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

If you have sold or transferred all your shares in New Ray Medicine International Holding Limited, you should at once hand or forward this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

New Ray Medicine
新 銳 醫 藥

New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6108)

MAJOR TRANSACTION – ACQUISITION OF 16% OF THE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND NOTICE OF SPECIAL GENERAL MEETING

A notice convening the special general meeting of the Company to be held at Units 1203B, 1204–1205, 12/F, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong on Tuesday, 16 July 2024 at 9;00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use by the Shareholders at the special general meeting is published on the website of the Stock Exchange and that of the Company.

Whether or not you are able to attend such meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 9;00 a.m. (Hong Kong time) on 14 July 2024 or not less than 48 hours before the time appointed for holding any adjourned special general meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

21 June 2024

CONTENT

Page

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

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
"Board"	the board of Directors
"Business Day"	any day(s) (excluding Saturdays, Sundays or public holidays and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "Black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. to 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	the British Virgin Islands
"Company"	New Ray Medicine International Holding Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	the fifth Business Day after all the conditions precedent set out in Sale and Purchase Agreement have been completely fulfilled or waived, or such other date as the Purchaser and the Vendor may agree
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$17,280,000, the total consideration of the Acquisition
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition upon the Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	a third party independent of the Company and its connected persons
"Latest Practicable Date"	19 June 2024, being the last practicable date prior to the publication of this circular for the purpose of ascertaining information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 October 2024, or such later date as the Purchaser and the Vendor may agree in writing
"PRC"	the People's Republic of China, but for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	Major Bright Holdings Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 16 May 2024 entered into by the Vendor and the Purchaser in relation to the Acquisition
"Sale Shares"	16 ordinary shares of the Target Company, representing 16% of the issued share capital of the Target Company
"SGM"	the special general meeting of the Company to be held at Units 1203B, 1204–1205, 12/F, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong on Tuesday, 16 July 2024 at 9:00 a.m. to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Share(s)"	the ordinary share(s) of HK$0.05 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	China Nvwa Pharmaceutical Group Limited (中國女媧醫藥集團股份有限公司), a company incorporated in Hong Kong with limited liability
"Target Group"	collectively, the Target and its subsidiaries
"Vendor"	Mr. U Man Iong (于文勇), an individual
"%"	per cent.

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK$ at the rate of RMB1.00 to HK$1.10. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

New Ray Medicine
新 銳 醫 藥

New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6108)

Executive Directors:
Ms. Wang Qiuqin
(Chairman and Chief Executive Officer)
Mr. Huo Zhihong
Mr. Chu Xueping
Ms. Zhou Wan

Independent non-executive Directors:
Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Headquarters:
B–C, 37/F
Dikai International Center
19 Dangui Road
Hangzhou, the PRC

Principal place of business in Hong Kong:
Room 911B, 9th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

21 June 2024

To the Shareholders

Dear Sir or Madam

MAJOR TRANSACTION – ACQUISITION OF 16% OF THE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

INTRODUCTION

Reference is made to the announcement dated 16 May 2024 ("**Announcement**") in relation to the Acquisition. The purpose of this circular is to provide you with, among others, further details of the Sale and Purchase Agreement and the Acquisition and other information as required under the Listing Rules, together with the notice of the SGM.

THE SALE AND PURCHASE AGREEMENT

After trading hours on 16 May 2024, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor, an Independent Third Party, entered into the Sale and Purchase Agreement pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares at the Consideration of HK$17,280,000. The principal terms of the Sale and Purchase Agreement are summarised as follows:

Date

16 May 2024

Parties

Purchaser: Major Bright Holdings Limited

Vendor: U Man Iong

Subject Matter

The Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares free from all encumbrances. The Sale Shares represent 16% of the issued share capital of the Target Company as at the date of the Sale and Purchase Agreement and as at Completion. Further particulars of the Target Company and the Target Group are set out in the section headed "Information of the Target Group" below.

Consideration

The Consideration for the sale and purchase of the Sale Shares is HK$17,280,000, which shall be settled in cash on the Completion Date.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms taking into account various factors including (i) the historical financial performance of the Target Group; (ii) a valuation of the value of approximately HK$120.0 million of the Target Group performed by an independent valuer using market approach; and (iii) the reasons set out in the section headed "Reasons for and benefits of the Acquisition" in this Letter from the Board below.

The Consideration will be funded by internal resources of the Group.

Conditions precedent

Completion shall be conditional upon the fulfilment of or, if applicable, waiver of the following conditions precedent:

(1) the Company having complied with all notification, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules relating to the Sale and Purchase Agreement and the transactions contemplated thereunder including but not limited to the Acquisition having been approved by the Shareholders by way of requisite resolution(s) at a general meeting of the Company;

(2) (if applicable) the Purchaser having obtained all approvals required for the transactions contemplated under the Sale and Purchase Agreement from all relevant government departments and/or authorised organisations and/or third parties;

(3) (if applicable) the Vendor having obtained all approvals required for the transactions contemplated under the Sale and Purchase Agreement from all relevant government departments and/or authorised organisations and/or third parties;

(4) the Purchaser having carried out and completed the due diligence review in respect of the Target Group (whether legal, accounting, financial, business, operations and other aspects as the Purchaser deems necessary) and being satisfied with the results of the due diligence review of the Target Group;

(5) during the period from the date of the Sale and Purchase Agreement to Completion, the representations, warranties and undertakings given by the Vendor to the Purchaser under the Sale and Purchase Agreement remaining true, accurate and not misleading and there having been no events, facts or circumstances that would lead to a breach on the part of the Vendor of any of such representations, warranties and undertaking or of the Sale and Purchase Agreement; and

(6) during the period from the date of the Sale and Purchase Agreement to Completion, there having been no material adverse change to or impact on the Target Company or the Target Group.

The Purchaser may waive the conditions precedent numbered (3), (4), (5) and (6) above by written notice to the Vendor. The other conditions precedent are not capable of being waived.

