on normal commercial terms and are fair and reasonable and the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) is in the interests of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Reference is made to the announcements of the Company 3 November 2020, 20 November 2020 and 22 January 2021 in relation to the proposed issue of new Shares (the "**Loan Cap Shares**") under a specific mandate of the Company for capitalizing certain outstanding debts owing to the creditors by the Company (the "**Debt Capitalisation**"). Completion of the Debt Capitalisation is subject to the approval by the Shareholders at the special general meeting to be convened by the Company and the granting of the listing of, and permission to deal in the Loan Cap Shares by the Stock Exchange. As at the Latest Practicable Date, the Debt Capitalisation has yet to be completed as the Company is in the process of finalizing certain information to be included in the circular for Shareholders' approval at the forthcoming special general meeting of the Company.

In light of the proposed issue of the Convertibles Bonds under the Acquisition and the Debt Capitalisation, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the allotment and issuance of the maximum Conversion Shares upon full exercise of the conversion right attaching to the Convertible Bonds; and (iii) immediately upon the allotment and issuance of the maximum Conversion Shares upon full exercise of the conversion right attaching to the Convertible Bonds and the allotment and issue of the Loan Cap Shares are set out below:

Shareholders	**As at the Latest Practicable Date**		**Immediately after full conversion of the Convertible Bonds**		**Immediately after the full conversion of the Convertible Bonds and the allotment and issue of the Loan Cap Shares**	
	No of Shares	*Approximate %*	*No of Shares*	*Approximate %*	*No of Shares*	*Approximate %*
Mr. Zhang Qijun *(Note 1)*	33,500	0.004%	33,500	0.004%	33,500	0.003%
Mr. Liu Mingqing *(Note 2)*	5,600,000	0.735%	5,600,000	0.662%	5,600,000	0.453%
Mr. Cheng Ho On *(Note 3)*	8,500	0.001%	8,500	0.001%	8,500	0.001%
Vendor (or its nominee)	—	—	85,000,000.00	10.042%	85,000,000.00	6.872%
Creditors *(Note 4)*	—	—	—	—	390,440,579.00	31.567%
Public Shareholder	755,777,079	99.259%	755,777,079	89.291%	755,777,079	61.104%
Total	761,419,079	100.000%	846,419,079	100.000%	1,236,859,658.00	100.000%

Note:

1. Being the executive director and the chairman of the Company.

2. Being the executive director of the Company.

3. Being the independent non-executive director of the Company.

4. None of the Creditors will become a substantial Shareholder immediately after the allotment and issue of the Loan Cap Shares.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition calculated in accordance with Rule 14.07 of the Listing Rules exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules.

The Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) and the transactions contemplated thereunder (including the Specific Mandate to be sought for the allotment and issue of the Conversion Shares) are subject to the announcement and Shareholders' approval by way of poll at the SGM.

As no Shareholder has any material interest in the Acquisition which is different from other Shareholders, no Shareholder is required to abstain from voting at the SGM in respect of the approval of the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement and the transactions contemplated thereunder.

FINANCIAL IMPACT OF THE PROPOSED ACQUISITION TO THE GROUP

Upon completion of the Acquisition, the Company will hold a total of 51% equity interests in the Target Company and the financial results of the Target Company will be consolidated into the financial statements of the Group. The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular is prepared as if the Acquisition had been completed on 30 June 2020 to illustrate the effect of the Acquisition.

Asset and liabilities

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular (assuming that the Acquisition had been completed on 30 June 2020), the total assets of the Group would have increased from approximately HK$808.8 million to approximately HK$979.9 million on a pro forma basis, the total liabilities of the Group would have increased by HK$138.2 million on a pro forma basis, and the net assets of the Group would have increased from approximately HK$311.7 million to approximately HK$344.7 million on a pro forma basis.

Earnings

Upon completion of the Acquisition, the Company will hold a total of 51% equity interests in the Target Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

Further details of the financial effect of the Acquisition together with the bases in preparing the unaudited pro forma financial information are set out in Appendix IV to this circular.

SPECIAL GENERAL MEETING

The SGM will be held at Harbour Plaza Room I, B1/F, Harbour Plaza, North Point, 665 King's Road, North Point, Hong Kong on Monday, 19 April 2021 at 10:00 a.m., during which resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement and the transactions contemplated thereunder.

The notice of the SGM is set out on pages SGM-1 and SGM-2 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (https://emeeting.tricor.hk) by using the username and password provided on the notification letter sent by the Company as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment thereof should the Shareholders so wish.

RECOMMENDATION

The Directors believe that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders to vote in favour of the resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman

I. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the year ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 are disclosed in the following documents which have been published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at http://www.kh381.com/ :

- Interim report of the Company for the six months ended 30 June 2020 published on 28 September 2020 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0928/2020092800807.pdf);
- Annual report of the Company for the year ended 31 December 2019 published on 5 June 2020 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0605/2020060500904.pdf);
- Annual report of the Company for the year ended 31 December 2018 published on 29 April 2019 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291625.pdf); and
- Annual report of the Company for the year ended 31 December 2017 published on 30 April 2018 (hyperlink: http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0430/LTN20180430299.pdf).

II. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had approximately HK$218.42 million outstanding indebtedness comprising the following debts:

(i) HK$60 million borrowings were guaranteed, and were secured by the Group's certain properties;

(ii) HK$54 million borrowings were not guaranteed and unsecured;

(iii) Obligation under finance leases of HK$417,000; and

(iv) Promissory notes of HK$104 million.

The carrying values of the Group's assets pledged to secure its borrowings amounted to approximately HK$73.90 million as at 31 January 2021.

As at 31 January 2021, the Group had no significant contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 January 2021, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or other borrowings, mortgages, charges, guarantees or contingent liabilities.

III. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internal financial resources and credit facilities available to the Group and the effects of the Acquisition, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

Reference is made to the interim report for the six months ended 30 June 2020 dated 28 August 2020 regarding the performance of the Group for the six months ended 30 June 2020. Save as disclosed in the publication above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

V. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

As disclosed in the Company's annual report for the year ended 31 December 2019, the Group has been reviewing its operations and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the Shareholders as a whole.

Upon completion of the Acquisition, the Company will hold a total of 51% equity interests in the Target Company and the financial results of the Target Company will be consolidated into the financial statements of the Group. The Company can enjoy the potential growth of the Target Company attributable to the commencement of the Chinese Herbs Business and the Decoction Business and the dividend income from the Company's investment in the Target Company. The Directors are of the view that the Acquisition is maximizing the interests of the Group and the Shareholders as a whole. The Board has no intention, arrangement, agreement, understanding or negotiation on any potential transaction which involve disposal/termination/scaling-down of the Company's existing business.

The Board considers the prospect of the Group's business segment as follows:

a. Toys and gifts items:

The Board considered that the overall market environment for the manufacturing and trading of toys and gifts items sector was poor because of COVID-19 and Sino-US tensions. As COVID-19 infections have been contained, the government allowed the reopening of the factory and provided support for the retail markets, the Board had faith in the future performance of the toys and gifts sector;

b. Exploration:

The Board considered that this business segment may not be able to contribute income stream to the Group in near future after the disposal of 80% equity interest of the Inner Mongolia Mingrunfeng Energy Co., Limited (PRC) and 80% equity interest of the Inner Mongolia Run Heng Mining Company Limited (PRC) on 15 December 2018. The Board will closely monitor the development of China's mining environment and formulate appropriate business strategy towards its investment in the exploration rights with an aim to maximize Shareholder's value;

c. Fruit Plantation:

With the increasing public awareness of healthcare due to the spread of the COVID-19 and increasing demand for natural health products in the PRC, the Board considered the demand for Noni-fruit, to a certain extent, could be benefited. The Board had a strong faith in the Noni-fruit industry.

d. Leisure:

The Board considered that the competition in the tea industry becomes more fierce as the traditional sales model is facing keen competition from those online platforms. The Company had begun to fine-tune its operation model to meet its customers' need. For the wine related business, the Company has adopted a strategy to look for potential cooperators in producing and distributing the yellow wine products due to the insufficient working capital. For the outbound tourism business, the Company has instructed its legal adviser to take legal action against the vendor of Eagle Praise Group to rescind the various agreements entered into with the vendor on the ground of fraudulent misrepresentations made by the vendor and its representative.

e. Culture:

The Board will closely monitor the opportunity of the investment in valuable ceramics with an aim to maximize Shareholder's value;

On 29 July 2020, the Company entered into a memorandum of understanding with China Commerce Huaxia Asset Management Co., Ltd.* (中商華夏資產管理有限公司) in connection with the possible acquisition of certain equity interests in China Commerce Fule Construction Co., Ltd.* (中商富樂建設有限公司) which is principally engaged in among others, general construction contracting for housing and building projects, property development and management, project investments and sales of construction materials. As at the Latest Practicable Date, the Company is still under negotiation with China Commerce Huaxia Asset Management Co., Ltd.*.

On 15 October 2020, the Company entered into a memorandum of understanding with Mianyang Liaofan Shande Senior Care Services Ltd.* (綿陽了凡善德養老服務有限公司) in connection with the possible establishment of a joint venture in the PRC. As for the registered capital of the joint venture, the Company will contribute capital in cash, accounting for 85% of the registered capital of the joint venture, while Mianyang Liaofan Shande Senior Care

Services Ltd. will contribute capital in cash, accounting for 15% of the registered capital of the joint venture. As at the Latest Practicable Date, the Company is still under negotiation with Mianyang Liaofan Shande Senior Care Services Ltd.*

Going forward, the Company will carefully review and assess its existing operation while continuing to explore other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the Shareholders as a whole.

Prism CPA Limited
栢淳會計師事務所有限公司

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香港九龍尖沙咀柯士甸路20號保發商業大廈10樓1002-3室

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KIU HUNG INTERNATIONAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Hubei Jincaotang Pharmaceutical Co., Ltd* (湖北金草堂藥業有限公司) (the "**Target Company**") set out on pages II-1 to II-31, which comprises the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows of the Target Company for the years ended 31 December 2018, 2019 and 2020 (the "**Track Record Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-31 forms an integral part of this report, which has been prepared for inclusion in the circular of Kiu Hung International Holdings Limited (the "**Company**") dated 30 March 2021 (the "**Circular**") in connection with the proposed acquisition of 51% of the issued share capital of the Target Company (the "**Proposed Acquisition**").

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the Target

* *English name for identification purpose*

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

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

Opinion

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

Report on matters under the Rules Governing the Listing of Securities of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements of the Target Company as defined on page 4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividend has been paid by the Target Company in respect of the Track Record Periods.

Prism CPA Limited
Certified Public Accountants
Lee Kwok Lun
Practising Certificate Number: P06294
Hong Kong

30 March 2021

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

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

The financial statements of the Target Company for the Track Record Periods, on which the Historical Financial Information is based, were prepared by the directors of the Target Company in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by Prism CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**")

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*5*	19,600	29,740	93,963
Cost of sales		(15,287)	(20,949)	(50,023)
Gross profit		4,313	8,791	43,940
Other income	*7*	997	1,568	—
Selling expenses		(131)	(23)	(2,057)
Administrative expenses		(1,421)	(1,606)	(2,645)
Other operating expense		(76)	—	—
Finance cost	*8*	—	—	(34)
Profit before tax		3,682	8,730	39,204
Income tax expense	*9*	—	—	(3,869)
Profit and total comprehensive income for the year	*10*	3,682	8,730	35,335

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2018	2019	2020
		RMB'000	RMB'000	RMB'000
Non-current assets				
Plant and equipment	14	18,388	16,379	23,975
Current assets				
Inventories	15	10,278	12,758	15,132
Trade and other receivables	16	4,850	15,885	13,077
Bank balances and cash	17	396	569	18,471
		15,524	29,212	46,680
Current liabilities				
Trade and other payables	18	12,160	10,437	8,516
Short-term borrowings	19	3,968	8,640	290
		16,128	19,077	8,806
Net current (liabilities) assets		(604)	10,135	37,874
Total assets less current liabilities		17,784	26,514	61,849
Net assets		17,784	26,514	61,849
Capital and reserves				
Share capital	20	30,000	30,000	30,000
Retained earnings		(13,149)	(5,292)	26,509
Statutory reserves		933	1,806	5,340
Total equity		17,784	26,514	61,849

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained earnings	Statutory reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	30,000	(16,463)	565	14,102
Profit and total comprehensive income for the year	—	3,682	—	3,682
Transfer to statutory reserves	—	(368)	368	—
As at 31 December 2018 and 1 January 2019	30,000	(13,149)	933	17,784
Profit and total comprehensive income for the year	—	8,730	—	8,730
Transfer to statutory reserves	—	(873)	873	—
As at 31 December 2019 and 1 January 2020	30,000	(5,292)	1,806	26,514
Profit and total comprehensive income for the year	—	35,335	—	35,335
Transfer to statutory reserves	—	(3,534)	3,534	—
As at 31 December 2020	30,000	26,509	5,340	61,849

STATEMENTS OF CASH FLOWS

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	3,682	8,730	39,204
Adjustment for:			
Depreciation	1,691	1,663	2,155
Finance cost	—	—	34
Gain on disposal of plant and equipment	(48)	—	—
Written-off of plant and equipment	—	362	—
Operating cash flows before movements in working capital	5,325	10,755	41,393
(Increase) decrease in inventories	(8,143)	(2,480)	(2,374)
(Increase) decrease in trade and other receivables	1,554	(11,035)	2,808
Increase (decrease) in trade and other payables	1,709	(1,723)	(1,921)
Cash generated from (used in) operations	445	(4,483)	39,906
Tax paid	—	—	(3,869)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	445	(4,483)	36,037
INVESTING ACTIVITIES			
Proceeds from sale of motor vehicles	90	—	—
Acquisition of plant and equipment	(12)	(16)	(9,751)
NET CASH USED IN INVESTING ACTIVITIES	78	(16)	(9,751)
FINANCING ACTIVITIES			
New borrowings raised	—	8,172	—
Repayment of borrowings	(378)	(3,500)	(8,350)
Interest expense paid	—	—	(34)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	(378)	4,672	(8,384)
NET INCREASE IN CASH AND CASH EQUIVALENTS	145	173	17,902
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	251	396	569
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	396	569	18,471

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Hubei Jincaotang Pharmaceutical Co., Ltd* (湖北金草堂藥業有限公司) (the "**Target Company**") was established in the People's Republic of China (the "**PRC**") on 24 September 2014 with limited liability. The address of its registered office is No. 20, Zongheng Avenue Village, Chengguan Township, Zhushan County, Shijiao City, Hubei Province, People's Republic of China.

The principal business of the Target Company is mainly engaged in the development, processing and sale of Chinese herbs products. There has been no significant change in the Target Company's principal business during the Track Record Periods.

The Historical Financial Information and Interim Comparative Historical Financial Information are presented in RMB, which is also the functional currency of the Target Company.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Periods, the Target Company has consistently applied Hong Kong Accounting Standards ("**HKASs**"), HKFRSs, amendments and interpretations issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2019, including HKFRS 16 "Leases" using the modified retrospective approach (including practical expedient permitted by HKFRS 16) and HKFRS 15 "Revenue from Contracts with Customers" which are effective for the accounting period beginning on 1 January 2018, throughout the Track Record Periods except that the Target Company adopted HKFRS 9 "Financial Instruments" on 1 January 2018 and HKAS 39 "Financial Instruments: Recognition and Measurement" for the years ended 31 December 2017. The accounting policies for these HKFRSs are set out in Note 3 as below.

2.1 HKFRS 9 "Financial Instruments"

At 1 January 2018, the Target Company has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Target Company has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

According, certain comparative information for the years ended 31 December 2018 and 2019 may not be comparable to information for the year ended 31 December 2017 as such information was prepared under HKAS39.

Summary of effects arising from initial application HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Carrying amount at 31 December 2017 (HKAS 39)	**Adoption of HKFRS 9 — Reclassification**	**Adoption of HKFRS 9 — Remeasurement**	**Carrying amount at 1 January 2018 (HKFRS 9)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables				
— Trade and other receivables	6,050	(6,050)	—	—
At amortised cost				
— Trade and other receivables	—	6,050	—	6,404

2.1.1 Classification of financial instruments

The application of HKFRS 9 on 1 January 2018 has no impact on the consolidated financial position of the Target Company with regard to classification of financial instruments. All financial assets classified as loans and receivable and financial liabilities measured at amortised cost under HKAS 39 continued to be measured at amortised cost under HKFRS 9.

*2.1.2 Loss allowance for expected credit losses ("**ECL**")*

As at 1 January 2018, the directors of the Target Company have reviewed and assessed the Target Company's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9. No additional ECL allowance is recognised as the amount involved is insignificant.

The Target Company has not applied the following new and amendments to HKFRSs that have been issued but are not yet effective, in the Historical Financial Information:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[5]

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 June 2020.

The Target Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Company considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Target Company's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Target Company uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Target Company satisfies a performance obligation.

The Target Company recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

A contract asset represents the Target Company's right to consideration in exchange for goods or services that the Target Company has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer. A contract liability would also be recognised if the Target Company has an unconditional right to receive consideration before the Target Company recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

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

Sales of goods

Revenue from sales of Chinese herb products is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Borrowing costs

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

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

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and deferred tax is recognised in profit or loss.

Plant and equipment

Plant and equipment are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight line method for the plant and equipment. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Impairment on plant and equipment

At the end of each reporting period, the Target Company reviews the carrying amounts of its plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating) unit is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Before the application of HKFRS 9 on 1 January 2018

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

— the rights to receive cash flows from the asset have expired; or

— the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

After the application of HKFRS 9 on 1 January 2018

Classification and subsequent measurement of financial assets

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Impairment of financial assets

The Target Company recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Company always recognises lifetime ECL for other receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate grouping.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

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

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

Definition of default

The Target Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable: ● when there is a breach of financial covenants by the debtor; or ● information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). The Target Company considers that default has occurred when a financial asset is more than 60 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

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

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- nature of financial instruments;
- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables, where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Provisions

Provisions are recognised when the Target Company 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 a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Foreign currencies

In preparing the financial statements of the Target Company, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Target Company's accounting policies, which are described in note 3, the directors of the Target Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Depreciation of plant and equipment

The Target Company depreciates the plant and equipment over their estimated useful life, using the straight line method. The estimated useful life reflects the directors' estimates of the periods that the Target Company intends to derive future economic benefits from the use of the Target Company's plant and equipment. The residual values reflect the directors' estimated amount that the Target Company would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 December 2018, 31 December 2019, 31 December 2020, the carrying amounts of plant and equipment are approximately RMB18,388,000, RMB16,379,000 and RMB23,975,000 respectively.