If any of the conditions precedent shall not have been fulfilled or waived (as the case may be) at or before 4:00 p.m. on the Long Stop Date, all rights and obligations of each of the Purchaser and the Vendor under the Sale and Purchase Agreement shall cease and terminate (save and except for certain provisions in relation to the Purchaser's warranties, confidentiality, costs and expenses, notice and miscellaneous matters which shall continue to have full force and effect) and no party to the Sale and Purchase Agreement shall have any claims against the other party thereunder save for claims (if any) in respect of such continuing provisions or any antecedent breaches of the Sale and Purchase Agreement.

As at the Latest Practicable Date, save for the condition precedent numbered (3) above which has been fulfilled, none of the conditions precedent has been fulfilled or waived.

Completion

Subject to the fulfilment or waiver (if applicable) of all the conditions precedent set out above, Completion shall take place on the Completion Date.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in Hong Kong with limited liability. As at the date of the Sale and Purchase Agreement, the Target Company is wholly owned by the Vendor and each member of the Target Group is a wholly-owned subsidiary of the Target Company.

The Target Group is principally engaged in the manufacture, development, distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC.

The following is certain audited consolidated financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRS) for the years ended 31 December 2023 and 2022:

	For the year ended 31 December 2023 *HK$'000* (audited)	**For the year ended 31 December 2022** *HK$'000* (audited)
Revenue	92,790	90,297
Profit before taxation	9,763	1,206
Profit after taxation	9,763	1,206

As at 31 December 2023, the audited total assets and net assets of the Target Group were approximately HK$67,653,000 and HK$26,676,000 respectively.

Upon Completion, the Target Company will be owned as to 16% by the Purchaser and the Vendor will remain as the owner of 84% of the issued shares of the Target Company.

INFORMATION ABOUT THE GROUP AND THE VENDOR

The Company is an investment holding company. Its principal subsidiaries are principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC.

The Purchaser is an investment holding company which is an indirect wholly-owned subsidiary of the Company.

The Vendor is Mr. U Man Iong, an individual, and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. As a long-term business strategy, the Group aims to focus on the future development of its core businesses of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in respect of pharmaceutical products in the PRC, while the Group will continue to seek potential merger and acquisition opportunities to bring higher return for its shareholders. The Company will account the holding of the sale shares as equity instruments at fair value through other comprehensive income after completion.

The Board is of the view that the Acquisition provides an excellent opportunity for the Group to expand and diversify its business operations in the pharmaceutical products sector. As of the date of the Announcement, the Target Group which is engaged in the manufacture, development, distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC has obtained drug registration certificates and registered certain patent trademarks of a series of pharmaceutical products, and has entered into agreements for the sales, agency (for distribution of products to hospitals etc.), promotion and management of various pharmaceutical products across different provinces in the PRC. The Directors consider that the Acquisition is in line with the long-term business strategy of the Group. With the investment in the Target Company, the Group will have formed a closer alliance with the Target Group and the Directors believe that such relationship will help the Group secure additional new distribution rights of pharmaceutical products.

Apart from the valuation report of the Target Group which is set out in Appendix IV to this circular, the Group has also taken into account various factors in determining the Consideration of the Acquisition and such factors include the financial performance of the Target Group for the recent financial years, and the business nature of the Target Group and the strong management team of the Target Group.

It is noted from the accountants' report on the Target Group as set out in Appendix II to this circular that the Target Group has made substantial improvement in its financial performance during the three years ended 31 December 2023. In particular, the Target Group has substantially reduced its current liabilities from approximately HK$136.0 million as at 31 December 2021 to approximately HK$40.7 million as at 31 December 2023, resulting in a net assets position as at 31 December 2023 from a net liabilities position as at 31 December 2021. In addition, it is also noted while the Target Group has recorded a slight reduction in its revenue during the three years' period, it has managed to turn around from a loss position (loss of approximately of HK$9.9 million for the year ended 31 December 2021) to a profit for the year ended 31 December 2022 and further increased its profit substantially to HK$9.8 million for the year ended 31 December 2023. As disclosed in "Management discussion and analysis on the Target Group for each of the years ended 31 December 2021, 31 December 2022 and 31 December 2023" in Appendix II to this circular, the principal cause of the reduction in revenue of the Target Group was due to a reduction in the demand for certain products manufactured by the Target Group. To eliminate the effect from such reduction, the management team has introduced other new pharmaceutical products for distribution and to shift more emphasis in generating income from the provision of promotion services to its customers. This has proven that the Target Group has been led by a strong management team.

The valuation of the Target Group of approximately HK$120.0 million was performed by an independent valuer using market approach. The valuation was considered and assessed by the Board, taking into consideration key assumptions, pricing multiples, and market comparables. The Board considered the relative valuation metrics and market positioning of the Target Group, and is of the view that the price-to-earnings ratio of approximately 14.57 adopted by the valuer in the valuation report is fair and reasonable. The Target Group is principally engaged in, amongst other matters, distribution of pharmaceutical products and provision of marketing and promotion services, which accounted for a substantial portion of its revenue for the year ended 31 December 2023. Given the nature of the industry, unlike capital-intensive industries, substantial capital investment is typically not required. As such, the Board is of the view that comparing solely the net asset value may not accurately reflect the value and potential of the Target Group's business and operations, and that the price-to-earnings ratio, which was utilised by the independent valuer in its valuation of the Target Group, provides a more reasonable approach.

Furthermore, after considering, amongst other things, the historical financial performance of the Target Group and that the proposed investment would be in line with the long-term business strategy of the Group, the Group proposed the Consideration of HK$17,280,000, which translates to a price-to-earnings ratio of approximately 11.06, representing a discount to the price-to-earnings ratio adopted by the independent valuer and such basis of determination to be favourable to the Group.

Taking into account the above, the Board is of the view that the Consideration for the Acquisition is fair and reasonable.

The terms of the Sale and Purchase Agreement were determined after arm's length negotiations between the Purchaser and the Vendor. In light of the reasons above, the Directors are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The Directors expect that the Acquisition will not have a material impact on the earnings of the Company as the Target Group will not be consolidated into the financial statements of the Company by virtue of it being a 16% interest owned classified as investment in equity instruments at fair value through other comprehensive income of the Group after Completion. It is estimated that upon Completion, (i) the Company will record investment in equity instruments at fair value through other comprehensive income in total assets of approximately HK$17.3 million; (ii) there will be no effect on its total liabilities and (iii) there will be no impact on net profit as the change in fair value of equity instruments at fair value through other comprehensive income will be recorded in other comprehensive income or loss during the relevant financial year for so long as the Group maintains its shareholding interest in the Target Company at 16%.

LISTING RULES IMPLICATION

As the highest percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules and is subject to the notification, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules.

SGM

The Company will seek approval at the SGM for the Sale and Purchase Agreement and the transactions contemplated thereunder. As far as the Directors are aware, none of the Shareholders has a material interest in the Sale and Purchase Agreement which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Sale and Purchase Agreement at the SGM.

A notice convening the SGM to be held at Units 1203B, 1204–1205, 12/F, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong on Tuesday, 16 July 2024 at 9:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the SGM accompanying this circular in accordance with the instructions printed thereon.

A form of proxy for use at the SGM is published on the website of the Stock Exchange and that of the Company. 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 return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 9:00 a.m. (Hong Kong time) on Sunday, 14 July 2024 or not less than 48 hours before the time appointed for holding any adjourned SGM. 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, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

Closure of register of members

To ascertain a member's entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 11 July 2024 to Tuesday, 16 July 2024 (both days inclusive), during which no transfer of Shares will be registered. The last registration date for determining the eligibility to attend the SGM will be on Wednesday, 10 July 2024. In order to qualify for the entitlement to attend and vote at the SGM, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Wednesday, 10 July 2024.

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.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular and the notice of SGM.

Yours faithfully,
On behalf of the Board
New Ray Medicine International Holding Limited
Wang Qiuqin
Chairman, Chief Executive Officer & Executive Director

1. FINANCIAL INFORMATION OF THE COMPANY

The audited consolidated financial statements of the Group for the years ended 31 December 2021, 2022 and 2023, together with the accompany notes are disclosed in the following documents which have been published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.newraymedicine.com).

- The audited consolidated financial statements of the Company for the year ended 31 December 2021 (Pages 68 to 148)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042601922.pdf

- The audited consolidated financial statements of the Company for the year ended 31 December 2022 (Pages 67 to 140)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042704718.pdf

- The audited consolidated financial statements of the Company for the year ended 31 December 2023 (Pages 63 to 130)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0424/2024042402264.pdf

2. INDEBTEDNESS

As at the close of business on 15 May 2024, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total indebtedness as summarised below:

Lease liabilities

As at 15 May 2024, the Group had total outstanding lease liabilities of approximately HK$0.4 million.

Pledge of assets

As at 15 May 2024, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK$12.3 million to secure general banking facilities granted to the Group.

Save as disclosed above, apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, which include marketing and storage fees, operational expenses, salaries and benefits of employees, fees to professional advisers and taxes payable, the Group did not have any other outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities.

3. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the internal financial resources presently available to the Group and the effect of the Acquisition, in the absence of unforeseeable circumstances, the Group has sufficient working capital for its present requirements that is for at least the next 12 months following the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2023, being the date on which the latest published audited financial statements of the Company were made up.

5. BUSINESS PROSPECTS

Trading and financial prospects of the Group

The PRC pharmaceutical industry is facing many challenges as a result of the release of a series of policies by the Chinese government to reform its healthcare system, such as the volume-based procurement (帶量採購), which was officially initiated in 11 cities in the PRC in 2018, and the expansion of the volume-based procurement nationwide since 2019. The first, second and third batches of the national volume-based procurement were successfully implemented during the years 2019 to 2020. The fourth, fifth, sixth, seventh, eighth and ninth batches were completed in February 2021, June 2021, November 2021, July 2022, March 2023 and November 2023, respectively. The latest batch, the ninth batch, involved 41 varieties of pharmaceutical products, and the average price of the shortlisted varieties was reduced by approximately 58% as compared to the average original bidding prices. It is expected that the national volume-based procurement will continue in the future, and the scope of drugs under such procurement scheme will become wider and the downward pressure of the price of drugs is anticipated. The above-mentioned policies may put the pharmaceutical distribution and trading enterprises in the PRC, including the Group, in a challenging position and may affect the profitability of these companies in the future.

One of the growth strategies of the Group is to continue to diversify its existing product portfolio. The Group intends to seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2024, The Group will continue to enhance its product portfolio, distribution channels, marketing, and promotion strategy in order to achieve a better and sustainable long-term development. In order to strengthen its competitive advantages over its competitors in the PRC, the Group will continue to enhance its local distribution network and sales and marketing capabilities. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities. As a long-term business strategy, the Group intends to focus on its core businesses of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in respect of pharmaceutical products in the PRC by reallocating its resources to the future development of these businesses. Besides, the Group will continue to seek potential merger and acquisition opportunities to bring higher return for its shareholders.

6. EVENTS AFTER 31 DECEMBER 2023 BEING THE DATE ON WHICH THE LATEST PUBLISHED AUDITED CONSOLIDATED ACCOUNTS OF THE GROUP WERE MADE UP

As disclosed in the announcement of the Company dated 24 May 2024, Zhejiang Xinrui Biopharmaceutical Co., Ltd. (浙江新銳生物藥業有限公司) ("**Zhejiang Xinrui Biopharmaceutical**"), an indirect wholly-owned subsidiary of the Company, 浙江萬馬產業發展集團有限公司 (in English, for identification purpose only, Zhejiang Wanma Industrial Development Group Co., Ltd.) ("**Zhejiang Wanma**") and 杭州觀聖管理諮詢有限公司 (in English, for identification purpose only, Hangzhou Guansheng Management Consulting Co., Ltd.) ("**Hangzhou Guansheng**") entered into the cooperation agreement on 24 May 2024 in respect of, among other things, the increase in capital contribution and operation and management of the affairs of Shengzhou Xinrui Wanlin Enterprise Management Co., Ltd. (嵊州新銳萬霖企業管理有限公司) ("**SXWL**"), a company owned as to 40%, 39% and 21% by Zhejiang Wanma, Zhejiang Xinrui Biopharmaceutical and Hangzhou Guansheng respectively, pursuant to which, among other matters, the registered capital of SXWL would be increased to RMB34.00 million (equivalent to approximately HK$37.40 million), and Zhejiang Wanma, Zhejiang Xinrui Biopharmaceutical and Hangzhou Guansheng should make further capital contribution to SXWL in proportion to their respective shareholding. SXWL would engage in a project involving the development of a healthy food industrial park in Shengzhou, Zhejiang Province, the PRC, including the acquisition of the land use right of a parcel of land located in Shengzhou by public tender and the development and operation of the related facilities and buildings thereon.