Estimated impairment of plant and equipment

The Target Company assesses annually whether plant and equipment have any indication of impairment, in accordance with relevant accounting policies. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations if there is indication of impairment. The calculations and valuations require the use of judgement and estimates on future operating cash flows and discount rates adopted. As at 31 December 2018, 31 December 2019, 31 December 2020, the carrying amounts of plant and equipment are approximately RMB18,388,000, RMB16,379,000 and RMB23,975,000 respectively, no impairment losses was recognised for the Track Record Periods.

Allowance for inventories

The management of the Target Company reviews the ageing of the inventories at the end of the each reporting period of Track Record Periods, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2018, 31 December 2019, 31 December 2020, the carrying amounts of inventories were RMB10,278,000, RMB12,758,000 and RMB15,132,000 respectively, no allowance for inventories was recognised for the Track Record Periods.

Allowance recognised in respect of trade and receivables

The impairment provisions for trade receivables, other receivables and contract assets are based on assumptions about ECL. The Target Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Target Company's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the statement of profit or loss and other comprehensive income. As at 31 December 2018, 31 December 2019, 31 December 2020, the carrying amounts of trade and receivables were RMB4,850,000, RMB14,706,000 and RMB12,969,000 respectively. And, as at 31 December 2019 and 31 December 2020, loss allowances for ECL of trade and receivables are RMB5,527 and RMB30 respectively.

5. REVENUE

Revenue for the year ended 31 December 2018, 2019 and 2020

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15			
Sales of Chinese herbs products	19,600	29,740	93,963
Geographical market			
PRC	19,600	29,740	93,963
Timing of revenue recognition			
At a point in time	19,600	29,740	93,963

Revenue represents the amounts received and receivable from sales of Chinese herb products, net of sales allowances for return, discounts and sales related tax.

All of the Target Company's revenue from sale of Chinese herb products for the year ended 31 December 2018, 2019 and 2020 was recognised at a point in time when the Chinese herbs products has been delivered and the Target Company has received the payment or the right to receive payment has been established. As at the end of the Relevant Periods, the remaining performance obligations (unsatisified or partially unsatisified) were expected to be recognized within one year. As permitted under HKFRS15, the transaction price allocated to those unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Target Company's revenue and contribution to results are derived from the management and operation petrol stations, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the directors for purposes of resource arrangement and performance assessment. In addition, all the assets employed by the Target Company are located in PRC. Accordingly, no operating segment information is presented, other than the entity-wide disclosures.

Entity-wide disclosures

Geographical information

All of the Target Company's external revenue is derived from the customers based in the PRC (country of domicile) and all of the Target Company's non-current assets are located in the PRC, no geographical information is presented.

Information about major customers

For the year ended 31 December 2018, 2019 and 2020, the revenue derived from the largest external customer accounted for 40%, 46% and 65% respectively of the Target Company's total revenue.

7. OTHER INCOME

	For the year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Government grants *(note)*	945	1,520	—
Gain on disposal of plant and equipment	48	1	—
Others	4	47	—
	997	1,568	—

Note: The income is the government grants received from local government authorities for the funding of development of Chinese herbs products which were immediately recognised as other income for the Track Record Periods as the Target Company fulfilled the relevant granting criteria.

8. FINANCE COST

	For the year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on borrowing	—	—	34

9. INCOME TAX EXPENSE

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the Track Record Periods.

The tax charge for the Track Record Periods can be reconciled to the profit before tax per the statement of profit or loss and other comprehensive income as follows:

	For the year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	3,682	8,730	39,204
Tax calculated at the statutory tax rate	921	1,833	9,801
Tax effect of income not taxable for tax purpose	(921)	(1,833)	(5,932)
Income tax expense for the year	—	—	3,869

No deferred tax has been recognised in the Historical Financial Information as the amount involved is insignificant.

10. PROFIT FOR THE YEAR/PERIOD

Profit before tax for the Track Record Periods has been arrived at after charging:

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Staff costs			
Salaries, wages and other benefits (include directors' remuneration)	531	705	1,152
Contribution to retirement benefits scheme (excluding director's remuneration)	47	59	99
Total staff costs	578	764	1,251
Depreciation of plant and equipment	1,691	1,663	2,155
Gain on disposal of plant and equipment	48	—	—

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The aggregate amounts of remuneration of directors of the Target Company for the year ended 31 December 2018, 2019 and 2020, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (the "**Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Fees	—	—	—
Salaries, allowances and benefits in kind	108	126	540
	108	126	540

An analysis of the headcounts of the five highest paid employees within the Target Group for the for the year ended 31 December 2018, 2019 and 2020 is as follows:

	For the year ended 31 December		
	2018	**2019**	**2020**
Director	2	2	1
Supervisor	3	3	4
Non-director and non-supervisor	—	—	—
	5	5	5

Details of the remuneration of the non-director and non-supervisor, five highest paid employees are as follows:

	For the year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	162	180	273

The remuneration of the above five highest paid non-director and non-supervisor employees for the year ended 31 December 2018, 2019 and 2020 was below RMB900,000.

12. DIVIDEND

No dividend was paid or proposed by the Target Company during the Track Record Periods.

13. EARNINGS PER SHARE

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. PLANT AND EQUIPMENT

	Motor vehicles	Plant	Furniture, fixtures and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
As at 1 January 2018	64	13,122	7,978	21,164
Additions	—	—	12	12
Disposals	(64)	—	—	(64)
Written-off	—	—	(20)	(20)
As at 31 December 2018 and 1 January 2019	—	13,122	7,970	21,092
Additions	—	—	16	16
Written-off	—	(400)	—	(400)
As at 31 December 2019 and 1 January 2020	—	12,722	7,986	20,708
Additions	—	4,600	5,151	9,751
As at 31 December 2020	—	17,322	13,137	30,459
ACCUMULATED DEPRECIATION				
As at 1 January 2018	22	569	464	1,055
Charge for the year	—	623	1,068	1,691
Eliminated on written-off	(22)	—	(20)	(42)
As at 31 December 2018 and 1 January 2019	—	1,192	1,512	2,704
Charge for the year	—	623	1,040	1,663
Eliminated on Written-off	—	(38)	—	(38)
As at 31 December 2019, 1 January 2020	—	1,777	2,552	4,329
Charge for the year	—	825	1,330	2,155
As at 31 December 2019	—	2,602	3,882	6,484
NET CARRYING VALUES				
As at 31 December 2018	—	11,930	6,458	18,388
As at 31 December 2019	—	10,945	5,434	16,379
As at 31 December 2020	—	14,720	9,255	23,975

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Motor vehicles	6 years
Plant	20 years with 5% residual value
Furniture, fixtures and equipment	3–10 years with 5% residual value

15. INVENTORIES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Finished goods	10,278	12,758	15,132

16. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Receivables at amortised cost:			
— Trade receivables	4,850	14,706	12,969
Less: loss allowance for trade receivables	—	—	—
	4,850	14,706	12,969
Other receivables	—	—	—
Prepayments	—	1,179	108
	4,850	15,885	13,077

As at 31 December 2018, 2019 and 2020, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB4,850,000, RMB14,706,000 and RMB12,969,000 respectively.

The Target Company normally allows a credit period of not more than 120 days to its customers, although an extension of the credit period is not uncommon for customers who have a long term relationship with the Target Company. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Target Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The following is an aged analysis of trade receivables, net of loss allowance for trade receivables, presented based on the invoice date, which approximates revenue recognition date at the end of each reporting period.

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	—	—	12,869
91 to 180 days	—	6,415	—
181 days to 1 year	4,850	4,741	—
Over 1 year	—	3,550	100
	4,850	14,706	12,969

The Target Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the Target Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance based on past due status is not further distinguished between the Company's different customer bases.

The Target Company recognised lifetime ECL for trade receivables based on the aging of customers collectively that are not individually significant as follows:

As at 31 December 2018	Weighted average expected loss rate	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 3 months	—	—	—
3 months to 1 year	30%	4,850	1,455
		4,850	1,455

As at 31 December 2019	Weighted average expected loss rate	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 3 months	—	—	—
3 months to 1 year	30%	3,550	1,065
Over 1 year	40%	11,156	4,462
		14,706	5,527

As at 31 December 2020	Weighted average expected loss rate	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 3 months	—	12,869	—
3 months to 1 year	30%	100	30
		12,969	30

17. BANK BALANCES AND CASH

Bank balances an cash mainly represent cash at bank. Cash at bank carried interest at average market rates based on daily bank deposit rates. The cash at bank is deposited with a credit worthy banks with no recent history of default.

18. TRADE AND OTHER PAYABLES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	—	2,874	2,014
Other payables	12,146	7,549	6,241
Accruals	14	14	261
	12,160	10,437	8,516

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	—	—	1,784
31–90 days	—	—	—
Over 90 days	—	2,874	230
	—	2,874	2,014

The average credit period granted is 30 days. The Target Company has financial risk management in place to ensure that all payables are settled within the credit timeframe.

19. SHORT-TERM BORROWINGS

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowing	468	468	290
Other borrowing	3,500	8,172	—
	3,968	8,640	290

As at 31 December 2018, 2019 and 2020, the borrowings carried interest at 6%, subsidised by government and as at 31 December 2020, the borrowings carried at fixed rates is 6%.

Other borrowing includes the borrowing from related parties, the above transaction was entered with the related party on terms mutually agreed by individual parties. In the opinion of the directors of the Target Company, this related parties' transactions were conducted on normal commercial terms and in the ordinary and usual course of the Target Company's business.

20. SHARE CAPITAL

	Number of ordinary shares	Amount
		RMB
Issued capital		
As at 31 December 2018, 31 December 2019 and 31 December 2019	30,000,000	30,000,000

21. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions with related parties

Saved as disclosed elsewhere in the Historical Financial Information of the Target Company, the Target Company did not have any material transactions with any related parties.

22. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while optimisation the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Target Company consists of debts, which includes trade and other payables, short -term borrowing and long-term liabilities and equity attributable to owner of the Target Company.

The directors of the Target Company review the capital structure on a regular basis. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with the capital. In the opinion of the directors of the Target Company, the Target Company will balance its overall capital structure through new share issues as well as raising of debts.

23. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	5,246	15,275	31,440
Financial liabilities			
Financial liabilities stated at amortised cost	16,128	19,077	8,806

Financial risk management objectives and policies

The Target Company's major financial assets and liabilities include trade and other receivables, bank balances and cash, trade and other payables and short-term borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Target Company is exposed to cash flow interest rate risk in relation to variable-rate cash and cash equivalents and variable-rate borrowings to independent third parties. The management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The management considers that the Target Company's exposure to cash flow interest rate risk on variable-rate bank balances and variable-rate loans as a result of the change of market interest rate is insignificant due to low interest rates on bank balances and insignificant balance of variable-rate loans at the end of the reporting period, thus no sensitivity analysis is prepared for cash flow interest rate risk.

Credit risk

For other non-trade related receivables, the Target Company has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Target Company will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Target Company 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 Company 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 borrower's ability to meet its obligations;
- Actual or expected significant changes in the operating results of individual property owner or the borrower;
- Significant increases in credit risk on the other financial instruments of the individual property owner or the same borrower; or
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Target Company and changes in the operating results of the borrower.

The Target Company's exposure to credit risk

In order to minimise credit risk, the management of the Target Company has delegated a team to develop and maintain the Target Company's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Target Company's own trading records to rate its major customers and other debtors. The Target Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Target Company's current credit risk grading framework comprises the following categories

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired

Category	Description	Basis for recognising ECL
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target Company has no realistic prospect of recovery	Amount is written-off

The tables below detail the credit quality of the Target Company's financial assets, as well as the Target Company's maximum exposure to credit risk by credit risk rating grades:

31 December 2019	*Note*	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
					RMB'000	*RMB'000*	*RMB'000*
Trade receivables	*17*	N/A	*(note)*	Lifetime ECL (simplified approach)	14,706	—	14,706

31 December 2020	*Note*	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
					RMB'000	*RMB'000*	*RMB'000*
Trade receivables	*17*	N/A	*(note)*	Lifetime ECL (simplified approach)	12,969	—	12,969

Note: For trade receivables, the Target Company has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Apart from debtors with significant outstanding balances, the Target Company determines the ECL on these items by using a provision matrix grouped by common risk characteristic with reference to historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Note 17 includes further details on the loss allowance for these assets respectively.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Target Company does not have any other significant concentration of credit risk. Trade receivables consist of a number of customers, spread across diverse industries and geographical areas.

The Target Company has concentration of credit risk as 0%, 42% and 75% of the total trade receivables was due from the Target Company's largest external customer respectively as at 31 December 2018, 31 December 2019 and 31 December 2020.

The Target Company has concentration of credit risk as 46%, 87% and 99% of the total trade receivables was due from the Target Company's the top five largest external customers respectively as at 31 December 2018, 31 December 2019 and 31 December 2020.

Liquidity risk

As mentioned in note 2, before the completion of the Proposed Acquisition, the shareholders of the Target Company have agreed to provide adequate funds to enable the Target Company to meet in full its financial obligations as and when they fall due in the foreseeable future until the Target Company has the financial ability to do so. Upon completion of the Proposed Acquisition, the Target Company will provide financial support to the Target Company to meet in full its financial obligations as they fall due in the foreseeable future.

In the management of the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows. In addition, the Target Company relies on short-term borrowings as a significant source of liquidity and the management monitors the utilisation of short-term borrowings and ensures compliance with loan covenants.

The following table details the Target Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay.

The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	As at 31 December 2018		
	Within 1 year or on demand	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	12,160	12,160	12,160
Short-term borrowings	3,968	3,968	3,968
	16,128	16,128	16,128

	As at 31 December 2019		
	Within 1 year or on demand	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	10,437	10,437	10,437
Short-term borrowings	496	468	468
Long-term liabilities	8,172	8,172	8,172
	19,105	19,077	19,077

	As at 31 December 2020		
	Within 1 year or on demand	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	8,516	8,516	8,516
Short-term borrowings	307	290	290
	8,823	8,806	8,806

Fair value measurement objective and policies

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Target Company considers that the carrying amounts of current financial assets, current and non-current financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

24. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Target Company after 31 December 2020.

25. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 31 December 2020. Save as disclosed in this report, no dividend has been declared or made by the Target Company in respect of any period subsequent to 31 December 2020.

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Accruals interest	**Short-term borrowings** *(Note 19)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	—	4,346	4,346
Financing cash flows:			
— Repayment	—	(378)	(378)
Non-cash changes:			
— Interest recognised	—	—	—
At 31 December 2018	—	3,968	3,968
Financing cash flows:			
— Addition	—	8,172	8,172
— Repayment	—	(3,500)	(3,500)
Non-cash changes:			
— Interest recognised	—	—	—
At 31 December 2019	—	8,640	8,640
Financing cash flows:			
— Repayment	—	(8,350)	(8,350)
Non-cash changes:			
— Interest recognised	—	—	—
At 31 December 2020	—	290	290

Set out below is the management discussion and analysis of the Target Company based on the accountants' report of the Target Company as set out in Appendix II.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Business Review

The Target Company is a company established under the laws of the PRC with limited liability on 24 September 2014 and is principally engaged in the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products. The production base of the Target Company is situated at Zhushan County, Shiyan City, Hubei Province with forest lands with an aggregate total area of 8,757 Chinese mu with production plants and equipment constructed nearby. For each of the years ended 31 December 2017, 2018 and the first half of 2019, the Target Company solely derived its revenue from the Anoectochilus Formosanus Business. As a result of continuous effort and contribution by the Target Company to drive the economy of Zhushan County and create employment opportunities since the commencement of business operation in 2015, the Target Company has gradually built up a close relationship with the local government of Zhushan County and the Target Company has been benefited from the introduction by the local government of Zhushan County potential networks and business opportunities to the Target Company including but not limited to the introduction of sizeable to stated-own clients and actively promote the Target Company to cooperate with professional agricultural cooperatives and Chinese herbs companies in the development of plantation techniques of other species of Chinese herbs. Since the second half of 2019, the Target Company has successfully diversified its business into the Chinese Herbs Business and the Decoction Business and eventually expanded its clientele base including certain sizeable to state-own clients.

For further details of the Target Company, please refer to the section headed ''Information on the Target Company'' under the ''Letter from the Board'' in this circular.

Business Model

For the details of the business model of the Target Company, please refer to sub-section headed ''Information on the Target Company'' in the ''Letter from the Board of this circular.

Financial Review

Revenue

For the year ended 31 December 2018 and 2019, the Target Company recorded revenue of RMB19,600,000 and RMB29,740,000 respectively.

For the year ended 31 December 2020, the Target Company recorded revenue of approximately RMB93,963,000, representing an increase of approximately 216% as compared with the year ended 31 December 2019.

The increase in revenue was mainly attributed to (i) the commencement of the Chinese Herb Business and the Decoction Business: and (ii) the increase in new procurement agreements from new customers.

Cost of Sales

The cost of sales comprised raw material cost, labour cost, utility expenses and equipment and repair and maintenance expense. For the Chinese Herbs Business and the Decoction Business, the raw material cost accounted for a majority of the cost. For the years ended 31 December 2018, 2019 and 2020, the cost of sales amounted to RMB15,287,000, RMB20,949,000 and RMB50,023,000 respectively.

Net profit after tax

For the years ended 31 December 2018 and 2019, the Target Company recorded a net profit after tax of approximately RMB3,682,000 and RMB8,730,000 respectively.

For the year ended 31 December 2020, the Target Company recorded a net profit after tax of approximately RMB35,335,000, representing an increase of approximately 304.8% as compared with the year ended 31 December 2019.

The increase in performance was attributable to the commencement of the Chinese Herb Business and the Decoction Business.

Liquidity capital and financial resources

As at 31 December 2018, 2019 and 2020, the Target Company‘s total assets amounted to approximately RMB33,912,000, RMB45,591,000 and RMB70,655,000, respectively.

As at 31 December 2018, 2019 and 2020, the Target Company's trade and other receivables amounted to approximately RMB4,850,000, RMB15,885,000 and RMB13,077,000, respectively.

As at 31 December 2018, 2019 and 2020, the Target Company's bank borrowings amounted to approximately RMB468,000, RMB468,000 and RMB290,000 respectively. The bank borrowings were unsecured, carried a fixed interest of 6% per annum, which was fully subsidized by the Government. The bank borrowings are matured in 2024.

As at 31 December 2018, 2019 and 2020, the Target Company's other borrowings amounted to approximately RMB3,500,000, RMB8,172,000 and nil respectively. The other borrowings are interest-free, unsecured and repayable on demand.

There is no seasonality of borrowing requirements.

As at 31 December 2018, the Target Company had net current liabilities of approximately RMB604,000. As at 31 December 2019 and 2020, the Target Company had a net current asset of approximately RMB10,135,000 and RMB37,874,000 respectively.

The current ratio, being the ratio of current assets to current liabilities, were approximately 0.96, 1.53 and 5.30 as at 31 December 2018, 2019 and 2020 respectively.