As disclosed in the announcement of the Company dated 30 May 2024, China New Rich Medicine Holding Co. Limited ("**China New Rich**"), a wholly-owned subsidiary of the Company, as investor, entered into the cornerstone investment agreement dated 28 May 2024 with Jiangxi Rimag Group Co., Ltd. (江西一脈陽光集團股份有限公司) ("**Jiangxi Rimag Group**"), CITIC Securities (Hong Kong) Limited and CLSA Limited, pursuant to which China New Rich had agreed to subscribe for the overseas listed foreign shares in the share capital of Jiangxi Rimag Group with nominal value of RMB1.00 each ("**Jiangxi Rimag H Shares**") at the offer price of the Jiangxi Rimag H Shares to be subscribed for and traded in HK$ and were to be listed on the Stock Exchange pursuant to the global offering of the Jiangxi Rimag H Shares, up to a maximum of HK$12,000,000 (excluding the applicable brokerage and levies which China New Rich would pay in respect of such shares).

(1) ACCOUNTANTS' REPORT ON THE TARGET GROUP

The following is the text of a report, received from the Company's reporting accountants, Moore CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF NEW RAY MEDICINE INTERNATIONAL HOLDING LIMITED

Introduction

We report on the historical financial information of China Nvwa Pharmaceutical Group Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-47, which comprises the statements of financial position of the Target Company as at 31 December 2021, 2022 and 2023, the consolidated statements of financial position of the Target Group as at 31 December 2021, 2022 and 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2021, 2022 and 2023 (the "**Relevant Periods**") and a summary of material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-47 forms an integral part of this report, which has been prepared for inclusion in the circular of New Ray Medicine International Holding Limited (the "**Company**") dated 21 June 2024 (the "**Circular**") in connection with the proposed acquisition of 16% shareholding interest in the Target Company by a wholly-owned subsidiary of the Company.

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 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.

The directors of the Company are responsible for the contents of this circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

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 accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors 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 financial position of the Target Company as at 31 December 2021, 2022 and 2023 and the consolidated financial position of the Target Group as at 31 December 2021, 2022 and 2023 and of its consolidated financial performance and its consolidated cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Material uncertainties related to going concern

We also draw attention to Note 2 to the Historical Financial Information, which highlights that the Target Group had net current liabilities of approximately HK$103,940,000, HK$88,180,000 and HK$9,879,000 respectively as at 31 December 2021, 2022 and 2023. As at 31 December 2021, 2022 and 2023, bank borrowings amounting to approximately HK$12,242,000, HK$11,267,000 and HK$11,045,000 are classified as current liabilities in respect of loan agreements and are payable within twelve months from 31 December 2021, 2022 and 2023 respectively.

These conditions, along with other matters as set forth in Note 2 to the Historical Financial Information, indicate the existence of material uncertainties which may cast significant doubt over the Target Group's ability to continue as a going concern. Our opinion is not modified in respect of these matters.

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

Adjustments

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

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends have been paid or proposed by the Target Company in respect of the Relevant Periods.

Moore CPA Limited
Certified Public Accountants

Leung Man Chung
Practising Certificate Number: P08074
Hong Kong, 21 June 2024

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and were audited by Moore CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December 2021, 2022 and 2023

	Notes	**2021** *HK$'000*	**2022** *HK$'000*	**2023** *HK$'000*
Revenue	6	113,097	90,297	92,790
Cost of sales		(25,341)	(20,458)	(19,658)
Gross profit		87,756	69,839	73,132
Other income, gains and losses, net	7	727	4,184	1,258
Selling and distribution expenses		(79,344)	(58,285)	(47,949)
Administrative expenses		(18,206)	(13,936)	(16,176)
Finance costs	8	(863)	(596)	(502)
(Loss) profit before taxation		(9,930)	1,206	9,763
Income tax	9	–	–	–
(Loss) profit for the year	10	(9,930)	1,206	9,763
Other comprehensive (loss) income for the year				
Items that will not be reclassified subsequently to profit or loss:				
Exchange difference arising on translation of functional currency to presentation currency		(168)	78	165
Other comprehensive (loss) income for the year, net of tax		(168)	78	165
Total comprehensive (loss) income for the year		(10,098)	1,284	9,928

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE TARGET GROUP

	Notes	2021 HK$'000	2022 HK$'000	2023 HK$'000
Non-current assets				
Property, plant and equipment	14	23,718	20,712	18,525
Investment properties	15	298	264	248
Right-of-use assets	16	31,817	20,097	18,109
		55,833	41,073	36,882
Current assets				
Inventories	17	5,580	4,368	8,733
Trade and other receivables	18	11,899	11,109	8,620
Tax recoverable		–	–	71
Bank balances and cash	19	14,552	16,234	13,347
		32,031	31,711	30,771
Current liabilities				
Trade and other payables	20	81,046	65,074	25,787
Amount due to sole shareholder	21	39,055	39,056	–
Lease liabilities	22	2,844	3,772	3,818
Tax payables		784	722	–
Bank borrowings	23	12,242	11,267	11,045
		135,971	119,891	40,650
Net current liabilities		(103,940)	(88,180)	(9,879)
Total assets less current liabilities		(48,107)	(47,107)	27,003
Non-current liabilities				
Lease liabilities	22	1,653	616	327
		1,653	616	327
Net (liabilities) assets		(49,760)	(47,723)	26,676
Capital and reserves				
Share capital	24	1	1	1
(Deficit) reserves		(49,761)	(47,724)	26,675
Total equity		(49,760)	(47,723)	26,676