The debt-to-equity ratio, being the ratio of short-term borrowings plus long-term borrowings to book equity, were approximately 0.22, 0.33 and 0.005 as at 31 December 2018, 2019 and 2020 respectively.

Charges on assets

There is no charge on the Target Company's asset.

Employees and remuneration policies

As at 31 December 2018, 31 December 2019 and 31 December 2020, the Target Company had 42, 25 and 51 staff in the PRC.

Total staff costs (including Directors' remuneration) for the years ended 31 December 2018, 2019 and 2020 amounted to approximately RMB578,000, RMB764,000 and RMB1,251,000 respectively.

The Target Company did not adopt any share option scheme. The remuneration, promotion and salary increments of employees were assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

Capital Structure

As at 31 December 2018, 31 December 2019 and 31 December 2020, the debt-to-asset ratio, being the ratio of short-term borrowing plus long-term borrowing to the total assets, of the Target Company were 0.12, 0.19 and 0.004 respectively.

As at 31 December 2020, the capital structure of the Target Company comprised its share capital of RMB30,000,000, retained earnings of RMB26,509,000 and statutory reverses of RMB5,340,000.

Foreign Exchange Exposure

The Target Company's income and monetary assets and liabilities are denominated in RMB. The Board considered that the foreign exchange exposure of the Target Company is minimal

Litigations and contingent liabilities

As at 31 December 2018, 31 December 2019 and 31 December 2020, the Target Company did not have any contingent liability.

Significant Investments, Material Acquisitions and Disposals

The Target Company did not have any significant investment or material acquisition or disposal of subsidiaries and associates during the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. As at the Latest Practicable Date, the Target Company has no intention and has not entered into any understanding, arrangement, or undertaking to have material investments or capital assets.

Business prospects

The primary business of the Target Company is the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products. In respect of the continuous effort and contribution of the Target Company to Zhushan County, the Target Company has been awarded Hubei Province Forestry Industrialization Key Leading Enterprise, and Superior Integrity Unit and receiving continuous support from PRC local government of Zhushan County.

Benefited from the help of Zhushan County and for the reason of the positive corporate image of the Target Company, the Target Company successfully entered into the Procurement Agreement with Sinopharm and the New Procurement Agreements with new customers with the total contracts value of approximately RMB329 million and RMB91.6 million (excluding VAT), respectively. Procurement Agreement with Sinopharm (supplemented by the Supplemental Procurement Agreements) and the New Procurement Agreements with new customers provide a safe guard to next five year revenues of the Target Company with a term of five years with guaranteed purchase amount.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Company. As a result, the Target Company's businesses will become part of the Company principal business activities.

The Company sees potential in the PRC Chinese medicine and health product market as people in the PRC are paying more attention to their health nowadays. At the time when entered into the Sale and Purchase Agreement, the Company was considering that the Target Company was reasonably probable to usher the rapid expansion stage of its business cycle, and the Acquisition could enable the Company to enjoy the potential future economic benefits contributed by the Target Company at a lower Consideration as well as providing a valuable opportunity to step into the PRC Chinese medicine market. The Company also considers that the business network possessed by the Target Company valuable, in particular, the business relationship between the Target Company with the local government of Zhushan County and with Sinopharm. Upon Completion, the Company intends to co-operate with the other shareholder of the Target Company to develop the Target Company's business and form part of the Company principal business activities.

On the other hand, the Company will continue its existing principal business activities namely the manufacture and sale of toys and gifts, investments in fruit plantation, tea and wine products related business as well as cultural items upon Completion.

Going forward, the Target Company will continue to optimize and diversify its existing products mix with an ambition to explore more different kind of customers and secure more procurement contracts. Upon completion of the Acquisition, the Target Company will become a part of the Company. The Target Company will leverage on the Group's listing status, market knowledge, experience and resources so as to achieve the synergistic effects in terms of operation effectiveness and branding.

Prism CPA Limited
栢淳會計師事務所有限公司

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REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Set out below is the full text of the report issued by Prism CPA Limited in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

The Board of Directors,
Kiu Hung International Holdings Limited

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Kiu Hung International Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), and Hubei Jincaotang Pharmaceutical Co., Ltd.* 湖北金草堂藥業有限公司 (the "**Target Company**") (the Group and the Target Company are hereafter collectively referred to as the "**Enlarged 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 statement of assets and liabilities of the Enlarged Group as at 30 June 2020 and related notes (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the circular of the Company dated 30 March 2021 (the "**Circular**").

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 51% equity interest in the Target Company (the "**Proposed Acquisition**") by the Company might have affected the financial position of the Group as at 30 June 2020 as if the Proposed Acquisition had taken place at 30 June 2020. As part of this process, information about the Group's and the Target Company's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 June 2020, on which an interim report has been published, and the accountants' report on the Target Company included in Appendix II to this Circular, respectively.

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 ("**AG**") 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

* *English name for identification purpose*

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors 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 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 the Unaudited Pro Forma Financial Information included in the Circular is solely to provide information about how the Proposed Acquisition might have affected the financial position of the Group as if the transaction had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition 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 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition 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 complied on the basis stated;

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

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

Yours faithfully,

Prism CPA Limited
Certified Public Accountants
Lee Kwok Lun
Practising Certificate Number: P06294
Hong Kong

30 March 2021

The information set out in this Appendix does not form part of the Accountants' Report issued by Prism CPA Limited, the Company's reporting accountants, as set out in "Appendix II — Accountant's Report of the Target Company" and is included herein for information only. The unaudited pro forma financial information of the enlarged group should be read in conjunction with "Appendix I — Financial information of the Group" and "Appendix III — Management discussion and analysis of the Target Company".

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction

This unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Kiu Hung International Holdings Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), and Hubei Jincaotang Pharmaceutical Co., Ltd.* (湖北金草堂藥業有限公司) (the "**Target Company**") (the Group and the Target Company are hereafter collectively referred to as the "**Enlarged Group**"), comprising the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2020, has been prepared by the directors of the Company (the "**Directors**") in accordance with Rule 4.29 of the Listing Rules and is solely prepared for the purpose to illustrate the effect of the proposed acquisition of 51% equity interest in the Target Company (the "**Acquisition**") to the Group as if the Acquisition has been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the interim report of the Group for the six months ended 30 June 2020; and (ii) the audited statement of financial position of the Target Company as at 31 December 2020, which has been extracted from the financial information of the Target Company thereon set out in Appendix II to the circular dated 30 March 2021 ("**Circular**"), after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 June 2020. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group, as incorporated by reference in Appendix I to this Circular, and that of the Target Company, as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

* *English name for identification purpose*

2. The Unaudited Pro Forma Financial Information

	The Group as at 30 June 2020	Target Company as at 31 December 2020	Pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Property, plant and equipment	59,826	23,975				83,801
Right-of-use assets	3,917	—				3,917
Investment properties	12,077	—				12,077
Other intangible asset	994	—				994
Investment in associates	568,479	—				568,479
Financial assets at fair value through other comprehensive income	3,435	—				3,435
Contingent consideration receivables	—	—		7,523		7,523
Goodwill	—	—			92,925	92,925
Deferred income tax assets	194	—				194
	648,922	23,975				773,345
Current assets						
Inventories	23,664	15,132				38,796
Trade and bills receivables	35,784	12,969				48,753
Prepayments, deposits and other receivables	85,867	108				85,975
Financial assets at fair value through profit or loss	—	—				—
Bank balances and cash	14,544	18,471				33,015
	159,859	46,680				206,539
Current liabilities						
Trade payables	7,295	2,014				9,309
Accruals and other payables	144,223	6,502				150,725
Income tax payable	1,087	—				1,087
Promissory notes	276,676	—				276,676
Lease liabilities	1,533	—				1,533
Borrowings	47,522	290				47,812
	478,336	8,806				487,142
Net current (liabilities) assets	(318,477)	37,874				(280,603)
Total assets less current liabilities	330,445	61,849				492,742

	The Group as at 30 June 2020	Target Company as at 31 December 2020	Pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current liabilities						
Convertible bonds	—	—	129,364			129,364
Deferred income tax liabilities	15,267	—				15,267
Lease liabilities	3,457	—				3,457
	18,724	—				148,088
Net assets	311,721	61,849				344,654

3. Notes to The Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Company for the six months ended 30 June 2020 dated 31 August 2020.

2. The amounts are extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2020 as set out in Appendix II to this Circular and translated at RMB 1 = HK$1.1.

   No representation is made that any amounts in RMB can be or could have been converted to HK$ at the relevant date and period at the above rates or any other rates or at all.

3. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement), Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司) (the "**Purchaser**") has conditionally agreed to acquire 51% equity interest of the Target Company for a total consideration of HK$170 million payable to Sheen World International Holdings Limited (the "**Vendor**") in five tranches.

   The total consideration of HK$170 million will be settled by issuance of Convertible Bonds by the Company to the Vendor at a conversion price of HK$2 per conversion share in aggregate five tranches of Convertible Bonds as set out in page 9 of this Circular.

   The aggregate fair values of the liability component and equity component of five tranches of Convertible Bonds of approximately HK$129,364,000 and HK$2,627,000 respectively were valued by Graval Consulting Limited as if the Acquisition had taken place on 30 June 2020. The fair value of the liability component of each tranches of the Convertible Bonds is estimate by using discount cash flow method, at the discount rate of 7.89%.

* *English name for identification purpose*

The equity component of each tranches of the Convertible Bonds is estimated using Binomial Pricing Model. The key assumptions used for each tranches of the Convertible Bonds are as follows:

	1st Tranche Convertible Bond	2nd Tranche Convertible Bond	3rd Tranche Convertible Bond	4th Tranche Convertible Bond	5th Tranche Convertible Bond
Conversion period start date	30 June 2020	30 June 2020	30 June 2020	30 June 2020	30 June 2020
Conversion period end date	30 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023
Maturity date	30 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023
Time to maturity	3 years	3 years	3 years	3 years	3 years
Conversion price	HK$2	HK$2	HK$2	HK$2	HK$2
Expected Volatility	93.45%	93.45%	93.45%	93.45%	93.45%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil
Risk-free rate	0.21%	0.21%	0.21%	0.21%	0.21%
Percentage of principal amount to be repaid at redemption	100%	100%	100%	100%	100%

Upon completion, the fair value of the Convertible Bonds will be re-assessed and may be different from the estimated amounts as presented above.

4. The acquisition of Target Company is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* (“**HKFRS 3 (Revised)**”) issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of preparing the unaudited pro forma consolidated assets and liabilities of the Enlarged Group, the pro forma fair values of the identifiable assets and liabilities (other than goodwill) of the Target Company as at 30 June 2020 approximate their carrying amounts as at 30 June 2020 as if the Transaction had been completed as at 30 June 2020.

   Pursuant to the Acquisition Agreement, the Vendor and Vendor Guarantor jointly undertook that the aggregate audited net profit after taxation of the Target Company (excluding extraordinary items) (the “**Actual Profits**”) throughout the Relevant Periods shall be not less than RMB82 million (equivalent to approximately HK$90.2 million) (the “**Aggregate Guaranteed Profit**”). The Aggregate Guaranteed Profits shall be split into four tranches for settlement throughout the Relevant Periods, as follow:

   (i) the Actual Profits of the Target Company for the six-month period after the date of Completion (the “**First Relevant Period**”) shall be not less than RMB20 million (equivalent to approximately HK$22 million) (the “**First Guaranteed Profits**”);

   (ii) the Actual Profits of the Target Company for the six-month period after the First Relevant Period (the “**Second Relevant Period**”) shall be not less than RMB20 million (equivalent to approximately HK$22 million) (the “**Second Guaranteed Profits**”);

(iii) the Actual Profits of the Target Company for the six-month period after the Second Relevant Period (the "**Third Relevant Period**") shall be not less than RMB21 million (equivalent to approximately HK$23.1 million) (the "**Third Guaranteed Profits**"); and

(iv) the Actual Profits of the Target Company for the six-month period after the Third Relevant Period (the "**Final Relevant Period**") shall be not less than RMB21 million (equivalent to approximately HK$23.1 million) (the "**Final Guaranteed Profits**"). The Actual Profits or loss in a Relevant Period shall have cumulative effect and the Actual Profits/loss in a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

If the aggregate actual audited net profit of the Target Company (excluding extraordinary items) for the First Relevant Period falls short of RMB20 million (equivalent to approximately HK$22 million) but more than HK$0, then the Company shall issue such portion of principal amount of the 1st Tranche Convertible Bonds to the Vendor (or its nominee) based on the follow formula:

$$\text{First Consideration Payable} \times \frac{\text{Actual profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

If the above formula recorded a negative figure (i.e. a loss-making situation), then the 1st Tranche Convertible Bonds will not be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor. If the Actual Profits for the First Relevant Period exceed the First Guaranteed Profits, no upward adjustment will be allowed, however, the amount exceeding the First Guaranteed Profits will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor.

If the Actual Profit(s) in a Relevant Period plus all previous accumulated Actual Profits/loss of all previous Relevant Period(s) is less than the amount of the Aggregate Guaranteed Profits up to such Relevant Period, then the Company shall issue such portion of principal amount of the Consideration Payable(s) to the Vendor (or its nominee) for such Relevant Period based on the following formula:

$$\text{Aggregate Consideration Payable(s) up to such Relevant Period} \times \frac{\text{Accumulated Actual Profits/loss up to such Relevant Period}}{\text{Aggregate Guaranteed Profits up to such Relevant Period}} - \text{All previous paid Consideration Payable(s) immediately prior to such Relevant Period}$$

If the above formula in the Second Relevant Period and/or the Third Relevant Period recorded a negative figure, then no part of the 2nd Tranche Convertible Bonds and/or the 3rd Tranche Convertible Bonds will be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor. If the accumulated Actual Profits up to a Relevant Period exceed the Aggregate Guaranteed Profits up to the same Relevant Period, no upward adjustment will be allowed, however, the amount exceeding the Aggregate Guaranteed Profits up to a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

If the above formula in the Final Relevant Period recorded a negative figure, then no part of the 5th Tranche Convertible Bonds will be issued to the Vendor and the Vendor and the Guarantor shall compensate the Purchaser equals to such amount but subject to a maximum limit of HK$102,000,000. (i.e. the maximum aggregate payment up to the Third Relevant Period).

For avoidance of doubt, actual amount to be paid at a Relevant Period may exceed the above-mentioned maximum Consideration Payable of the same Relevant Period due to the cumulative nature of the Consideration adjustment. However, the maximum total payout by the Company upon the end of the Relevant Periods will be equal to the Consideration.

If the accumulated Actual Profits throughout the Relevant Periods is less than the Aggregate Guaranteed Profits throughout the Relevant Periods but more than HK$0, then the Vendor and the Guarantor shall compensate the Purchaser the portion of the Initial Payment based on following formula:

$$\text{Initial Payment} \quad \text{x} \quad \frac{\text{(Aggregate Guaranteed Profits throughout the Relevant Periods – accumulated Actual Profits throughout the Relevant Periods)}}{\text{Aggregate Guaranteed Profits}}$$

No upward adjustment to the Consideration is allowed in the event the accumulated Actual Profits throughout the Relevant Period is more than the Aggregate Guaranteed Profits throughout the Relevant Periods. The maximum possible amount of the compensation at the end of the Relevant Period is limited to the Initial Payment plus any accumulate Consideration Payables paid out i.e. HK$153,000,000.

The aggregate fair value of contingent consideration receivables arisen from each tranches of Convertible Bonds of approximately HK$7,523,000 was valued by Graval Consulting Limited as if the Proposed Acquisition had taken place on 30 June 2020. The fair value was estimated by using discounted cash flow method, at the risk-free rate and discount rate of 0.21% and 7.89% respectively. Upon completion, the fair value of contingent consideration receivables will be re-assessed and may be different from the estimated amounts as presented above.

5. The adjustments represent the recognition of goodwill arising from the Proposed Acquisition of Target Company. Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of Target Company were accounted for in the consolidated financial statements of the Enlarged Group at fair value using the acquisition method in accordance with HKFRS 3 (Revised).

The difference in the fair value of the net identifiable assets of Target Company over the consideration is recognised as a goodwill. Assuming the acquisition is completed on 30 June 2020, the goodwill from the Proposed Acquisition of Target Company is calculated as follows:

	Notes	*HK$'000*
Considerations transferred:		
— Convertible bonds	*3*	131,991
— Contingent consideration receivables	*4*	(7,523)
Total fair value of the consideration		124,468
Add: Pro forma fair value of non-controlling interest		30,306
Less: Pro forma fair value of identifiable net assets acquired	*(i)*	(61,849)
Goodwill arising from the acquisition	*(ii)*	92,925

(i) For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, it is assumed that the fair values of the Target Company's identifiable assets and liabilities approximate to their respective carrying amounts and the allocation of the purchase price is determined based on the carrying amount of the Target Company's identifiable assets and liabilities as at 30 June 2020.

Since the fair values of the identifiable assets and liabilities of the Target Company on the date of completion of the Proposed Acquisition may be substantially different from the amounts used in the preparation of this Unaudited Pro Forma Financial Information, the actual amounts of assets and liabilities of the Target Company could be different. Accordingly, it could be different from the estimated amounts stated herein and could have different deprecation or amortisation for subsequent periods.

(ii) According to the Group's accounting policies, the goodwill arising from the Proposed Acquisition will be tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the acquisition of the Target Company. Where the recoverable amount of the cash-generating unit is less than its carrying value, an impairment loss will be recognised by reducing the carrying value of any goodwill allocated to the cash-generating units at first.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have performed an impairment assessment on the goodwill arising from the Proposed Acquisition in accordance with Hong Kong Accounting Standard 36, "Impairment of Assets" and consider that there would have been no impairment of the goodwill as if Proposed Acquisition had been completed on 30 June 2020. The Company's Reporting Accountant has assessed relevant information in respect of the impairment of the Enlarged Group's goodwill under HKAS36 and has agreed with the relevant assessments made by the Board and its basis.

The Company's auditor will adopt consistent accounting policies, principal assumptions and valuation method (as used in the pro forma financial information) to assess the impairment of the Enlarged Group's goodwill in the Company's future consolidated financial statements.

6. No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) and the directors determined that such costs are insignificant.

7. No adjustments have been made to adjust any trading results or other transactions of the Group and the Target Company entered into subsequent to 30 June 2020.

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards and published by the International Valuation Standards Council which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for readers' identification purpose only and have no legal status or implication in this report. This report is prepared and signed off in English format, translation of this report in language other than English should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the date of this report. If additional documents and facts are made available, we reserve the right to amend this report and its conclusion.