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Note	2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Non-current asset				
Investment in a subsidiary		38,900	38,900	38,900
Current assets				
Bank balances		146	146	142
Current liabilities				
Other payables		–	2	2
Amount due to sole shareholder		39,055	39,056	–
		39,055	39,058	2
Net current (liabilities) assets		(38,909)	(38,912)	140
Total assets less current liabilities and net (liabilities) assets		(9)	(12)	39,040
Capital and reserves				
Share capital	24	1	1	1
(Deficit) reserves		(10)	(13)	39,039
Total equity		(9)	(12)	39,040

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Target Company					
	Share capital	PRC statutory reserve	Translation reserve	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2020	1	3,206	(2,011)	–	(40,858)	(39,662)
Loss for the year	–	–	–	–	(9,930)	(9,930)
Other comprehensive loss for the year	–	–	(168)	–	–	(168)
At 31 December 2021	1	3,206	(2,179)	–	(50,788)	(49,760)
Profit for the year	–	–	–	–	1,206	1,206
Other comprehensive income for the year	–	–	78	–	–	78
Disposal of a subsidiary	–	–	753	–	–	753
At 31 December 2022	1	3,206	(1,348)	–	(49,582)	(47,723)
Profit for the year	–	–	–	–	9,763	9,763
Capitalisation of shareholder's loan *(Note)*	–	–	–	64,471	–	64,471
Other comprehensive income for the year	–	–	165	–	–	165
At 31 December 2023	1	3,206	(1,183)	64,471	(39,819)	26,676

Note:

On 31 December 2023, the sole shareholder agreed to transfer the sole shareholder's loan of the Target Group, with an aggregate sum of HK$64,471,000, as at same date to the capital reserve of the Target Group. The Target Group's obligation to repay the sole shareholder's loan to the sole shareholder is hereby irrevocably and unconditionally waived.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2021, 2022 and 2023

	Notes	2021 HK$'000	2022 HK$'000	2023 HK$'000
OPERATING ACTIVITIES				
(Loss) profit before taxation		(9,930)	1,206	9,763
Adjustments for:				
Depreciation of property, plant and equipment	14	2,760	2,812	2,598
Depreciation of investment properties	15	11	11	11
Depreciation of right-of-use assets	16	1,641	1,605	1,279
Interest expenses	8	863	596	502
Interest income	7	(35)	(87)	(35)
Gain on disposal of a subsidiary	7	–	(3,956)	–
Loss on disposal of property, plant and equipment	7	–	69	133
Written off on inventories	10	67	38	257
Operating cash flows before movements in working capital		(4,623)	2,294	14,508
Decrease (increase) in inventories		4,321	750	(4,712)
Decrease (increase) in trade and other receivables		4,748	(162)	2,273
(Decrease) increase in trade and other payables		(4,408)	1,800	(11,817)
Cash generated from operations		38	4,682	252
Income tax refunded (paid)		12	–	(779)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		50	4,682	(527)
INVESTING ACTIVITIES				
Interest received		35	87	35
Proceeds from disposal of property, plant and equipment		11	7	–
Proceeds from disposal of a subsidiary	7	–	12,162	–
Purchases of property, plant and equipment		(1,568)	(1,761)	(636)

	Notes	2021 HK$'000	2022 HK$'000	2023 HK$'000
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(1,522)	10,495	(601)
FINANCING ACTIVITIES				
Increase (decrease) in amounts due to a director of subsidiaries		2,534	–	(808)
(Decrease) increase in amount due to sole shareholder		(10)	1	–
Repayment on bank borrowing		(12,067)	(11,583)	(11,056)
Repayment on loan from a related company		–	(11,583)	–
New bank borrowing raised		12,067	11,583	11,056
Interest paid		(675)	(468)	(428)
Payment for principal portion of lease liabilities		(172)	(199)	(201)
Payment for interest portion of lease liabilities		(44)	(42)	(30)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		1,633	(12,291)	(1,467)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		161	2,886	(2,595)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		13,970	14,552	16,234
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		421	(1,204)	(292)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Represented by bank balances and cash		14,552	16,234	13,347

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. General information

China Nvwa Pharmaceutical Group Limited (the "**Target Company**") which is formerly known as China Huaxi Medical Group Limited was incorporated in Hong Kong on 16 September 2015. The address of the Target Company's registered office and principal place of business is Room 506, Vanta Industrial Centre, 21–33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

The Target Company is an investment holding company. The Target Company and its subsidiaries (collectively "**Target Group**") are principally engaged in manufacturing, distribution and trading of pharmaceutical products in the People's Republic of China. During the Relevant Periods, the Target Company is wholly owned by U Man Iong.

These consolidated financial statements are presented in Hong Kong Dollars ("**HK$**"), which is also the Target Company's functional currency.

2. Basis of preparation

The Historical Financial Information of the Target Group has been prepared based on the accounting policies set out in note 4 which conform with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Historical Financial Information has been prepared under the historical cost convention.

The Historical Financial Information contained in this Circular does not constitute the Target Company's statutory annual financial statements for any of the financial years ended 31 December 2021, 2022, and 2023, but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Target Company is a private company, the Target Company is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Target Company's statutory annual financial statements for the years ended 31 December 2021, 2022, and 2023 were audited by Moore CPA Limited, who expressed an unmodified opinion on those financial statements, except for the financial statements for the year ended 31 December 2021, in which the auditor expressed a qualified opinion since the comparative figures of the financial statements have a longer coverage period than a financial year, which is not in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standards and the Hong Kong Companies Ordinance, which require the reporting period of the financial statements to be at least annually or within 18 months after the entity's date of incorporation.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

As at 31 December 2021, 2022 and 2023, the Group had net current liabilities of approximately HK$103,940,000 and HK$88,180,000 and HK$9,879,000 respectively. As at 31 December 2021, 2022 and 2023, bank borrowings amounting to approximately HK$12,242,000, HK$11,267,000 and HK$11,045,000 are classified as current liabilities in respect of loan agreements and are payable within twelve months from 31 December 2021, 2022 and 2023 respectively.

These conditions indicate the existence of material uncertainties which may cast significant doubt on the Target Group's ability to continue as a going concern.

The Historical Financial Information has been prepared on the assumptions that the Target Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2021, 2022 and 2023 and subsequently thereto up to the date when the Historical Financial Information is authorised for issue. In order to improve the Target Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Target Group as a going concern, the directors of the Target Company have adopted several measures together with other measures in progress at the date when the Historical Financial Information is authorised for issue, which include but not limited to, the followings:

(i) the Target Group is in active negotiation with the lender of bank borrowing for renewal of the revolving loan; and

(ii) financial support has been obtained from the sole shareholder of the Target Company in which continuing financial support is provided to the Target Group for meeting its liabilities and obligations for at least one year from the financial years ended 31 December 2021, 2022 and 2023.

On the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Target Group's current and forecasted cash positions, the directors of the Target Company are optimistic that the Target Group will be able to meet in full the Target Group's financial obligations as they fall due for the twelve months from 31 December 2021, 2022 and 2023. Accordingly, the Historical Financial Information has been prepared on the going concern basis.

Should the Target Group be unable to continue in business as a going concern, adjustments would have to be made to write down the carrying amounts of the Target Group's assets to their recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the Historical Financial Information.

3. Application of amendments to HKFRSs

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied the accounting policies which conform with HKFRSs, which are effective for the Target Company's accounting period beginning on 1 January 2023 throughout the Relevant Periods.

At the date of this report, the Target Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.

The directors of the Target Company have assessed the financial impact on the Target Group and none of these amendments to HKFRSs is expected to have a significant impact on the Historical Financial Information of the Target Group.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information have been prepared on the historical cost basis, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for 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 Group 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 accounted for in accordance with HKFRS 16 "Leases", 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".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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.

Basis of consolidation

The Historical Financial Information incorporates the financial information of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Target Group recognises 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 the customer.

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.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

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

A contract asset and contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Target Group and when specific criteria have been met for each of the Target Group's activities, as described below.

Revenue of the Target Group arises from sales of goods and provision of marketing and promotion services.

The Target Group is the principal for its revenue transactions and recognises revenue on a gross basis for sales of pharmaceutical products that are manufactured by the Target Group and sourced externally. Revenue is recognised when control which refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the products is transferred to the customer at the amount of promised consideration to which the Target Group is expected to be entitled, excluding value added tax or other sales taxes.

The Target Group is contracted to provide marketing and promotion services to pharmaceutical product manufacturers based on an agreed quotation. These services include site visits and the organisation of medical seminars at hospitals. The Target Group recognises the marketing and promotion fee from its customers upon the completion of promotional activities.

Refund liabilities

The Target Group recognises a refund liability if the Target Group expects to refund some or all of the consideration received from customers.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Target Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

The Target Group as a lessee

Non-lease components are separated from lease components and are accounted for by applying other applicable standards.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Group; and
- an estimate of costs to be incurred by the Target Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Target Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Target Group under residual value guarantees;
- the exercise price of a purchase option if the Target Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Target Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Target Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

The Target Group as a lessor

Classification and measurement of leases

Leases for which the Target Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Property, plant and equipment

Property, plant and equipment including buildings held for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

An item of property, 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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets 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 the relevant assets is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Target Group 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 a 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 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.

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Group's operation are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Target Company are reclassified to profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Target Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

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

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income, gains and losses net".

Employee benefits

Retirement benefit costs

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

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

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, 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 year. Taxable profit differs from profit/(loss) before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group'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 Historical Financial Information 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 difference to the extent that it is probable that taxable profits 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 (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of transaction does not give rise to equal taxable and deductible temporary differences.

In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and a joint venture, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Target Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Target Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**") are recognised immediately in profit or loss.

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 expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees 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

Classification and subsequent measurement of 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 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.

All other financial assets are subsequently measured at fair value.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. 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. 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 assets from the next reporting period. If 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 from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Target Group recognises a loss allowance for expected credit loss ("**ECL**") on financial assets which are subject to impairment assessment 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, 12-month ECL ("**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 Group'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 Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Target Group 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.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Group 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 Group 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;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

The Target Group 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.

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 365 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) 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 borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

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

(iv) Write-off policy

The Target Group 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, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Group'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.

(v) 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 and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Target Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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 following 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 Target 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.

Derecognition of financial assets

The Target Group 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 entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of 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 are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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 the Target Group after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4 to the Historical Financial Information, 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 underlying 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 ongoing 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives of property, plant and equipment

Management determines the estimated lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charges where useful lives are different from those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

Estimated impairment of property plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment, make estimation, particularly in assessing whether an event has occurred or any indicators that may indicate that the carrying amount of the relevant assets may not be recoverable and for assets with impairment indication, or appropriate key assumptions to be applied in estimating the recoverable amounts. Changing those assumptions and estimates could materially affect the recoverable amount.

As at 31 December 2021, 2022 and 2023, the carrying amount of property, plant and equipment is approximately HK$23,718,000, HK$20,712,000 and HK$18,525,000 respectively. As at 31 December 2021, 2022 and 2023, the carrying amount of right-of-assets is approximately HK$31,817,000, HK$20,097,000 and HK$18,109,000 respectively.

6. REVENUE

Disaggregation of revenue from contracts with customers is as follows:

Revenue represents the aggregate of the net amounts received and receivable, recognised at a point in time basis, for the year. An analysis of the Target Group's revenue for the year is as follows:

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Trading of products manufactured by the Target Group	86,614	70,135	57,685
Trading of pharmaceutical products	3,570	3,133	9,773
Provision of marketing and promotion services	22,913	17,029	25,332
	113,097	90,297	92,790

As the director, being the chief operating decision maker, focuses on the consolidated results for the purposes of resource allocation and assessment, no discrete financial information is provided other than the results and financial position of the Target Group as a whole.

The Target Group recognises the revenue for trading of products manufactured by the Target Group and distribution of pharmaceutical products at a point in time when control of the asset is transferred to the customers.

The Target Group recognises the marketing and promotion fee from its customers at point of time when promotional activities are completed.