17th Floor
Champion Building
287–291 Des Voeux Road Central
Hong Kong

30 March 2021

The Board of Directors
Kiu Hung International Holdings Limited
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with the recent instructions given to us by the present management of Kiu Hung International Holdings Limited (hereinafter referred to as the "**Instructing Party**"), we have conducted an agreed-upon procedures valuation of the possible market value of the entire equity interests of 湖北金草堂藥業有限公司 (translated as Hubei Jincaotang Pharmaceutical Co., Ltd., and hereinafter referred to as the "**Target Company**") as at 30 June 2020 (hereinafter referred to as the "**Valuation Date**") for the Instructing Party's internal management reference purpose.

We understand that the Instructing Party will refer our work product (in any form of presentation) as part of its preliminary business due diligence, and we have not been engaged to make specific sales or purchase recommendations. We further understand that the Instructing Party will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision with regards to the Target Company. It is agreed that our work is designed solely to provide information that will give a reference to the Instructing Party as part of its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party.

Our findings and conclusion in this agreed-upon procedures valuation are documented as follows:

INTRODUCTION

Business enterprise value is defined as the total value of a business. It comprises monetary assets (net working capital), tangible assets and intangible assets, thereby encompassing all assets of a business enterprise. In other words, the business enterprise value is also equal to the value of its invested capital — common equity, preferred stocks and long-term debts. While there is no universal definition of the term, it is the usual practice for a professional valuer, based on his professional knowledge and experience, to identify the definition for the intended valuation.

In this appraisal (the word appraisal has the same meaning of valuation in this report), we were instructed to analyse the subject business enterprise, i.e. the Target Company, and to express our opinion of the possible market value of the entire equity interests in the Target Company (hereinafter referred to as the "**Appraised Asset**"), as at the Valuation Date, on a going concern basis, and based on documents and information provided by the Instructing Party or the appointed personnel of Kiu Hung International Holdings Limited (hereinafter referred to as the "**Company**").

The term "Market Value" is defined by the International Valuation Standards (hereinafter referred to as the "**IVS**") and published by the International Valuation Standards Council as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We further assumed that, subject to the above definition, both the buyer and the seller contemplate the retention of the Target Company at its existing status for the continuation of the current operations as a going concern business, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

THE TARGET COMPANY'S PROFILE

As advised, on 11 September 2019, Fujian Green Forest Agricultural Technology Co., Ltd. (hereinafter referred to as the "**Purchaser**"), being a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Sheen World International Holdings Limited (hereinafter referred to as the "**Vendor**"), pursuant to which, among other things, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 51% equity interests in the Target Company, at the consideration of HK$170 million which shall be satisfied by the issue of convertible bonds by the Company to the Vendor (or its nominee) upon completion.

According to the business License with Uniform Social Credit Code* (統一社會信用代碼) No. 91420323316527095H dated 2 March 2018, the Target Company was established under the laws of the People's Republic of China (hereinafter referred to as the "**PRC**" or "**China**") with limited liability on 24 September 2014 with registered capital of RMB30,000,000. Its registered address is No. 20 Zongheng Avenue, Chengguan Town, Zhushan County (竹山縣城關鎮縱橫大道20號). The operating term of the Target Company is open without a definite period and its business scope was restricted to "promotion, sales and research and development on the plantation, cultivation, processing, of Chinese medicinal materials, tea and crops; promotion, sales and research and development on Chinese medicine, medical drugs, medical nutritional food, medical supplemental products; and operation and sales of alcoholic products" (translated).

According to the information available to us, the Target Company is owned as to (i) 51% by Mr. Lin Wei; and (ii) 49% by Mr. Guo Dong Li, an independent third party, as at 11 September 2019. The Target Company is principally engaged in the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products.

Production base of the Target Company is situated at Zhushan County, Shiyan City, Hubei Province, the PRC with forest lands with an aggregate total area of 8,757 Chinese mu with production plants and equipment constructed nearby. Since commencement of business in 2015 to the year ended 31 December 2018, product of the Target Company was solely anoectochilus formosanus (金線蓮). Due to the biological characteristics of anoectochilus formosanus, it is only suitable for planting from spring to summer times while harvesting and sale from autumn time.

In order to broaden product mix of the Target Company and to mitigate the business risk of over reliance on a single product with an aim to assist the local people's government of Zhushan County to drive the local economy and employment, the Target Company has been cooperating with the local people's government of Zhushan County and professional agricultural cooperatives and Chinese herbs companies in developing plantation techniques of other species of Chinese herbs as well as to expand and standardize Chinese herbs market since 2017. As a result of the cooperation with the local people's government of Zhushan County and other professional agricultural organizations, the Target Company has successfully developed plantation techniques of honeysuckle (金銀花), a Chinese herb suitable to cultivate and plant in autumn and winter times, in 2018 and has secured sale of honeysuckle products and other species of Chinese herbs with Sinopharm with a total contract sum of over RMB70 million. The delivery of these products gradually started from the last quarter of 2019 and contributing further income stream to the Target Company.

VALUATION PROCEDURES ADOPTED

In performing the appraisal, we have adopted the following procedures which were agreed with the Instructing Party before the engagement. They were:

- to read the supplied materials and based on the content of the materials such as product information, market condition, financial information and the scale of the going concern of business of the Target Company to arrive at our opinion. In the course of valuation, we will assume the information that contained in the materials is correct and we will not verify or ascertain the correctness of the information contained in the materials;

- to prepare and submit a list(s) of required document and information regarding to the operation of business of the Target Company during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the Instructing Party;

- to hold discussions with relevant personnel and to review various accounting and financial documents in order to understand the scope of their assets and their operations;

- to conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at our discretion;

- to value the Appraised Asset using the respective standards of value that is most appropriate; and

- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUE AND ASSUMPTIONS

The Appraised Asset is valued on the basis of "Market Value" in continued use or as a going concern. The continued use premise assumes that the Appraised Asset will be used for the purpose for which the Appraised Asset was conceived or is currently used. Implicit in this definition is the fact that a hypothetical willing and able buyer would not pay more to acquire the Appraised Asset than he could reasonably expect to earn in the future from an investment in the Appraised Asset.

1. the legally interested party in the Appraised Asset has free and uninterrupted rights to assign the Appraised Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums/ administrative costs payable have already been fully paid;

2. all the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report is based;

3. the legally interested party in the Appraised Asset has adequate working capital to operate the business of the Target Company from time to time;

4. the Appraised Asset can be sold in the market in its existing state without the benefit of a deferred terms contract, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Target Company;

5. the management of the Target Company has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as change of government policy and labour dispute) to the normal business of the Target Company; and

6. the Appraised Asset can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the reported findings and conclusion herein.

FACTORS CONSIDERED IN THE VALUATION

For the purpose of the engagement, the valuation of the Appraised Asset required consideration of a number of pertinent factors affecting the Target Company's ability to generate future investment returns. The factors considered in the valuation including, but were not limited to, the following:

- the nature of the Appraised Asset such as the remaining life and its characteristics;
- the nature and the going concern business of the Target Company;
- the quality of the Target Company's assets;
- the Target Company has sufficient working capital to perform its business;
- the capability and determination of the management of the Target Company to renew all the necessary licences, permits and approvals from time to time to make the business of the Target Company be on-going;
- the capability and determination of the management of the Target Company to maintain its existing clientele (the sales and distribution network) and its favourable working relationship with its distributors (the sales network);
- the capability and determination of the management of the Target Company to continue the existing marketing strategy to maintain and attract customers or potential customers;
- the capability and determination of the management of the Target Company to continue develop and construct its business;

- the capability and determination of the management of the Target Company to manage the production facilities to catch its business plan;
- the capability and determination of the management of the Target Company to maintain its existing qualification and management standards and to review/up-lift its standards to catch the market needs from time to time;
- the capability and determination of the management of the Target Company to trade up-to-date products to catch the market needs;
- the commitment of the management of the Target Company to protect the Appraised Asset against any disruption of the normal business of the Target Company;
- the commitment of the management of the Target Company to maintain a cost effective and stable supply chain of the products to distribute to the customers;
- the economic and industry data affecting the Target Company and the related in the relevant locality;
- market-derived investment returns in similar nature of entities; and
- the risks facing the Target Company and the Appraised Asset.

FINANCIAL RATIO ANALYSIS OF THE TARGET COMPANY

Financial statements outline the financial activities of a business, an individual or any other entity. Financial statements are meant to present the financial information of the entity in question as clearly and concisely as possible for both the entity and for readers. The three basic financial statements are (i) balance sheet, which summarises what a firm owns and owes at a point in time; (ii) income statement, which reports on how much a firm earned in a particular period; and (iii) statement of cash flows, which reports on cash inflows and outflows to the firm in a particular period.

Financial ratios express relationships between financial statements items. Although they provided historical data, management could use ratios to identify internal strengths and weaknesses, and to estimate future financial performance. There are four basic types of ratios to measure a company's performance, (i) liquidity; (ii) solvency; (iii) profitability; and (iv) efficiency.

Liquidity

The liquidity ratio is aimed to analyse a company's ability to pay off its short-term obligations. Common liquidity ratios include current ratio, quick ratio and operating cash flow ratio. Generally, the higher the ratio is, the larger the margin of safety that a company possesses to cover short-term debts.

	2017	**2018**	**2019**
Current Ratio*	0.59	0.96	1.53
Quick Ratio*	0.45	0.33	0.86
Operating Cash Flow Ratio*	0.36	0.03	(0.23)

* *current ratio is calculated as total current assets/total current liabilities*
quick ratio is calculated as (total current assets minus inventories)/total current liabilities
operating cash flow ratio is calculated as cash flow from operations/total current liabilities

Solvency

Solvency ratios indicate financial stability as they measure a company's debt relative to its assets and equity. Common solvency ratios consist of debt-to-asset and debt-to-equity. In our calculation of solvency ratios, debt is calculated as the sum of short-term borrowings and long-term borrowings. However, other than interest-bearing debts, a company may also have other obligations, such as payables and finance leases.

	2017	**2018**	**2019**
Debt-to-Asset Ratio*	0.15	0.12	0.19
Debt-to-Equity Ratio*	0.31	0.22	0.33

* *debt-to-asset ratio is calculated as (short-term borrowings plus long-term borrowings)/total assets*
debt-to-equity ratio is calculated as (short-term borrowings plus long-term borrowings)/book equity

Profitability

Profitability ratios indicate management's ability to convert sales dollars into profits and cash flows. Common ratios are gross margin, and net income margin.

	2017	**2018**	**2019**
Gross Margin*	28%	22%	30%
Net Margin*	21%	19%	29%

* *gross margin is calculated as (revenue minus cost of goods sold)/revenue*
net margin is calculated as net income/revenue

Efficiency

Efficiency ratios are typically used to analyse how well a company uses its assets internally. Common ratios include asset turnover, receivable turnover and inventory turnover. The higher the ratio, the more efficient a firm is operating.

	2018	2019
Asset Turnover*	0.62	0.75
Receivable Turnover*	3.60	3.04
Inventory Turnover*	2.46	1.82

* *asset turnover is calculated as revenue/average total assets*
receivable turnover is calculated as revenue/average accounts receivables
inventory turnover is calculated as cost of goods sold/average inventory

ESTABLISHMENT OF TITLES

For the purpose of this valuation, the Instructing Party was requested to provide us the necessary documents to support that the legally interested party in the Appraised Asset has free and uninterrupted rights to assign a part of or the whole of the Appraised Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the Instructing Party did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the Appraised Asset and the relevant rights to distribute and sell its products from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles and the rights to the Appraised Asset.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the Appraised Asset. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Appraised Asset valued. We take no responsibility for our misinterpretation of the documents.

In our valuation, we have assumed that the legally interested party in the Appraised Asset has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue the ownership in the Appraised Asset. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

APPROACH TO VALUE

In the process of valuation, we have considered the three generally accepted business enterprise appraisal approaches to value, namely, the Asset-based Approach, the Income Approach and the Market Approach.

The Asset-based Approach

The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collecting the total amount of money from equity and debt, and converting into various types of assets of the business enterprise for its operation, their sum equals to the value of the business enterprise.

From a valuation perspective, the valuer will restate the value of all types of assets of a business enterprise from book value i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business enterprise, or, by applying the accounting principle ''assets minus liabilities'' to arrive at the value of the equity interests of the business enterprise. The former is known as Asset Accumulation Method and the latter known as Adjusted Net Asset Method though they are identically the same. There is another method known as Excess Earning Method which is a collective valuation of all intangible assets as a group by capitalised returns over and above a reasonable rate of return on tangible assets and adding the capitalised value of intangibles plus the estimated value of tangible assets to become the value of a business enterprise. However, some practitioners prefer to classify this method as a hybrid method for it combines asset value with a capitalised earnings component.

Due to the facts that (i) the breakdown of the tangible assets and the existence of the intangible assets (if any) owned by the Target Company as at the Valuation Date were not available to us; and (ii) the Asset-based Approach does not take into account the profits-generating capabilities in the future, the Asset-based Approach is considered inappropriate in this valuation.

The Income Approach

The Income Approach focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying theory of this approach is that the value of a business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits. Alternatively, this can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate. The core idea under this approach is that a rational buyer normally will purchase an asset only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur at an amount equal to the economic benefits of the asset being valued.

Due to the high uncertainty of the future economic benefits of the Target Company, after discussion with the Instructing Party, we were given to understand that reliable financial projections may not be available and subject to subjective judgement and assumptions. As a result, we have not relied on the Income Approach to arrive at the value of the Appraised Asset.

The Market Approach

The Market Approach is basically a comparison method to value a business enterprise by comparing to the prices at which other similar business nature companies or interests changed hands in arm's-length transactions. The underlying theory of this approach is one would not pay more than one would have to pay for an equally desirable alternative. Therefore, the valuer will seek valuation guidance for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently. The right transactions used in analysing for valuation indication need to be sales on an arm's-length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell. Then, multiples (i.e. financial ratios) are derived based on those transactions to apply to the fundamental financial variables of the subject business enterprise and further arrive at an indicated value of the subject business enterprise. The most commonly used multiples are price-to-earnings ("**P/E**"), enterprise value-to-sales (or revenue) ("**EV/S**"), price-to-book ("**P/B**") and enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiple ("**EV/EBITDA**").

There are two methods of the Market Approach known as the Guideline Publicly Traded Company Method (by using similar company daily stock transaction prices) and the Guideline Merged and Acquired Company Method. Both methods need to rely on analysing available similar transacted comparables, and the big difference is on the structure of transactions — daily stock transaction prices in public market or mergers and acquisitions as occurred. In most cases, finding good market comparables is often difficult (particularly for those mergers and acquisitions) for there is no single marketplace where similar assets change hands between buyers and sellers, who are well informed and have no special motivations or compulsions to buy or to sell, are recorded.

To the best of our knowledge, we are not aware that there were any of transactions of similar companies to the Target Company around the Valuation Date. Under such circumstances, we have not relied on the Guideline Merged and Acquired Company Method in our estimate of the value of the Appraised Asset due to insufficient supporting data (market-based transactional information in this instance).

We, then, moved to the Guideline Publicly Traded Company Method. The use of this method is considered by the market as final arbiter of value for the prices of guideline publicly traded companies are easily available and observed, disregard direct or proxy, from the public domains or mass media or the local stock exchange as of the relevant date. There will have sufficient data for each guideline company to analysis for the statutory requirement of filings of accounting books and records to the regulators. Because of that, it is a method widely used by financial analysts, fund managers and investors to value a company in a developed economy.

Comparable companies were identified and sourced from Bloomberg based on the following selection criteria:

— The companies are domiciled in China and derive their revenues mainly from China;

— The companies are listed in Hong Kong or China;

— The companies are principally engaged in the provision of traditional Chinese medicines in the generic and specialty pharmaceuticals sector similar to the Target Company;

— The companies have sufficient listing and operating history;

— The financial and operating information of the companies is publicly available; and

— The forecasted earnings of the companies are available.

We noticed that there are several listed companies engaged in the provision of traditional Chinese medicine similar to the Target Company from the search, a brief description of their operations is listed as follows:

Company Ticker	**Description**
600252 CH	Guangxi Wuzhou Zhongheng Group Co., Ltd. is an investment holding company. Through its subsidiaries, the company manufactures Chinese medicine, develops real estate, undertakes infrastructure construction projects, and operates hotels.
600479 CH	Zhuzhou Qianjin Pharmaceutical Co., Ltd. develops and manufactures pharmaceutical products. The company's products include traditional Chinese medicines and healthcare products.
3737 HK	Zhongzhi Pharmaceutical Holdings Ltd is a pharmaceutical company that develops various drugs. The company focuses on developing new Chinese medicine and herbal medicines.
000705 CH	Zhejiang Zhenyuan Co., Ltd. wholesales and retails traditional Chinese medicines, Chinese medicine materials, chemical preparations, and healthcare products. Through its subsidiaries, the company also manufactures pharmaceuticals.
300181 CH	Zhejiang Jolly Pharmaceutical Company Limited develops, produces and sells Chinese medicine. The company's main products are Wuling powder and Wuling capsules.

Company Ticker	Description
600436 CH	Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. manufactures and markets traditional Chinese medicines, including Pientzehuang, Pientzehuang capsules, Pientzehuang lozenge, cough syrup, and other related products.
300147 CH	Xiangxue Pharmaceutical Co., Ltd. manufactures and distributes modern Chinese medicine products. The company produces Chinese herbal slices, antiviral oral liquids, healthcare supplements, and more. Xiangxue Pharmaceutical also conducts cold chain logistics and diagnosis businesses.
000590 CH	Tus-Guhan Group Corp., Ltd. operates as a pharmaceutical manufacturer. The company researches, produces, and sells Chinese medicine, dietary supplements, and western medicine. Tus-Guhan markets throughout China.
002826 CH	Tibet AIM Pharm. Inc. is a pharmaceutical company. The company researches, develops, manufactures, and sells Chinese medicines and drug substances. Tibet AIM Pharm serves customers throughout China.
002107 CH	Shandong Wohua Pharmaceutical Co., Ltd. mainly engages in the development, production and selling of Chinese herbal medicines for cardiocerebral diseases.
002118 CH	Jilin Zixin Pharmaceutical Industrial Co., Ltd. mainly engages in the development, production and selling of Chinese medicine for Cardio Cerebral blood vessel disease, digestion system disease and bone fracture. The company also plants herbs for making Chinese medicine.
600557 CH	Jiangsu Kanion Pharmaceutical Co., Ltd. manufactures and markets traditional Chinese pharmaceutical preparations and healthcare products. The company's products include capsules, electuaries, pills, and liquid medicines.
002412 CH	Hunan Hansen Pharmaceutical Co., Ltd develops, produces and sells gastroenterologic, bone-healing, cardiovascular, and cerebrovascular Chinese medicine. The company's products are in the form of syrup, capsule, and injection.

Company Ticker	Description
002390 CH	Guizhou Xinbang Pharmaceutical Co., Ltd develops drug products. The company develops and sells traditional Chinese medicine, Chinese patent medicine, biological medicine, and other related products. Guizhou Xinbang Pharmaceutical also manufactures and markets medical consumables and diagnostic reagents.
002275 CH	Guilin Sanjin Pharmaceutical Co Ltd is a pharmaceutical company. The company specializes in research and production of Traditional Chinese Medicine and natural medicines.
002198 CH	Guangdong Jiaying Pharmaceutical Co., Ltd. researches, manufactures and markets Chinese medicines.
2877 HK	China Shineway Pharmaceutical Group Limited develops, manufactures, and sells modern Chinese medicines in the People's Republic of China. The company also produces and sells a series of western pharmaceuticals.
000790 CH	Chengdu Huasun Technology Group Inc., Ltd. operates pharmaceutical industry. The company researches, produces, and sells Chinese and western medicines, and related substances. Chengdu Huasun Technology Group markets.
600085 CH	Beijing Tongrentang Co., Ltd. develops, manufactures, and markets traditional Chinese medicines and medicinal wines. The company also operates pharmaceutical retail businesses and provides consulting services.
1666 HK	Tong Ren Tang Technologies Co. Ltd. manufactures medical products. The company produces Chinese patent medicines, biological preparations, antibiotics, biochemical medicines, and other products. Tong Ren Tang Technologies also operates import and export businesses.
1681 HK	Consun Pharmaceutical Group Limited is a pharmaceutical company engaged in the research, manufacturing and sale of modern Chinese medicines and medical contrast medium in the People's Republic of China.

Source: Bloomberg

A multiple is more meaningful and representative if the earnings forming its basis, net income for the P/E multiple in this case, are indicative of future profit potential. Either exceptional items should be excluded if using historical profits or forecasted profits, rather than historical profits, should be used if historical profits are not representative of the future profit potential. Although the Chinese Herbs Business and the Decoction Business of the Target Company commenced in November 2019, the newly commenced businesses are expected to contribute more than 80% of the sales revenue and more than 90% of the gross profit incurred in the coming 12-month period with reference to the terms of the procurement agreements and the forecasted financials for the year ended 30 June 2021. And that, it formed the basis for the Instructing Party to perform assessment and due diligence on the assumptions. Historical profits were considered incapable of factoring in the future profit potential of the Chinese Herbs Business and the Decoction Business, which is forecasted to contribute majority of the revenue to the Target Company and would achieve a significantly higher gross margin than the other existing segment of the Target Company. Therefore, the forward P/E multiple was considered more appropriate in the valuation of the Target Company using the Market Approach.

According to the information available to us, the major terms of the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) and the New Procurement Agreements are as follows:

	Guaranteed Purchase Amount Per Year with reference to the Contract Sum (excluding VAT) *RMB'000*
Procurement Agreement	
(as supplemented by the Supplemental Procurement Agreements)	
Chinese Herbs Business	4,613
Decoction Business	61,225
Sub-total	65,838
New Procurement Agreements	
Decoction Business	30,518
Total Procurement Agreements	
Chinese Herbs Business	4,613
Decoction Business	91,743
Total	96,356

The forecasted revenue from the Anoectochilus Formosanus Business for the year ended 30 June 2021 is approximately RMB18,992,000, based on the historical revenue of the Anoectochilus Formosanus Business. As such, the newly commenced Chinese Herbs Business and Decoction Business are expected to contribute more than 80% of the total revenue in the coming 12-month period. After further applying the forecasted cost of sales to revenue ratios of the Anoectochilus Formosanus Business, Chinese Herbs Business and Decoction Business, the newly commenced Chinese Herbs Business and Decoction Business are expected to contribute more than 90% of the total gross profit incurred for the year ended 30 June 2021 as illustrated by the following table:

	Forecasted Revenue in coming year *RMB'000*	**Historical Cost of sales to Revenue ratio for the year ended 30 June 2020**	**Forecasted Cost of sales to Revenue ratio**	**Forecasted Gross Profit in coming year** *RMB'000*	**Contribution to Total Gross Profit**
Anoectochilus Formosanus Business	18,992	80.1%	80%	3,772	6%
Chinese Herbs Business	4,613	90.0%	90%	461	1%
Decoction Business	91,743	41.5%	40%	55,046	93%
Total	115,348	57%	49%	59,279	100%

Based on the above, the forward P/E multiple has been adopted. This more forward-looking measure can factor in the procurement agreements and supplemental agreements that were entered by the Target Company and, the Target Company's recent participation in the Chinese Herbs Business and the Decoction Business. Thus, it is more indicative of future profit potential of the Target Company. The rationale behind the use of forward multiples is that companies are more comparable in nature when they have reached a more mature phase. According to the financial projections of the Target Company, starting from the 2nd year after the Valuation Date, the revenues and net profits of the Target Company are forecasted to increase by approximately 2.7% per annum, which is based on the year-on-year change in China's consumer price index in September 2019, a main gauge of inflation (source: xinhuanet.com). As such, the forecasted profit in next 12 months was considered to be sufficiently normalized and stable.

The P/E multiple considers the cost structure as well as profitability of a company, which are considered primary indicators affecting the value of a company. It is a common valuation method for the assessment of the value of companies with profitable businesses. Capturing all operating variations between companies, it is effective for companies in the same sector. Generally, both historical and forecasted earnings are more easily available. This multiple is more suitable to apply when earnings are representative of future earnings and the trend in those earnings.

Comparable companies with available forecasted earnings sourced from Bloomberg are shown as follows.

Company (Stock code)	Forward P/E Ratio As at 30 June 2020
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. (600436 CH)	54.6
Jiangsu Kanion Pharmaceutical Co., Ltd. (600557 CH)	16.0
China Shineway Pharmaceutical Group Limited (2877 HK)	7.1
Beijing Tongrentang Co., Ltd. (600085 CH)	35.7
Tong Ren Tang Technologies Co. Ltd. (1666 HK)	15.0
Consun Pharmaceutical Group Limited (1681 HK)	4.8

Source: Bloomberg

Comparable Companies	Forward P/E ratio before size adjustment	Forward P/E ratio after size adjustment	Outlier
600436 CH	54.6	15.8	Yes
600557 CH	16.0	10.2	No
2877 HK	7.1	5.7	No
600085 CH	35.7	14.3	No
1666 HK	15.0	9.9	No
1681 HK	4.8	4.3	Yes
Average P/E (after excluding outliers):		10.05	

After adjustments on size and exclusion of outliers with more extreme deviation from the mean multiple, market ratio adopted is as follows,

P/E	10.05

For the purpose of valuation, the Instructing Party was requested to provide financial projections of the Target Company to us for the 1-year period from July 2020 to June 2021. The provided projections of the Target Company are listed as follows:

	Contribution by Segment	For the year ended 30 June 2021
		RMB'000
Total Revenue	**100%**	**115,348**
Anoectochilus Formosanus Business	16%	18,992
Chinese Herbs Business	4%	4,613
Decoction Business	80%	91,743
Total Cost of Sales		**(56,069)**
Anoectochilus Formosanus Business		(15,220)
Chinese Herbs Business		(4,151)
Decoction Business		(36,697)
Gross Profit		**59,279**
Selling Expenses		(1,073)
Administrative Expenses		(4,065)
Profits Before Tax		**54,141**
Income Tax Expenses		(7,778)
Net Profit		**46,363**

According to the financial projections of the Target Company provided to us, the key assumptions adopted by the Instructing Party in arriving at the estimated revenues and costs from July 2020 to June 2021 are set out below.

1. *Forecasted Revenues*

- The forecasted revenues of the Target Company are derived from the Anoectochilus Formosanus Business, the Chinese Herbs Business and the Decoction Business;

- The Target Company keeps its existing scale of the Anoectochilus Formosanus Business with moderate growth;

- The Anoectochilus Formosanus Business is subject to seasonal effect; and

- The forecasted revenues of the Chinese Herbs Business and Decoction Business were projected based on the terms of the Procurement Agreement (as supplemented by the Supplemental Procurement Agreements) and the New Procurement Agreements including the selling price, quantities and monthly procurement schedule of the contracted products.

2. *Forecasted Cost of Sales*

- The forecasted cost of sales of the Anoectochilus Formosanus Business included raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense;

- The forecasted cost of sales of the Anoectochilus Formosanus Business was estimated with reference to the historical cost of sales of the Target Company as the Target Company targeted to keep its existing scale of the Anoectochilus Formosanus Business without significant expansion;

- The forecasted cost of sales of the Chinese Herbs Business and the Decoction Business included raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense with raw material cost accounting for majority of the cost;

- The forecasted raw material cost of the Chinese Herbs Business and the Decoction Business were estimated based on negotiation result among the Target Company, the local government and the farmers on the purchase price of the raw Chinese herbs, with reference to the redhead letter issued by Yishui Town People's Government on 8 January 2020 (as advised) which has set out poverty protection purchase price for the Chinese herbs with at most 3% annual adjustment on the price;

- The forecasted cost of sales to revenue ratio of the Anoectochilus Formosanus Business was estimated to be approximately 80%, which was referenced to the historical cost of sales to revenue ratio of the Anoectochilus Formosanus Business;

- The forecasted cost of sales to revenue ratio of the Chinese Herbs Business was estimated to be approximately 90%, which was referenced to the historical cost of sales to revenue ratio of the Chinese Herbs Business since its commencement in November 2019;

- The forecasted cost of sales to revenue ratio of the Decoction Business was estimated to be approximately 40%, which was referenced to the historical cost of sales to revenue ratio of the Decoction Business since its commencement in November 2019, as the selling prices of Chinese herbs decoction pieces are generally higher than the Chinese herbs products due to the more complicated processing procedure, while the unit purchase costs of raw root type Chinese herbs, being the raw material for the Decoction Business are much cheaper than raw leaf type Chinese herbs, being the raw material for the Chinese Herbs Business; and

- The overall forecasted cost of sales to revenue ratio was estimated to be approximately 48.6%, which was lower than the overall historical cost of sales to revenue ratio at approximately 57.2% for the year ended 30 June 2020. This is mainly because the Decoction Business, which contributed significant revenues and significantly lower cost of sales to revenue ratio, commenced only in November 2019, and thus, the historical overall cost of sales to revenue ratio has not reflected the full year impact of the Decoction Business.

3. *Forecasted Selling Expenses*

- The forecasted selling expenses mainly comprised marketing expense, packaging and sales commission; and

- The forecasted selling expenses were estimated with reference to the historical selling expenses to revenue ratio of approximately 0.93%.

4. *Forecasted Administrative Expenses*

- The forecasted administrative expenses mainly comprised staff remuneration, office expenses, office utility expenses, research and development expenses, car rental, depreciation and amortization;

- The forecasted administrative expenses did not include rental expenses as the office and plant currently used by the Target Company was provided by the local government of Zhushan County without consideration; and

- The forecasted administrative expenses were estimated with reference to the historical administrative expenses (excluding depreciation and amortization) to revenue ratio of approximately 2.9% plus depreciation and amortization in accordance with such schedules.

5. *Forecasted Income Tax Expenses*

- No taxation is provided for the Anoetochilus Formosanus Business in the financial projections since the income from the Anoetochilus Formosanus Business is in line with the scope of corporate income tax exemption and can enjoy the corresponding preferential policies; and

- A lower profit tax rate of 15% is provided for the Chinese Herbs Business and the Decoction Business since the Target Company received a High-tech Enterprise Certificate* (高新技術企業證書).

The projections of the future earnings adopted in this valuation are mainly based on the information as provided by the Instructing Party or the appointed personnel of the Company, and they are responsible for the assumptions upon which the projections are based. We were given to understand that the assumptions adopted by them reflected their judgment of the ability for future operation.

Based on the forecasted trailing 12-month financials of the Target Company provided by the Instructing Party or the appointed personnel of the Company, the equity value, by arithmetically multiplying the adopted forward P/E ratio with the forecasted net profit of the Target Company in the coming 12 months from July 2020 to June 2021, can be derived as follows,

(in RMB'000)

Ratio	Forecasted Net Profit for the year ended 30 June 2021 (A)	Ratio (B)	Equity Value* (C)=(A)x(B)
P/E	RMB46,363	10.05	RMB465,726
	(D) DLOM (to be detailed in later section):		31%
	(E) Control Premium (to be detailed in later section):		33%
	(C)x(1–(D))x(1+(E)) Indicated Value of the Appraised Asset:		RMB428,040

* *The figures may not add to total and may be different from the actual worksheet due to rounding*

VALUATION COMMENTS

Since the Target Company is a private company, and by definition, ownership interests in closely held companies are typically not readily marketable, and not as liquid and as easily converted to cash compared to similar interests in the public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. In this valuation, we opted to apply a discount on lack of marketability ("**DLOM**") of 31% with reference to the 2020 edition of the Mergerstat Review.

According to the information available to us, the Mergerstat Review was published by Factset Mergerstat LLC ("**Factset Mergerstat**"), an information provider providing merger and acquisition ("**M&A**") information for the local, regional, national, and international financial news media, and offering daily M&A transaction data, in-depth historical deal information, and trend analysis for various M&A market sectors and industries. Factset Mergerstat engages in publishing annual, monthly, and weekly M&A publications, and provides M&A and private equity information through its online database. Factset Mergerstat compiles statistics on publicly announced mergers, acquisitions and divestitures involving operating entities. Factset Mergerstat has tracked these statistics and published its findings for over 45 years. The 2020 edition marks the 39th publication of Mergerstat Review. Transaction information is gathered throughout each day using a variety of electronic and print sources. The Mergerstat Review includes formal transfers of ownership of at least 5% of a company's equity and where at least one of the parties is a United States entity.

The Mergerstat Review computes the price offered as a multiple of the acquired company's earnings ("**P/E**") when both the price and the earnings are disclosed. Factset Mergerstat excludes negative P/E multiples and P/E multiples larger than 100. The median P/Es offered for public companies and private companies from 2010 to 2019 was studied in the Mergerstat Review 2020 edition. Over the last 10 years, the median P/Es offered for public companies ranged from 18.0 to 26.7 while the median P/Es offered for private companies ranged from 12.2 to 19.4 over the same period. A total of 1,790 and 540 acquisitions of public and private companies from 2010 to 2019 were examined respectively in the Mergerstat Review 2020 edition. The DLOM was the percentage difference between the median P/Es offered for public companies and private companies. Therefore, the use of the average discount on the median P/Es offered for private companies compared with public companies as the DLOM was considered fair and reasonable for the valuation of the Target Company.

When applying the Guideline Publicly Traded Company Method under the Market Approach, the share prices of the selected comparable companies are deemed to be non-controlling interest. A controlling ownership interest is typically more valuable than a pro-rata share of a minority interest. This is because the minority owner does not have control over important business decisions like declaring dividends, determining compensation, setting policies and deciding to sell or liquidate. In this Market Approach valuation, we opted to apply a control premium in estimating the value of the entire equity interests in the Target Company as at the Valuation Date.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Asset. Unless otherwise stated, it is assumed that the Appraised Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In our valuation, we have assumed that the Appraised Asset is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the date of this report, we are unable to identify any adverse news against the Appraised Asset or each of the operating unit of the Target Company which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Asset. However, should it be established subsequently that such news did exist as at the Valuation Date, we reserve the right to adjust the value reported herein.

INSPECTIONS AND INVESTIGATIONS

At the representation of the personnel appointed by the Target Company, we conducted a limited scope of company visit to the Target Company in August 2019 in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Target Company's assets or premises which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the Target Company's assets inspected. We are not, however, able to report that the inspected assets of the Target Company are free from rot, insect, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the premises that occupied by the Target Company, and that the inspection and the use of our report do not purport to be a building or conditional survey of the Target Company's assets or premises. We have assumed that the premises are free of rot and inherent danger or unsuitable materials and techniques.

If there is a third party other than the legally interested party proposing to acquire the Appraised Asset and wants to satisfy them that the going concern business of the Target Company, if successful, then the third party should obtain a relevant surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas or specifications of the Target Company's assets or premises, but have assumed that the areas and specifications shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures did not include an independent land survey to verify the legal boundaries of the Target Company's assets or premises. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Target Company's assets or premises that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Target Company's assets or premises which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the premises. We have not carried out any investigation into past or present uses, either of the premises or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the premises from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the premises or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of valuing the Appraised Asset, we were furnished with various latest financial documents, and other documents related to the Target Company. These data have been utilised without further verification like an auditor. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility or liability is assumed for the accuracy of the provided information.

We have relied solely on the information provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, easements, financial data, corporation status, business scope, assets and all other relevant matters.

We are not contracted to conduct a due diligence to review the Chinese medicine industry. In the course of appraisal, we have solely depended on the advice given by the Instructing Party. We are unable to accept any responsibility or liability for the reliability of the advice.

Our procedures to value did not include preparing an error free asset list for the purpose of our valuation. In our valuation, we were instructed to rely on the information as contained in the documents provided by the Instructing Party or its appointed personnel, thus, we expressed no comment to the existence and the functional ability of the assets. No responsibility or liability is assumed from our part.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other named or unnamed professionals, external data providers and/or the Instructing Party in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applied in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party. We have sought and received confirmation from the Instructing Party that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the appraisal.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("**RMB**").

LIMITING CONDITIONS

This report is provided strictly for the sole use of the Instructing Party. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Unless otherwise stated, the copyright of this report belongs to us. Nonetheless, we consent to the publication of the report in this document for the Company's shareholders' reading.

Our opinion of value in this report is valid only for the stated purpose at the Valuation Date. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Instructing Party and the Company are required to indemnify and hold us harmless and our personnel from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the investigation, analysis, reasoning and data outlined as above, and on the valuation method employed, it is our opinion that as at the Valuation Date, the possible market value (before taking into consideration any transaction costs) of the entire equity interests in the Target Company as a going concern business, was reasonably stated by the amount of **RENMINBI FOUR HUNDRED AND TWENTY EIGHT MILLION YUAN ONLY (RMB428,000,000).**

STATEMENTS

Our opinion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the reporting guidelines as contained in the IVS. The valuation has been undertaken by us, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of our report together with the data provided by the Instructing Party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Appraised Asset, the Target Company or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Executive Director

Contributing Valuer:
Ivan Chan Chun Ting *BSc*

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards and published by the International Valuation Standards Council which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for readers' identification purpose only and have no legal status or implication in this report. This report is prepared and signed off in English format, translation of this report in language other than English should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the date of this report. If additional documents and facts are made available, we reserve the right to amend this report and its conclusion.

17th Floor
Champion Building
287–291 Des Voeux Road Central
Hong Kong

30 March 2021

The Board of Directors
Kiu Hung International Holdings Limited
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with the recent instructions given to us by the present management of Kiu Hung International Holdings Limited (hereinafter referred to as the "**Instructing Party**"), we have conducted an agreed-upon procedures valuation of the possible market value of the entire equity interests of 湖北金草堂藥業有限公司 (translated as Hubei Jincaotang Pharmaceutical Co., Ltd., and hereinafter referred to as the "**Target Company**") as at 31 August 2019 (hereinafter referred to as the "**Valuation Date**") for the Instructing Party's internal management reference purpose.