7. OTHER INCOME, GAINS AND LOSSES, NET

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Loss on disposal of property, plant and equipment	–	(69)	(133)
Donation expenses	–	(598)	–
Tax relief on PRC value added tax	191	148	198
Compensation income	5	–	27
Incentive received from government grants *(note (i))*	592	404	593
Bank interest income	35	87	35
Written off on inventories	(67)	(38)	(257)
Rental income	76	294	484
Gain on disposal of a subsidiary *(note (ii))*	–	3,956	–
Penalty on late payment of property tax	(103)	–	–
Penalty on late payment of enterprise income tax	–	–	(580)
Service income	–	–	673
Other	(2)	–	218
	727	4,184	1,258

Notes:

(i) During the year ended 31 December 2021, the Target Group was granted with incentives of RMB250,000 (equivalent to approximately HK$302,000) and other tax refund of RMB236,000 (equivalent to HK$285,000) by local government in Wuhan, Xian and Hainan, the PRC for the purpose of enhancing the development of the Target Group, the conditions of which had been fulfilled. All conditions of the remaining government grant of HK$5,000 were fulfilled.

During the year ended 31 December 2022, the Target Group was granted with other tax refund of RMB326,000 (equivalent to approximately HK$378,000) by local government in Hainan, the PRC for the purpose of enhancing the development of the Target Group, the conditions of which had been fulfilled. All conditions of the remaining government grant of HK$26,000 were fulfilled.

During the year ended 31 December 2023, the Target Group was granted with incentive of RMB326,000 and subsidy of RMB186,000 on interest expenses incurred (equivalent to approximately HK$360,000 and HK$205,000 respectively) by local government in Hainan and Wuhan, the PRC for the purpose of enhancing the development of the Target Group, the conditions of which had been fulfilled. All conditions of the remaining government grant of HK$28,000 were fulfilled.

(ii) During the year ended 31 December 2022, Xian Taiji Pharmaceutical Co., Ltd ("**Xian Taiji**"), one of the subsidiaries of the Target Group disposed of 100% of equity interest of its subsidiary to an independent third party at a consideration of RMB10,500,000 (equivalent to approximately HK$12,162,000). A gain on disposal of subsidiary of RMB3,395,000 (equivalent to approximately HK$3,956,000) is recognised after deduction of net asset value of that subsidiary at the transaction date. The transaction was completed on 2 June 2022.

8. FINANCE COSTS

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Interest expense on lease liabilities	188	128	74
Interest expense on bank borrowings	675	468	428
	863	596	502

9. INCOME TAX

Under the Laws of the PRC on Enterprise Income Tax (the "**EIT Laws**") and Implementation Regulations of the EIT Laws, the tax rate of the PRC subsidiaries was 25% for the years ended 31 December 2021, 2022 and 2023.

The tax expense for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(9,930)	1,206	9,763
Tax at the domestic income tax rate of 25%	(2,482)	302	2,441
Tax effect of expenses and losses not deductible for tax purposes	768	274	–
Tax effect of income not taxable for tax purpose	–	–	(38)
Tax concession on research and development expenses	(897)	(832)	(601)
Tax effect of tax losses not recognised	2,101	514	425
Tax effect of utilisation of tax losses previously not recognised	(568)	(649)	(2,452)
Tax effect of deductible temporary differences previously not recognised	1,078	391	225
Income tax for the year	–	–	–

The Target Group has unused tax losses of approximately HK$28,575,000, HK$25,774,000 and HK$17,164,000 for the years ended 31 December 2021, 2022 and 2023 respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream.

Included in unrecognised tax losses as at 31 December 2021 are of HK$1,856,000, HK$18,192,000 and HK$8,527,000 that will expire in 2024, 2025 and 2026 respectively.

Included in unrecognised tax losses as at 31 December 2022 are of HK$1,708,000, HK$14,216,000, HK$7,848,000 and HK$2,002,000 that will expire in 2024, 2025, 2026 and 2027 respectively.

Included in unrecognised tax losses as at 31 December 2023 are of HK$8,819,000, HK$4,684,000, HK$1,962,000 and HK$1,699,000 that will expire in 2025, 2026, 2027 and 2028 respectively.

As at 31 December 2021, 2022 and 2023, the Target Group has deductible temporary difference of HK$4,314,000, HK$1,568,000 and HK$901,000 respectively. No deferred tax asset has been recognised in relation to such deductible difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

10. (LOSS) PROFIT FOR THE YEAR

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit for the year has been arrived at after charging:			
Directors' emoluments, including contributions to retirement benefits scheme *(note 11)*	–	–	–
Other staff's salaries, bonus and other benefits	10,050	10,385	10,548
Contributions to retirement benefits scheme, excluding directors	2,718	2,268	1,760
Total staff costs	12,768	12,653	12,308
Depreciation of property, plant and equipment	2,760	2,812	2,598
Depreciation of investment properties	11	11	11
Depreciation of right-of-use assets	1,641	1,605	1,279
Auditor's remuneration	11	52	58
Legal and professional fees (included in administrative expenses)	23	39	1,380
Written off on inventories	67	38	284
Cost of inventories recognised as an expense (excluded written off on inventories)	22,411	19,900	24,519

11. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's emoluments

No emolument was paid or payable by the Target Group to the directors and chief executive of the Target Company for their services rendered to the Target Group during the Relevant Periods.