We understand that the Instructing Party will refer our work product (in any form of presentation) as part of its preliminary business due diligence, and we have not been engaged to make specific sales or purchase recommendations. We further understand that the Instructing Party will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision with regards to the Target Company. It is agreed that our work is designed solely to provide information that will give a reference to the Instructing Party as part of its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party.

Our findings and conclusion in this agreed-upon procedures valuation are documented as follows:

INTRODUCTION

Business enterprise value is defined as the total value of a business. It comprises monetary assets (net working capital), tangible assets and intangible assets, thereby encompassing all assets of a business enterprise. In other words, the business enterprise value is also equal to the value of its invested capital — common equity, preferred stocks and long-term debts. While there is no universal definition of the term, it is the usual practice for a professional valuer, based on his professional knowledge and experience, to identify the definition for the intended valuation.

In this appraisal (the word appraisal has the same meaning of valuation in this report), we were instructed to analyse the subject business enterprise, i.e. the Target Company, and to express our opinion of the possible market value of the entire equity interests in the Target Company (hereinafter referred to as the "**Appraised Asset**"), as at the Valuation Date, on a going concern basis, and based on documents and information provided by the Instructing Party or the appointed personnel of Kiu Hung International Holdings Limited (hereinafter referred to as the "**Company**").

The term "Market Value" is defined by the International Valuation Standards (hereinafter referred to as the "**IVS**") and published by the International Valuation Standards Council as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We further assumed that, subject to the above definition, both the buyer and the seller contemplate the retention of the Target Company at its existing status for the continuation of the current operations as a going concern business, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

THE TARGET COMPANY'S PROFILE

As advised, on 11 September 2019, Fujian Green Forest Agricultural Technology Co., Ltd. (hereinafter referred to as the "**Purchaser**"), being a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Sheen World International Holdings Limited (hereinafter referred to as the "**Vendor**"), pursuant to which, among other things, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 51% equity interests in the Target Company, at the consideration of HK$170 million which shall be satisfied by the issue of convertible bonds by the Company to the Vendor (or its nominee) upon completion.

According to a business license with Uniform Social Credit Code* (統一社會信用代碼) No. 91420323316527095H dated 2 March 2018, the Target Company was established under the laws of the People's Republic of China (hereinafter referred to as the "**PRC**" or "**China**") with limited liability on 24 September 2014 with registered capital of RMB30,000,000. Its registered address is No. 20 Zongheng Avenue, Chengguan Town, Zhushan County (竹山縣城關鎮縱橫大道20號). The operating term of the Target Company is open without a definite period and its business scope was restricted to "promotion, sales and research and development on the plantation, cultivation, processing, of Chinese medicinal materials, tea, crops; promotion, sales and research and development on Chinese medicine, medical drugs, medical nutritional food, medical supplemental products; and operation and sales of alcoholic products" (translation).

According to the information available to us, the Target Company is owned as to (i) 51% by Mr. Lin Wei; and (ii) 49% by Mr. Guo Dong Li, an independent third party, as at 11 September 2019. The Target Company is principally engaged in the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products.

Production base of the Target Company is situated at Zhushan County, Shiyan City, Hubei Province, the PRC with forest lands with an aggregate total area of 8,757 Chinese mu with production plants and equipment constructed nearby. Since commencement of business in 2015 to the year ended 31 December 2018, product of the Target Company was solely anoectochilus formosanus (金線蓮). Due to the biological characteristics of anoectochilus formosanus, it is only suitable for planting from spring to summer times while harvesting and sale from autumn time.

In order to broaden product mix of the Target Company and to mitigate the business risk of over reliance on a single product with an aim to assist the local people's government of Zhushan County to drive the local economy and employment, the Target Company has been cooperating with the local people's government of Zhushan County and professional agricultural cooperatives and Chinese herbs companies in developing plantation techniques of other species of Chinese herbs as well as to expand and standardize Chinese herbs market since 2017. As a result of the cooperation with the local people's government of Zhushan County and other professional agricultural organizations, the Target Company has successfully developed plantation techniques of honeysuckle (金銀花), a Chinese herb suitable to cultivate and plant in autumn and winter times, in 2018 and has secured sale of honeysuckle products and other species of Chinese herbs with Sinopharm with a total contract sum of over RMB70 million. The Target Company expected delivery of these products could gradually start from the last quarter of 2019 which could contribute further income stream to the Target Company.

VALUATION PROCEDURES ADOPTED

In performing the appraisal, we have adopted the following procedures which were agreed with the Instructing Party before the engagement. They were:

- to read the supplied materials and based on the content of the materials such as product information, market condition, financial information and the scale of the going concern of business of the Target Company to arrive at our opinion. In the course of valuation, we will assume the information that contained in the materials is correct and we will not verify or ascertain the correctness of the information contained in the materials;

- to prepare and submit a list(s) of required document and information regarding to the operation of business of the Target Company during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the Instructing Party;

- to hold discussions with relevant personnel and to review various accounting and financial documents in order to understand the scope of their assets and their operations;

- to conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at our discretion;

- to value the Appraised Asset using the respective standards of value that is most appropriate; and

- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUE AND ASSUMPTIONS

The Appraised Asset is valued on the basis of "Market Value" in continued use or as a going concern. The continued use premise assumes that the Appraised Asset will be used for the purpose for which the Appraised Asset was conceived or is currently used. Implicit in this definition is the fact that a hypothetical willing and able buyer would not pay more to acquire the Appraised Asset than he could reasonably expect to earn in the future from an investment in the Appraised Asset.

1. the legally interested party in the Appraised Asset has free and uninterrupted rights to assign the Appraised Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums/ administrative costs payable have already been fully paid;

2. all the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report is based;

3. the legally interested party in the Appraised Asset has adequate working capital to operate the business of the Target Company from time to time;

4. the Appraised Asset can be sold in the market in its existing state without the benefit of a deferred terms contract, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Target Company;

5. the management of the Target Company has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as change of government policy and labour dispute) to the normal business of the Target Company; and

6. the Appraised Asset can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the reported findings and conclusion herein.

FACTORS CONSIDERED IN THE VALUATION

For the purpose of the engagement, the valuation of the Appraised Asset required consideration of a number of pertinent factors affecting the Target Company's ability to generate future investment returns. The factors considered in the valuation including, but were not limited to, the following:

- the nature of the Appraised Asset such as the remaining life and its characteristics;
- the nature and the going concern business of the Target Company;
- the quality of the Target Company's assets;
- the Target Company has sufficient working capital to perform its business;
- the capability and determination of the management of the Target Company to renew all the necessary licences, permits and approvals from time to time to make the business of the Target Company be on-going;
- the capability and determination of the management of the Target Company to maintain its existing clientele (the sales and distribution network) and its favourable working relationship with its distributors (the sales network);
- the capability and determination of the management of the Target Company to continue the existing marketing strategy to maintain and attract customers or potential customers;
- the capability and determination of the management of the Target Company to continue develop and construct its business;
- the capability and determination of the management of the Target Company to maintain its existing qualification and management standards and to review/up-lift its standards to catch the market needs from time to time;
- the capability and determination of the management of the Target Company to trade up-to-date products to catch the market needs;

- the capability and determination of the management of the Target Company to manage the production facilities to catch its business plan;
- the commitment of the management of the Target Company to protect the Appraised Asset against any disruption of the normal business of the Target Company;
- the commitment of the management of the Target Company to maintain a cost effective and stable supply chain of the products to distribute to the customers;
- the economic and industry data affecting the Target Company and the related in the relevant locality;
- market-derived investment returns in similar nature of entities; and
- the risks facing the Target Company and the Appraised Asset.

FINANCIAL RATIO ANALYSIS OF THE TARGET COMPANY

Financial statements outline the financial activities of a business, an individual or any other entity. Financial statements are meant to present the financial information of the entity in question as clearly and concisely as possible for both the entity and for readers. The three basic financial statements are (i) balance sheet, which summarises what a firm owns and owes at a point in time; (ii) income statement, which reports on how much a firm earned in a particular period; and (iii) statement of cash flows, which reports on cash inflows and outflows to the firm in a particular period.

Financial ratios express relationships between financial statements items. Although they provided historical data, management could use ratios to identify internal strengths and weaknesses, and to estimate future financial performance. There are four basic types of ratios to measure a company's performance, (i) liquidity; (ii) solvency; (iii) profitability; and (iv) efficiency.

Liquidity

The liquidity ratio is aimed to analyse a company's ability to pay off its short-term obligations. Common liquidity ratios include current ratio, quick ratio and operating cash flow ratio. Generally, the higher the ratio is, the larger the margin of safety that a company possesses to cover short-term debts.

	2017	**2018**	**2019**
Current Ratio*	0.59	0.96	1.53
Quick Ratio*	0.45	0.33	0.86
Operating Cash Flow Ratio*	0.36	0.03	(0.23)

* *current ratio is calculated as total current assets/total current liabilities*
quick ratio is calculated as (total current assets minus inventories)/total current liabilities
operating cash flow ratio is calculated as cash flow from operations/total current liabilities

Solvency

Solvency ratios indicate financial stability as they measure a company's debt relative to its assets and equity. Common solvency ratios consist of debt-to-asset and debt-to-equity. In our calculation of solvency ratios, debt is calculated as the sum of short-term borrowings and long-term borrowings. However, other than interest-bearing debts, a company may also have other obligations, such as payables and finance leases.

	2017	**2018**	**2019**
Debt-to-Asset Ratio*	0.15	0.12	0.19
Debt-to-Equity Ratio*	0.31	0.22	0.33

* *debt-to-asset ratio is calculated as (short-term borrowings plus long-term borrowings)/total assets*
debt-to-equity ratio is calculated as (short-term borrowings plus long-term borrowings)/book equity

Profitability

Profitability ratios indicate management's ability to convert sales dollars into profits and cash flows. Common ratios are gross margin, and net income margin.

	2017	**2018**	**2019**
Gross Margin*	28%	22%	30%
Net Margin*	21%	19%	29%

* *gross margin is calculated as (revenue minus cost of goods sold)/revenue*
net margin is calculated as net income/revenue

Efficiency

Efficiency ratios are typically used to analyse how well a company uses its assets internally. Common ratios include asset turnover, receivable turnover and inventory turnover. The higher the ratio, the more efficient a firm is operating.

	2018	**2019**
Asset Turnover*	0.62	0.75
Receivable Turnover*	3.60	3.04
Inventory Turnover*	2.46	1.82

* *asset turnover is calculated as revenue/average total assets*
receivable turnover is calculated as revenue/average accounts receivables
inventory turnover is calculated as cost of goods sold/average inventory

ESTABLISHMENT OF TITLES

For the purpose of this valuation, the Instructing Party was requested to provide us the necessary documents to support that the legally interested party in the Appraised Asset has free and uninterrupted rights to assign a part of or the whole of the Appraised Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the Instructing Party did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the Appraised Asset and the relevant rights to distribute and sell its products from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles and the rights to the Appraised Asset.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the Appraised Asset. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Appraised Asset valued. We take no responsibility for our misinterpretation of the documents.

In our valuation, we have assumed that the legally interested party in the Appraised Asset has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue the ownership in the Appraised Asset. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

APPROACH TO VALUE

In the process of valuation, we have considered the three generally accepted business enterprise appraisal approaches to value, namely, the Asset-based Approach, the Income Approach and the Market Approach.

The Asset-based Approach

The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collecting the total amount of money from equity and debt, and converting into various types of assets of the business enterprise for its operation, their sum equals to the value of the business enterprise.

From a valuation perspective, the valuer will restate the value of all types of assets of a business enterprise from book value i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business enterprise, or, by applying the accounting principle "assets minus liabilities" to arrive at the value of the equity interests of the business enterprise. The former is known as Asset Accumulation Method and the latter known as Adjusted Net Asset Method though they are identically the same. There is another method known as Excess Earning Method which is a collective valuation of all intangible assets as a group by capitalised returns over and above a reasonable rate of return on tangible assets and adding the capitalised value of intangibles plus the estimated value of tangible assets to become the value of a business enterprise. However, some practitioners prefer to classify this method as a hybrid method for it combines asset value with a capitalised earnings component.

Due to the facts that (i) the breakdown of the tangible assets and the existence of the intangible assets (if any) owned by the Target Company as at the Valuation Date were not available to us; and (ii) the Asset-based Approach does not take into account the profits-generating capabilities in the future, the Asset-based Approach is considered inappropriate in this valuation.

The Income Approach

The Income Approach focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying theory of this approach is that the value of a business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits. Alternatively, this can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate. The core idea under this approach is that a rational buyer normally will purchase an asset only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur at an amount equal to the economic benefits of the asset being valued.

Due to the high uncertainty of the future economic benefits of the Target Company, after discussion with the Instructing Party, we were given to understand that reliable financial projections may not be available and subject to subjective judgement and assumptions. As a result, we have not relied on the Income Approach to arrive at the value of the Appraised Asset.

The Market Approach

The Market Approach is basically a comparison method to value a business enterprise by comparing to the prices at which other similar business nature companies or interests changed hands in arm's-length transactions. The underlying theory of this approach is one would not pay more than one would have to pay for an equally desirable alternative. Therefore, the valuer will seek valuation guidance for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently. The right transactions used in analysing for valuation indication need to be sales on an arm's-length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell. Then, multiples (i.e. financial ratios) are derived based on those transactions to apply to the fundamental financial variables of the subject business enterprise and further arrive at an indicated value of the subject business enterprise. The most commonly used multiples are price-to-earnings ("**P/E**"), enterprise value-to-sales (or revenue) ("**EV/S**"), price-to-book ("**P/B**") and enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiple ("**EV/EBITDA**").

There are two methods of the Market Approach known as the Guideline Publicly Traded Company Method (by using similar company daily stock transaction prices) and the Guideline Merged and Acquired Company Method. Both methods need to rely on analysing available similar transacted comparables, and the big difference is on the structure of transactions — daily stock transaction prices in public market or mergers and acquisitions as occurred. In most cases, finding good market comparables is often difficult (particularly for those mergers and acquisitions) for there is no single marketplace where similar assets change hands between buyers and sellers, who are well informed and have no special motivations or compulsions to buy or to sell, are recorded.

To the best of our knowledge, we are not aware that there were any of transactions of similar companies to the Target Company around the Valuation Date. Under such circumstances, we have not relied on the Guideline Merged and Acquired Company Method in our estimate of the value of the Appraised Asset due to insufficient supporting data (market-based transactional information in this instance).

We, then, moved to the Guideline Publicly Traded Company Method. The use of this method is considered by the market as final arbiter of value for the prices of guideline publicly traded companies are easily available and observed, disregard direct or proxy, from the public domains or mass media or the local stock exchange as of the relevant date. There will have sufficient data for each guideline company to analysis for the statutory requirement of filings of accounting books and records to the regulators. Because of that, it is a method widely used by financial analysts, fund managers and investors to value a company in a developed economy.

Comparable companies were identified and sourced from Bloomberg based on the following selection criteria:

— The companies are domiciled in China and derive their revenues mainly from China;

— The companies are listed in Hong Kong or China;

— The companies are principally engaged in the provision of traditional Chinese medicines in the generic and specialty pharmaceuticals sector similar to the Target Company;

— The companies have sufficient listing and operating history;

— The financial and operating information of the companies is publicly available; and

— The forecasted earnings of the companies are available.

We noticed that there are several listed companies engaged in the provision of traditional Chinese medicine similar to the Target Company from the search, a brief description of their operations is listed as follows:

Company Ticker	**Description**
600252 CH	Guangxi Wuzhou Zhongheng Group Co., Ltd. is an investment holding company. Through its subsidiaries, the company manufactures Chinese medicine, develops real estate, undertakes infrastructure construction projects, and operates hotels.
600479 CH	Zhuzhou Qianjin Pharmaceutical Co., Ltd. develops and manufactures pharmaceutical products. The company's products include traditional Chinese medicines and healthcare products.
3737 HK	Zhongzhi Pharmaceutical Holdings Ltd is a pharmaceutical company that develops various drugs. The company focuses on developing new Chinese medicine and herbal medicines.
000705 CH	Zhejiang Zhenyuan Co., Ltd. wholesales and retails traditional Chinese medicines, Chinese medicine materials, chemical preparations, and healthcare products. Through its subsidiaries, the company also manufactures pharmaceuticals.
300181 CH	Zhejiang Jolly Pharmaceutical Company Limited develops, produces and sells Chinese medicine. The company's main products are Wuling powder and Wuling capsules.

Company Ticker	Description
600436 CH	Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. manufactures and markets traditional Chinese medicines, including Pientzehuang, Pientzehuang capsules, Pientzehuang lozenge, cough syrup, and other related products.
300147 CH	Xiangxue Pharmaceutical Co., Ltd. manufactures and distributes modern Chinese medicine products. The company produces Chinese herbal slices, antiviral oral liquids, healthcare supplements, and more. Xiangxue Pharmaceutical also conducts cold chain logistics and diagnosis businesses.
000590 CH	Tus-Guhan Group Corp., Ltd. operates as a pharmaceutical manufacturer. The company researches, produces, and sells Chinese medicine, dietary supplements, and western medicine. Tus-Guhan markets throughout China.
002826 CH	Tibet AIM Pharm. Inc. is a pharmaceutical company. The company researches, develops, manufactures, and sells Chinese medicines and drug substances. Tibet AIM Pharm serves customers throughout China.
002107 CH	Shandong Wohua Pharmaceutical Co., Ltd. mainly engages in the development, production and selling of Chinese herbal medicines for cardiocerebral diseases.
002118 CH	Jilin Zixin Pharmaceutical Industrial Co., Ltd. mainly engages in the development, production and selling of Chinese medicine for Cardio Cerebral blood vessel disease, digestion system disease and bone fracture. The company also plants herbs for making Chinese medicine.
600557 CH	Jiangsu Kanion Pharmaceutical Co., Ltd. manufactures and markets traditional Chinese pharmaceutical preparations and healthcare products. The company's products include capsules, electuaries, pills, and liquid medicines.
002412 CH	Hunan Hansen Pharmaceutical Co., Ltd develops, produces and sells gastroenterologic, bone-healing, cardiovascular, and cerebrovascular Chinese medicine. The company's products are in the form of syrup, capsule, and injection.

Company Ticker	Description
002390 CH	Guizhou Xinbang Pharmaceutical Co., Ltd develops drug products. The company develops and sells traditional Chinese medicine, Chinese patent medicine, biological medicine, and other related products. Guizhou Xinbang Pharmaceutical also manufactures and markets medical consumables and diagnostic reagents.
002275 CH	Guilin Sanjin Pharmaceutical Co Ltd is a pharmaceutical company. The company specializes in research and production of Traditional Chinese Medicine and natural medicines.
002198 CH	Guangdong Jiaying Pharmaceutical Co., Ltd. researches, manufactures and markets Chinese medicines.
2877 HK	China Shineway Pharmaceutical Group Limited develops, manufactures, and sells modern Chinese medicines in the People's Republic of China. The company also produces and sells a series of western pharmaceuticals.
000790 CH	Chengdu Huasun Technology Group Inc., Ltd. operates pharmaceutical industry. The company researches, produces, and sells Chinese and western medicines, and related substances. Chengdu Huasun Technology Group markets.
600085 CH	Beijing Tongrentang Co., Ltd. develops, manufactures, and markets traditional Chinese medicines and medicinal wines. The company also operates pharmaceutical retail businesses and provides consulting services.
1666 HK	Tong Ren Tang Technologies Co. Ltd. manufactures medical products. The company produces Chinese patent medicines, biological preparations, antibiotics, biochemical medicines, and other products. Tong Ren Tang Technologies also operates import and export businesses.
1681 HK	Consun Pharmaceutical Group Limited is a pharmaceutical company engaged in the research, manufacturing and sale of modern Chinese medicines and medical contrast medium in the People's Republic of China.

Source: Bloomberg

A multiple is more meaningful and representative if the profit on which it is based is indicative of future profit potential. Where this is not the case, either exceptional items should be excluded if using historical profits, or forecasted profits, rather than historical profits should be used. As the Chinese Herbs Business and the Decoction Business of the Target Company would be commenced in November 2019 (as advised), the historical profits were considered incapable of factoring in the future profit potential of the Chinese Herbs Business and the Decoction Business, which is forecasted to contribute majority of the revenue to the Target Company and achieve a significantly higher gross margin than the other existing segment of the Target Company. Therefore, the forward P/E multiple was considered more appropriate in the valuation of the Target Company using the Market Approach.

Based on the above, the forward P/E multiple has been adopted. This forward-looking measure can factor in the procurement agreements and supplemental agreements that were entered by the Target Company and, the Target Company's recent participation in the Chinese Herbs Business and the Decoction Business. Thus, it is more indicative of future profit potential of the Target Company. The rationale behind the use of forward multiples is that companies are more comparable in nature when they have reached a more mature phase. According to the financial projections of the Target Company, starting from the 2nd year after the Valuation Date, the revenues and net profits of the Target Company are forecasted to increase by approximately 2.7% per annum, which is based on the year-on-year change in China's consumer price index in September 2019, a main gauge of inflation (source: xinhuanet.com). As such, the forecasted profit in next 12 months was considered to be sufficiently normalized and stable.

The P/E multiple considers the cost structure as well as profitability of a company, which are considered primary indicators affecting the value of a company. It is a common valuation method for the assessment of the value of companies with profitable businesses. Capturing all operating variations between companies, it is effective for companies in the same sector. Generally, both historical and forecasted earnings are more easily available. This multiple is more suitable to apply when earnings are representative of future earnings and the trend in those earnings.

Comparable companies with available forecasted earnings sourced from Bloomberg are shown as follows.

Company (Stock code)	**Forward P/E Ratio As at 31 August 2019**
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. (600436 CH)	35.9
Jiangsu Kanion Pharmaceutical Co., Ltd. (600557 CH)	17.1
Hunan Hansen Pharmaceutical Co., Ltd (002412 CH)	24.3
China Shineway Pharmaceutical Group Limited (2877 HK)	9.1
Beijing Tongrentang Co., Ltd. (600085 CH)	30.9
Tong Ren Tang Technologies Co. Ltd. (1666 HK)	14.8
Consun Pharmaceutical Group Limited (1681 HK)	6.0

Source: Bloomberg

Comparable Companies	Forward P/E ratio before size adjustment	Forward P/E ratio after size adjustment	Outlier
600436 CH	35.9	13.9	Yes
600557 CH	17.1	10.5	No
002412 CH	24.3	14.6	Yes
2877 HK	9.1	6.9	Yes
600085 CH	30.9	13.1	No
1666 HK	14.8	9.6	No
1681 HK	6.0	5.1	Yes
Average P/E (after excluding outliers):		11.10	

After adjustments on size and exclusion of outliers with more extreme deviation from the mean multiple, market ratio adopted is as follows,

P/E	11.10

For the purpose of valuation, the Instructing Party was requested to provide financial projections of the Target Company to us for the 1-year period from September 2019 to August 2020. The provided projections of the Target Company are listed as follows:

	Contribution by Segment	For the year ended 31 August 2020 *RMB'000*
Total Revenue	**100%**	**90,991**
Anoectochilus Formosanus Business	28%	25,154
Chinese Herbs Business	5%	4,613
Decoction Business	67%	61,225
Total Cost of Sales		**(48,687)**
Anoectochilus Formosanus Business		(20,046)
Chinese Herbs Business		(4,151)
Decoction Business		(24,490)
Gross Profit		**42,304**
Selling Expenses		(226)
Administrative Expenses		(5,857)
Profits Before Tax		**36,220**
Income Tax Expenses		(5,002)
Net Profit		**31,218**

According to the financial projections of the Target Company provided to us, the key assumptions adopted by the Instructing Party in arriving at the estimated revenues and costs from September 2019 to August 2020 are set out below.

1. *Forecasted Revenues*

- The forecasted revenues of the Target Company are derived from the Anoectochilus Formosanus Business, the Chinese Herbs Business and the Decoction Business;
- The Target Company keeps its existing scale of the Anoectochilus Formosanus Business with moderate growth;
- The Anoectochilus Formosanus Business is subject to seasonal effect;
- The Chinese Herbs Business and the Decoction Business commence in November 2019; and
- The forecasted revenues of the Chinese Herbs Business and Decoction Business were projected based on the terms of the Procurement Agreement (as supplemented by the Supplemental Procurement Agreement(s)) including the selling price, quantities and monthly procurement schedule of the contracted products.

2. *Forecasted Cost of Sales*

- The forecasted cost of sales of the Anoectochilus Formosanus Business included raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense;
- The forecasted cost of sales of the Anoectochilus Formosanus Business was estimated with reference to the historical cost of sales of the Target Company as the Target Company targeted to keep its existing scale of the Anoectochilus Formosanus Business without significant expansion;
- The forecasted cost of sales of the Chinese Herbs Business and the Decoction Business included raw material cost, labour cost, utility expenses and equipment depreciation, and repair and maintenance expense with raw material cost accounting for majority of the cost;
- The forecasted raw material cost of the Chinese Herbs Business and the Decoction Business were estimated based on negotiation result among the Target Company, the local government and the farmers on the purchase price of the raw Chinese herbs, with reference to the redhead letter issued by Yishui Town People's Government on 8 January 2020 (as advised) which has set out poverty protection purchase price for the Chinese herbs with at most 3% annual adjustment on the price;

- The forecasted cost of sales to revenue ratio of the Anoectochilus Formosanus Business was estimated to be approximately 80%;

- The forecasted cost of sales to revenue ratio of the Chinese Herbs Business was estimated to be approximately 90%;

- The forecasted cost of sales to revenue ratio of the Decoction Business was estimated to be approximately 40% as the selling prices of Chinese herbs decoction pieces are generally higher than the Chinese herbs products due to the more complicated processing procedure, while the unit purchase costs of raw root type Chinese herbs, being the raw material for the Decoction Business are much cheaper than raw leaf type Chinese herbs, being the raw material for the Chinese Herbs Business; and

- The overall forecasted cost of sales to revenue ratio was estimated to be approximately 53.5%.

3. *Forecasted Selling Expenses*

- The forecasted selling expenses mainly comprised marketing expense, packaging and sales commission; and

- The forecasted selling expenses were estimated with reference to the historical selling expenses to revenue ratio of approximately 0.25%.

4. *Forecasted Administrative Expenses*

- The forecasted administrative expenses mainly comprised staff remuneration, office expenses, office utility expenses, research and development expenses, car rental, depreciation and amortization;

- The forecasted administrative expenses did not include rental expenses as the office and plant currently used by the Target Company was provided by the local government of Zhushan County without consideration; and

- The forecasted administrative expenses were estimated with reference to the historical administrative expenses (excluding depreciation and amortization) to revenue ratio of approximately 5.6% plus depreciation and amortization in accordance with such schedules.

5. *Forecasted Income Tax Expenses*

- No taxation is provided for the Anoetochilus Formosanus Business in the financial projections since the income from the Anoetochilus Formosanus Business is in line with the scope of corporate income tax exemption and can enjoy the corresponding preferential policies; and

- A lower profit tax rate of 15% is provided for the Chinese Herbs Business and the Decoction Business since the Target Company received a High-tech Enterprise Certificate (高新技術企業證書).

The projections of the future earnings adopted in this valuation are mainly based on the information as provided by the Instructing Party or the appointed personnel of the Company, and they are responsible for the assumptions upon which the projections are based. We were given to understand that the assumptions adopted by them reflected their judgment of the ability for future operation.

Based on the forecasted trailing 12-month financials of the Target Company provided by the Instructing Party or the appointed personnel of the Company, the equity value, by arithmetically multiplying the adopted forward P/E ratio with the forecasted net profit of the Target Company in the coming 12 months from September 2019 to August 2020, can be derived as follows,

(in RMB'000)

Ratio	Forecasted Net Profit for the year ended 30 August 2020 (A)	Ratio (B)	Equity Value* (C)=(A)x(B)
P/E	RMB31,218	11.10	RMB346,551
	(D) DLOM (to be detailed in later section):		31%
	(E) Control Premium (to be detailed in later section):		27%
	(C)x(1–(D))x(1+(E)) Indicated Value of the Appraised Asset:		RMB302,487

* *The figures may not add to total and may be different from the actual worksheet due to rounding*

VALUATION COMMENTS

The Target Company is a private company, and by definition, ownership interests in closely held companies are typically not readily marketable, and not as liquid and as easily converted to cash compared to similar interests in the public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. In this valuation, we opted to apply a discount on lack of marketability ("**DLOM**") of 31% with reference to the 2019 edition of the Mergerstat Review.

According to the information available to us, the Mergerstat Review was published by Factset Mergerstat LLC ("**Factset Mergerstat**"), an information provider providing merger and acquisition ("**M&A**") information for the local, regional, national, and international financial news media, and offering daily M&A transaction data, in-depth historical deal information, and trend analysis for various M&A market sectors and industries. Factset Mergerstat engages in publishing annual, monthly, and weekly M&A publications, and provides M&A and private equity information through its online database. Factset Mergerstat compiles statistics on publicly announced mergers, acquisitions and divestitures involving operating entities. Factset Mergerstat has tracked these statistics and published its findings for over 45 years. The 2019 edition marks the 37th publication of Mergerstat Review. Transaction information is gathered throughout each day using a variety of electronic and print sources. The Mergerstat Review includes formal transfers of ownership of at least 5% of a company's equity and where at least one of the parties is a United States entity.

The Mergerstat Review computes the price offered as a multiple of the acquired company's earnings ("**P/E**") when both the price and the earnings are disclosed. Factset Mergerstat excludes negative P/E multiples and P/E multiples larger than 100. The median P/Es offered for public companies and private companies from 2009 to 2018 was studied in the Mergerstat Review 2019 edition. Over the last 10 years, the median P/Es offered for public companies ranged from 19.5 to 26.7 while the median P/Es offered for private companies ranged from 12.5 to 19.7 over the same period. A total of 1,750 and 526 acquisitions of public and private companies from 2009 to 2018 were examined respectively in the Mergerstat Review 2019 edition. The DLOM was the percentage difference between the median P/Es offered for public companies and private companies. Therefore, the use of the average discount on the median P/Es offered for private companies compared with public companies as the DLOM was considered fair and reasonable for the valuation of the Target Company.

When applying the Guideline Publicly Traded Company Method under the Market Approach, the share prices of the selected comparable companies are deemed to be non-controlling interest. A controlling ownership interest is typically more valuable than a pro-rata share of a minority interest. This is because the minority owner does not have control over important business decisions like declaring dividends, determining compensation, setting policies and deciding to sell or liquidate. In this Market Approach valuation, we opted to apply a control premium in estimating the value of the entire equity interests in the Target Company as at the Valuation Date.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Asset. Unless otherwise stated, it is assumed that the Appraised Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In our valuation, we have assumed that the Appraised Asset is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the date of this report, we are unable to identify any adverse news against the Appraised Asset or each of the operating unit of the Target Company which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Asset. However, should it be established subsequently that such news did exist as at the Valuation Date, we reserve the right to adjust the value reported herein.

INSPECTIONS AND INVESTIGATIONS

At the representation of the personnel appointed by the Target Company, we conducted a limited scope of company visit to the Target Company in August 2019 in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Target Company's assets or premises which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the Target Company's assets inspected. We are not, however, able to report that the inspected assets of the Target Company are free from rot, insect, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the premises that occupied by the Target Company, and that the inspection and the use of our report do not purport to be a building or conditional survey of the Target Company's assets or premises. We have assumed that the premises are free of rot and inherent danger or unsuitable materials and techniques.

If there is a third party other than the legally interested party proposing to acquire the Appraised Asset and wants to satisfy them that the going concern business of the Target Company, if successful, then the third party should obtain a relevant surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas or specifications of the Target Company's assets or premises, but have assumed that the areas and specifications shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures did not include an independent land survey to verify the legal boundaries of the Target Company's assets or premises. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Target Company's assets or premises that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Target Company's assets or premises which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the premises. We have not carried out any investigation into past or present uses, either of the premises or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the premises from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the premises or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of valuing the Appraised Asset, we were furnished with various latest financial documents, and other documents related to the Target Company. These data have been utilised without further verification like an auditor. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility or liability is assumed for the accuracy of the provided information.

We have relied solely on the information provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, easements, financial data, corporation status, business scope, assets and all other relevant matters.

We are not contracted to conduct a due diligence to review the Chinese medicine industry. In the course of appraisal, we have solely depended on the advice given by the Instructing Party. We are unable to accept any responsibility or liability for the reliability of the advice.

Our procedures to value did not include preparing an error free asset list for the purpose of our valuation. In our valuation, we were instructed to rely on the information as contained in the documents provided by the Instructing Party or its appointed personnel, thus, we expressed no comment to the existence and the functional ability of the assets. No responsibility or liability is assumed from our part.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other named or unnamed professionals, external data providers and/or the Instructing Party in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applied in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party. We have sought and received confirmation from the Instructing Party that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the appraisal.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("**RMB**").

LIMITING CONDITIONS

This report is provided strictly for the sole use of the Instructing Party. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Unless otherwise stated, the copyright of this report belongs to us. Nonetheless, we consent to the publication of the report in this document for the Company's shareholders' reading.

Our opinion of value in this report is valid only for the stated purpose at the Valuation Date. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Instructing Party and the Company are required to indemnify and hold us harmless and our personnel from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the investigation, analysis, reasoning and data outlined as above, and on the valuation method employed, it is our opinion that as at the Valuation Date, the possible market value (before taking into consideration any transaction costs) of the entire equity interests in the Target Company as a going concern business, was reasonably stated by the amount of **RENMINBI THREE HUNDRED AND TWO MILLION YUAN ONLY (RMB302,000,000).**

STATEMENTS

Our opinion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the reporting guidelines as contained in the IVS. The valuation has been undertaken by us, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of our report together with the data provided by the Instructing Party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Appraised Asset, the Target Company or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Executive Director

Contributing Valuer:
Ivan Chan Chun Ting *BSc*

A. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the full text of the report from Prism CPA Limited, for the purpose of, among other things, incorporation into this circular.

The Board of Directors
Kiu Hung International Holdings Limited
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

Dear Sirs,

INDEPENDENT ASSURANCE REPORT

We have examined the accounting policies adopted and calculations of the underlying profit forecast (the "**Underlying Forecast**") to the business valuation dated 30 March 2021 prepared by LCH (Asia-Pacific) Surveyors Limited (the "**Valuer**") in respect of the valuation on Hubei Jincaotang Pharmaceutical Co., Ltd.* (湖北金草堂藥業有限公司) (the "**Target Company**") in connection with the proposed acquisition of 51% equity interest in the Target Company by Kiu Hung International Holdings Limited, (the "**Company**") as of 30 June 2020 as set out in Appendix V of the circular of the Company dated 30 March 2021 (the "**Circular").**

Directors' Responsibilities

The directors of the Company and the Target Company (the "**Directors**") are solely responsible for the preparation of the Underlying Forecast including the bases and assumptions, for the purpose of business valuation of the Target Companies based on discounted cash flow method. The Underlying Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**") that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the Assumptions.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants, ("**HKICPA**") which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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, based on our work on the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion on the reasonableness and validity of the Assumptions on which the Underlying Forecast is based. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) (''**HKSAE 3000 (Revised)**'') ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' and with reference to the procedures specified in Hong Kong Standard on Investment Circular Reporting Engagements 500 Reporting on Profit Forecast, Statements of Sufficiency of Working Capital and Statements of Indebtedness issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Underlying Forecast. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to assist the Directors solely in evaluating whether the Underlying Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Company.

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

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Underlying Forecast has been property compiled in accordance with the Assumptions adopted by the Directors as set out in Appendix V of the Circular and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,

Prism CPA Limited
Certified Public Accountants
Lee Kwok Lun
Practising Certificate Number: P06294

Hong Kong
30 March 2021

B. LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

The following is the full text of the letter from Chanceton Capital Partners Limited, for the purpose of, among other things, incorporation into this circular.

川盟融資有限公司
Chanceton Capital Partners Limited

Flat C, 16/F., MG Tower,
133 Hoi Bun Road, Kwun Tong,
Kowloon, Hong Kong

The board of directors (the "**Directors**") of
Kiu Hung International Holdings Limited
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

30 March 2021

Dear Sirs,

We refer to the valuation of Hubei Jincaotang Pharmaceutical Co., Ltd (the "**Target Company)** as at 30 June 2020 (the"**Updated Valuation**") prepared by LCH (Asia-Pacific) Surveyors Limited (the "**Independent Valuer**") in relation to the proposed acquisition of 51% equity interests in the Target Company. The Updated Valuation is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have reviewed the forecasts upon which the Updated Valuation has been made and have discussed with the management of the Company and the Independent Valuer the information and documents provided by the management of the Company which formed part of the basis and assumptions upon which the profit forecasts have been prepared. We have also considered the report from Prism CPA Limited dated 30 March 2021 as set out in Appendix VII regarding the calculations upon which the profit forecasts have been made. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the Target Company may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Independent Valuer on the Updated Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the profit forecast upon which the Updated Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,

For and on behalf of
Chanceton Capital Partners Limited

Wong Kam Wah
Managing Director

C. LETTER FROM BISON CORPORATE FINANCE LIMITED

The following is the full text of the letter from Bison Corporate Finance Limited, for the purpose of, among other things, incorporation into this circular.

Bison
Bison Corporate Finance Limited

Room 602, 6/F, 18 King Wah Road,
North Point, Hong Kong

The board of directors (the "**Directors**") of
Kiu Hung International Holdings Limited
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

30 March 2021

Dear Sirs,

We refer to the valuation of Hubei Jincaotang Pharmaceutical Co., Ltd (the "**Target Company**") as at 30 June 2020 (the"**Updated Valuation**") prepared by LCH (Asia-Pacific) Surveyors Limited (the "**Independent Valuer**") in relation to the proposed acquisition of 51% equity interests in the Target Company. The Updated Valuation is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have reviewed the forecasts upon which the Updated Valuation has been made and have discussed with the management of the Company and the Independent Valuer the information and documents provided by the management of the Company which formed part of the basis and assumptions upon which the profit forecasts have been prepared. We have also considered the report from Prism CPA Limited dated 30 March 2021 as set out in Appendix VII regarding the calculations upon which the profit forecasts have been made. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the Target Company may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Independent Valuer on the Updated Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the profit forecast upon which the Updated Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,

For and on behalf of
Bison Corporate Finance Limited

Cheung Shun Lim, Ignatius
Director

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the increase of authorised share capital, allotment and issue of the Conversion Shares will be, as follows:

		HK$
Authorised share capital:		
198,605,703,079	Shares as at the Latest Practicable Date	1,986,057,030.79
Issued and fully paid or credited as fully paid:		
761,419,079	Shares as at the Latest Practicable Date	7,614,190.79
Shares to be issued:		
85,000,000	Conversion Shares to be issued	850,000
Total Shares issued and to be issued:		
846,419,079	Shares	8,464,190.79

The nominal value of the Shares and the Conversion Shares is HK$0.01 each and rank *pari passu*.

3. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Name of Director	Number of Shares (long position)	Interest of controlled corporation	Nature of interest Interest of child under 18 or spouse	Beneficial owner	Percentage of total issued share capital as at Latest Practicable Date
Mr. Zhang Qijun	33,500	—	—	—	0.01%
Mr. Liu Mingqing	5,600,000	—	—	—	0.74
Mr. Cheng Ho On	8,500	—	—	—	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or a proposed Director is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares 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.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or proposed Directors or experts (as named below) has, or had, any direct or indirect interest in any assets which had been or are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2019, the date to which the latest published audited financial statements of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

6. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

Name	Qualification
Prism CPA Limited	Certified public accountants
LCH (Asia-Pacific) Surveyors Limited	Professional surveyors
Chanceton Capital Partners Limited	Joint Financial Advisers
Bison Corporate Finance Limited	Joint Financial Advisers

At the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, direct or indirect, in any member of the Group or any right or option, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any interest, either direct or indirect, in any assets which have been, since 31 December 2019, 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 Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Group within the two years immediately preceding the date of this circular and are or may be material:

i. A deed of settlement dated 29 April 2019 entered into between the Company, Mr. Yu Won Kong, Dennis and Mr. Guo Jingsheng in relation to allot and issue 80,000,000 shares at issue price of HK$0.1 per share as partial repayment of the debt of HK$17,600,000. Further details of the deed of settlement were set out in the announcement of the Company dated 29 April 2019.

ii. A memorandum of understanding dated 20 May 2019 entered into between the Company and Benchmark Business School Management (Guangzhou) Co., Ltd.* (標杆商學院管理(廣州有限公司) in relation to the possible sales agency cooperation. Further details of the memorandum of understanding were set out in the announcements of the Company dated 20 May 2019.

iii. Supply agreements dated 3 June 2019 entered into between the Fujian Kiu Hung Wine Co., Ltd.* (福建僑興酒業有限公司), a wholly-owned subsidiary of the Company, Shenyang Jie Ou Sen Trading Co., Ltd.* and Jiangxi An Fa Da Wine Co., Ltd.* in relation to the supply of juice and drinking wine products involving allotment and issue of new shares under general mandate. Further details of the supply agreements were set out in the announcement of the Company dated 3 June 2019.

iv. A memorandum of understanding dated 13 June 2019 entered into between the Company and Sichuan Longli Mining Investment Co., Ltd* (四川龍力礦業投資有限公司) in relation to the possible acquisition. Further details of the memorandum of understanding were set out in the announcements of the Company dated 13 June 2019.

v. Supplemental agreements dated 18 July 2019 entered into between Fujian Kiu Hung Wine Co., Ltd.* (福建僑興酒業有限公司), a wholly-owned subsidiary of the Company, Shenyang Jie Ou Sen Trading Co., Ltd.* and Jiangxi An Fa Da Wine Co., Ltd.* in aspects of the amendments of certain terms of the agreement in relation to the supply of juice and drinking wine products involving allotment and issue of new shares under general mandate. Further details of the supplemental agreements were set out in the announcement of the Company dated 18 July 2019.

vi. A placing agreement dated 25 July 2019 entered into between the Company and Shun Loong Securities Company Limited in relation to the placing of bonds with principal amount of HK$500,000,000. Further details of the placing agreement were set out in the announcement of the Company dated 25 July 2019.

vii. A deed of settlement dated 5 August 2019 entered into between the Company and the subscribers in relation to allot and issue shares at issue price of HK$0.06 per share as full and final settlement of the debt in the sum of HK$5,680,200. Further details of the deed of settlement were set out in the announcement of the Company dated 5 August 2019.

viii. A subscription agreement dated 6 August 2019 entered into between the Company and Zhongguancun Private Equity & Venture Capital Association* (中關村股權投資協會) in relation to the subscription of bonds with an aggregate principal amount of HK$500,000,000. Further details of the subscription agreement were set out in the announcement of the Company dated 7 August 2019.

ix. A subscription agreement dated 11 October 2019 entered into between the Company and Guangdong Wangzu Green Residential Industry Limited* (廣東旺族綠色住宅工業有限公司) in relation to the subscription of bonds with an aggregate principal amount of HK$500,000,000. Further details of the subscription agreement were set out in the announcement of the Company dated 11 October 2019.

x. A memorandum of understanding dated 16 October 2019 entered into between the Company and Yunnan Dechang Trading Limited* (雲南德昌貿易有限公司) in relation to the possible acquisition. Further details of the memorandum of understanding were set out in the announcements of the Company dated 16 October 2019.

xi. A deed of settlement dated 14 January 2020 entered into between the Company, Ms. Lin Meiling and Green Luxuriant Group Investment Limited in relation to allot and issue shares at issue price of HK$0.1 per share as full and final settlement of the outstanding consideration in the sum of HK$30,000,000. Further details of the deed of settlement were set out in the announcement of the Company dated 14 January 2020.

xii. A memorandum of understanding dated 10 March 2020 entered into between the Company and Beijing Zhongjun Financial Holdings Zhiyuan Technology Development Partnership (Limited Partnership)* (北京中軍金控致遠科技發展合夥企業(有限合夥)) in relation to the possible acquisition. Further details of the memorandum of understanding were set out in the announcements of the Company dated 10 March 2020.

xiii. A memorandum of understanding dated 15 July 2020 entered into between the Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司) (a wholly owned subsidiary of the Company) and Dr. Wu Congxiao in relation to the possible establishment of a joint venture in the PRC to engage in 5G date energy storage, new energy products and other related businesses. Further details of the memorandum of understanding were set out in the announcements of the Company dated 15 July 2020.

xiv. A memorandum of understanding dated 22 July 2020 entered into between the Sichuan Kiu Hung Property Co., Ltd.* (四川僑雄置業有限公司) (a wholly owned subsidiary of the Company) and Sichuan Liaofan Chuanghang Technology Co., Ltd.* in relation to the possible establishment of a joint venture in the PRC. Further details of the memorandum of understanding were set out in the announcements of the Company dated 22 July 2020.

xv. A memorandum of understanding dated 29 July 2020 entered into between the Company and China Commerce Huaxia Asset Management CO., Ltd.* (中商華夏資產管理有限公司) in relation to the possible acquisition. Further details of the memorandum of understanding were set out in the announcements of the Company dated 29 July 2020.

xvi. A placing agreement dated 22 September 2020 entered into between the Company and CNI Securities Group Limited in relation to the placing of up to a maximum of 101,900,000 new Shares at HK$0.2 per Share under general mandate. Further details of the placing agreement were set out in the announcement of the Company dated 22 September 2020.

xvii. A placing agreement dated 22 October 2020 entered into between the Company and CNI Securities Group Limited in relation to the placing of up to a maximum of 150,000,000 new Shares at HK$0.2 per Share under specific mandate. Further details of the placing agreement were set out in the announcement of the Company dated 22 October 2020.

xviii. A subscription agreement dated 3 November 2020 entered into between the Company and the creditors in relation to allot and issue shares at issue price of HK$0.267 per share and settlement of the debt in the sum of HK$81,878,075.5. Further details of the debt capitalisation were set out in the announcement of the Company dated 3 November 2020.

xix. An acquisition framework agreement dated 4 November 2020 entered into between the Fujian Green Forest Agricultural Technology Co., Ltd., (a wholly owned subsidiary of the Company) and Ms. Zhang Li in relation to the possible acquisition. Further details of the acquisition framework agreement were set out in the announcements of the Company dated 4 November 2020.

xx. A supplemental subscription agreement dated 22 January 2021 entered into between the Company and the Mr. Wong Pui Wang Jefferson, Mr. Chen Blinglin, Mr. Ou Zhu in relation to allot and issue shares at issue price of HK$0.267 per share and further settlement of outstanding debt. Further details of the debt capitalisation were set out in the announcement of the Company dated 22 January 2021.

xxi. A memorandum of understanding dated 10 March 2021 entered into between the Company and Ms. Zhao Jing, Mr. Hou Yunde, Mr. Li Zhengjun and Mr. Ge Jigan in relation to the possible connect transaction. Further details of the memorandum of understanding were set out in the announcements of the Company dated 10 March 2021.

xxii. A memorandum of understanding dated 21 March 2021 entered into between the Company and Mr. Tian Xinwen and Mr. Hou Junming in relation to the possible acquisition. Further details of the memorandum of understanding were set out in the announcements of the Company dated 21 March 2021.

xxiii. The Sale and Purchase Agreement

xxiv. The Supplemental Agreement.

xxv. The Second Supplemental Agreement.

xxvi. The Third Supplemental Agreement.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associate(s) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

9. LITIGATION

As at the Latest Practicable Date, the litigation or claims against the members of the Group are as follows:

(a) Chow Lai Wah Livia

Pursuant to a loan agreement dated 26 November 2018 entered into between Chow Lai Wah Livia ("**Ms. Chow**") as lender and the Company as borrower, Ms. Chow agreed to lend to the Company an amount of HK$20,000,000 for a term until 1 December 2019.

On 12 September 2019 and 10 October 2019, the Company received from Ms. Chow a writ of summons and a statement of claim issued by the High Court, respectively, against the Company as borrower for the outstanding amount of borrowing of HK$20,000,000 and interest rate of 1.25% per month from 27 May 2019 until payment. On 8 December 2019, the Company filed a defence and counterclaim to the High Court.

On 12 May 2020, the Company received a writ of summons from Ms. Chow issued by the High Court demanding an order that on favor of her amended statement of claim with interest and the Company's counterclaim be struck out.

On 10 August 2020, this case was adjourned to 25 January 2021 after the hearing at the High Court.

On 25 January 2021, a judgement of high court had been granted for settlement of the debt by the Company for the outstanding amount of borrowing including interests of approximately HK$25,440,000. As at the Latest Practicable Date, the Company is negotiating settlement terms with Ms. Chow.

(b) Guo Jingsheng

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo Jingsheng ("**Mr. Guo**") a writ of summons and an indorsement of claim issued by the High Court, respectively, against the Company as borrower and the director of the Company as guarantor for the outstanding amount of borrowing including interests of approximately HK$13,921,000.

A deed of settlement was made between the Company, the director of the Company and Mr. Guo on 29 April 2019. Pursuant to the deed of settlement, the Company would issue 80,000,000 ordinary shares of the Company at HK$0.10 per share for the settlement of HK$8,000,000 as partial settlement of Mr. Guo's debt of approximately HK$17,600,000 as at 29 April 2019. The deed of settlement contains a buy-back clause for the shares by the Company should the quoted market price of the Company's shares fail to reach at least HK$0.10 per share within one year from the date of issue of the shares. The Company issued and allotted the shares to Mr. Guo on 21 May 2019. On 15 May 2020, the Company received a writ of summons from Mr. Guo demanding an order that the Company buy back the shares from Mr. Guo.

As at the Latest Practicable Date, the Company is liaising with Mr. Guo about the buy-back of the shares and the outstanding amount of borrowings of approximately HK$10,000,000, which is included in accruals and other payables as at the Latest Practicable Date.

(c) Everbright Centre

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Everbright Centre Company Limited ("**Everbright Centre**") (formerly known as Wing Siu Company Limited) as landlord and Super Dragon Management Limited ("**Super Dragon**"), a wholly-owned subsidiary of the Company, as tenant, and the Company as guarantor to Super Dragon, for a lease of premises for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from Everbright Centre a writ of summons issued by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region with an indorsement of claim against Super Dragon and the Company jointly for (i) vacant possession of the premises; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property; (iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

On 29 January 2021, the Company and Everbright Centre reached a consensus on the repayment schedule. The repayment schedule is that the Company will start to repay the outstanding amount in five monthly installments from January 2021.

The Company vacated from the premises in the third quarter of 2017 and has settled part of the amount claimed above. As at the Latest Practicable Date, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK$3,964,716 which is included in accruals and other payables.

(d) Cheung Kai Fung

On 17 April 2019, a former employee of the Company commenced proceedings in the Labour Tribunal of Hong Kong against the Company for claiming a total amount of approximately HK$2,354,000 on a number of grounds, including failure to pay salaries and annual leave etc.

Pursuant to the Orders of the Labour Tribunal dated 17 April 2019 and 17 January 2020, the Company was ordered to pay the former employee for all the claims stated above in full.

On 18 December 2020, the Company has settled in full the amount claimed by Mr. Cheung.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

10. GENERAL

(a) The registered office of the Company is located at Continental Buildings, 3rd floor, 25 Church Street, Hamilton HM12, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is located at flat E, 20th floor, Lucky Plaza, 315–321 Lockhart Road, Wan Chai, Hong Kong.

(c) As at the Latest Practicable Date, the Board comprises three executive Directors, Mr. Zhang Qijun, Mr. Chen Jian and Mr. Liu Mingqing and five independent non-executive Directors, Mr. Wang Xiao Ning, Mr. Cheng Ho On, Mr. Kong Chun Wing, Mr. Lai Chi Yin Samuel, and Ms. Chen Yuxin.

(d) The company secretary of the Company is Mr. Tam Tsz Ming, who is a member of Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants in England and Wales.

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

(f) The English text of this circular and the accompanying form of proxy shall prevail over their respective texts in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal office in Hong Kong during the normal business hours on business days from the date of this circular up to and including the date of SGM:

(a) the Bye-laws of the Company;

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

(c) the material contracts referred to in section 7 headed "Material contracts" in this appendix;

(d) the annual reports of the Company for each of the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019;

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

(f) the written consents given by the experts referred to in section 6 of this appendix;

(g) the Valuation Report, the text of which is set out in Appendix VI to this circular;

(h) the Updated Valuation Report, the text of which is set out in Appendix V to this circular; and

(i) this circular and a copy of each circular issued pursuant to the requirements set out in Chapters 14 of the Listing Rules which has been issued since the date of the latest published audited accounts.

Kiu Hung International Holdings Limited
僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

NOTICE IS HEREBY GIVEN that an special general meeting (the "**Special General Meeting**") of Kiu Hung International Holdings Limited (the "**Company**") will be held at Harbour Plaza Room I, B1/F, Harbour Plaza, North Point, 665 King's Road, North Point, Hong Kong on Monday, 19 April 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution to be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Sale and Purchase Agreement dated 11 September 2019 (the "**Sale and Purchase Agreement**"), the supplemental agreement dated 20 July 2020 (the "**Supplemental Agreement**") the second supplemental agreement dated 23 March 2021 (the "**Second Supplemental Agreement**") and the third supplemental agreement dated 25 March 2021 (the "**Third Supplemental Agreement**") entered into between Sheen World International Holding Limited (the "**Vendor**"), Mr. Lin Wei (the "**Guarantor**") and Fujian Green Forest Agricultural Technology Co., Ltd. (the "**Purchaser**") in relation to the acquisition of 51% equity interests in Hubei Jincaotang Pharmaceutical Co., Ltd. (the "**Target Company**") at an aggregate consideration of HK$170,000,000 (the "**Consideration**"), which shall be satisfied by the allotment and issue of the convertible bonds with an aggregate principal amount of HK$170,000,000 (the "**Convertible Bonds**") by the Company to the Vendor (or its nominee), at the conversion price of HK$2 per conversion share of the convertible bonds, and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified (copies of the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement have been tabled at the Special General Meeting for the purpose of identification);

(b) Subject to the approval of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the listing of, and permission to deal in, the Conversion Shares (as defined in the circular issued by the Company on 30 March 2021), a specific mandate (the "**Specific Mandate**") be and is hereby granted to the board of directors of the Company (the "**Directors**") to issue the and allot the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds at conversion price of HK$2 per Conversion Shares (subject to adjustment pursuant to the terms and conditions of the Convertible Bonds), on and subject to the terms and conditions of the Convertible Bonds, provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

(c) any one of the Directors be and is hereby authorised to do all such further acts and things and sign, agree, ratify and/or execute all such further documents or instruments under hand (or where required, under the common seal of the Company together with such other Director or person authorised by the board of Directors) and take all such steps as the Director in his/her discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the Sale and Purchase Agreement, the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement and any of the transactions contemplated thereunder."

By order of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman

Hong Kong, 30 March 2021

Registered office:
Continental Building, 3rd Floor,
25 Church Street,
Hamilton HM12
Bermuda

Head office and principal place of business in Hong Kong:
Flat E, 20th Floor,
Lucky Plaza,
Wan Chai
Hong Kong

Notes:

1. A member entitled to attend and vote at the Special General Meeting convened by the above notice is entitled to appoint one proxy or, if the member holds two or more shares of the Company (the "**Shares**"), to appoint more than one proxy, to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Special General Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (https://emeeting.tricor.hk) by using the username and password provided on the notification letter sent by the Company as soon as possible and in any event not later than 48 hours before the time for holding the Special General Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the Special General Meeting or any adjournment thereof, should he so wish.

3. The register of member of the Company will be closed from Wednesday, 14 April 2021 to Monday, 19 April 2021 to determine the entitlement to attend and vote at the Special General Meeting. During such period, no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Special General Meeting, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 13 April 2021.