There were no arrangement under which a director or the chief executive of the Target Company waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Target Group for the years ended 31 December 2021, 2022 and 2023, none are executive directors of the Target Company and the emoluments of the remaining five individuals were as follows:

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other allowances	1,474	1,304	1,863
Contributions to retirement benefits scheme	69	84	103
	1,543	1,388	1,966

Their emoluments were within the following bands:

		Number of employees	
	2021	**2022**	**2023**
Nil to HK$1,000,000	5	5	5

12. (LOSSES) EARNINGS PER SHARE

No (losses) earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

13. DIVIDENDS

No dividend was paid or proposed for holders of ordinary shares of the Target Company during the years ended 31 December 2021, 2022 and 2023, nor has any dividend been proposed since the end of the reporting period.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture, fixture and equipment HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2021	30,260	–	17,598	1,949	789	–	50,596
Additions	110	–	785	41	–	632	1,568
Disposals	–	–	(210)	(5)	–	–	(215)
Exchange realignment	917	–	541	59	24	10	1,551
At 31 December 2021	**31,287**	**–**	**18,714**	**2,044**	**813**	**642**	**53,500**
Additions	638	19	614	52	–	438	1,761
Disposals	–	–	(765)	(7)	–	–	(772)
Transfer from construction in progress	394	–	–	–	–	(394)	–
Exchange realignment	(2,520)	(1)	(1,486)	(164)	(65)	(52)	(4,288)
At 31 December 2022	**29,799**	**18**	**17,077**	**1,925**	**748**	**634**	**50,201**
Additions	–	–	39	187	–	724	950
Disposals	–	–	(832)	(125)	(331)	–	(1,288)
Exchange realignment	(587)	–	(336)	(38)	(14)	(13)	(988)
At 31 December 2023	**29,212**	**18**	**15,948**	**1,949**	**403**	**1,345**	**48,875**
ACCUMULATED DEPRECIATION							
At 1 January 2021	13,177	–	10,908	1,625	681	–	26,391
Provided for the year	1,744	–	900	96	20	–	2,760
Disposals	–	–	(200)	(4)	–	–	(204)
Exchange realignment	424	–	340	50	21	–	835
At 31 December 2021	**15,345**	**–**	**11,948**	**1,767**	**722**	**–**	**29,782**
Provided for the year	1,788	–	942	64	18	–	2,812
Disposals	–	–	(668)	(7)	–	–	(675)
Exchange realignment	(1,271)	–	(959)	(142)	(58)	–	(2,430)
At 31 December 2022	**15,862**	**–**	**11,263**	**1,682**	**682**	**–**	**29,489**
Provided for the year	1,518	4	998	61	17	–	2,598
Disposals	–	–	(743)	(114)	(298)	–	(1,155)
Exchange realignment	(314)	–	(222)	(33)	(13)	–	(582)
At 31 December 2023	**17,066**	**4**	**11,296**	**1,596**	**388**	**–**	**30,350**
CARRYING VALUES							
At 31 December 2021	**15,942**	**–**	**6,766**	**277**	**91**	**642**	**23,718**
At 31 December 2022	**13,937**	**18**	**5,814**	**243**	**66**	**634**	**20,712**
At 31 December 2023	**12,146**	**14**	**4,652**	**353**	**15**	**1,345**	**18,525**

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	3% to 10%
Furniture, fixtures and equipment	20%
Plant and machinery	5% to 33%
Electronic equipment	10% to 33%
Motor vehicles	20% to 33%

15. INVESTMENT PROPERTIES

The Target Group leases out office premises under operating leases with rental payable monthly. The lease is entered into by the Target Group and the tenants for duration of 1 to 3 years. Both parties have the right to terminate the lease at any time upon mutual agreement.

The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of the lease term.

	HK$'000
At 1 January 2021	300
Depreciation provided for the year	(11)
Exchange realignment	9
At 31 December 2021	298
Depreciation provided for the year	(11)
Exchange realignment	(23)
At 31 December 2022	264
Depreciation provided for the year	(11)
Exchange realignment	(5)
At 31 December 2023	248

The above investment properties are depreciated on a straight-line basis at 3% to 5% per annum.

The fair values of the Target Group's investment properties as at 31 December 2021, 2022 and 2023 was approximately HK$5,429,000, HK$4,922,000 and HK$4,806,000 respectively. The fair value has been arrived at based on the valuation carried out by the management of the Target Group.

The fair value was determined based on the direct comparison approach, which were categorised under level 2 fair value hierarchy. The fair value was determined with reference to market selling prices of similar properties in the nearest locality.

In determining the fair value of the properties, the highest and best use of the properties is their current use.

16. RIGHT-OF-USE ASSETS

	Prepaid lease payments *HK$'000*	Leased properties *HK$'000*	Total *HK$'000*
Carrying amount:			
As at 1 January 2021	28,657	117	28,774
Addition	–	3,784	3,784
Depreciation charged to profit or loss during the year	(464)	(1,177)	(1,641)
Exchange realignment	860	40	900
At 31 December 2021	**29,053**	**2,764**	**31,817**
Addition	–	368	368
Depreciation charged to profit or loss during the year	(446)	(1,159)	(1,605)
Disposal of subsidiary	(8,206)	–	(8,206)
Exchange realignment	(2,078)	(199)	(2,277)
At 31 December 2022	**18,323**	**1,774**	**20,097**
Transfer to property, plant and equipment	(314)	–	(314)
Depreciation charged to profit or loss during the year	(111)	(1,168)	(1,279)
Exchange realignment	(361)	(34)	(395)
At 31 December 2023	**17,537**	**572**	**18,109**

For Relevant Periods, the Target Group holds land use rights on land and leases offices for its operations. Lease contracts are entered into for fixed term of 2 to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Target Group pledged land use rights classified as prepaid lease payments in rights-of-use assets with aggregate carrying amounts of approximately HK$16,568,000, HK$14,929,000 and HK$14,321,000 as at 31 December 2021, 2022 and 2023 respectively to secure the general banking facilities granted to the Target Group. The land use rights relate to lands in the PRC, with lease term which ends in 2069.

No short term lease nor lease of low value asset is incepted during the Relevant Periods.

	2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Total cash outflow for leases	216	241	231

17. INVENTORIES

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Raw material	1,751	1,384	1,020
Work in progress	985	275	3,415
Finished goods	2,844	2,709	4,298
	5,580	4,368	8,733

18. TRADE AND OTHER RECEIVABLES

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	6,585	6,196	2,482
Other receivables	2,280	1,826	2,237
Prepayments	1,804	2,043	2,869
Value-added tax recoverable	14	–	30
Contract assets	1,216	1,044	1,002
	11,899	11,109	8,620

At 1 January 2021, trade receivables from contracts with customers and contract assets amounted to HK$10,182,000 and HK$715,000 respectively.

Note: The Target Group allows a credit period ranging from 0 day to 3 years to its trade customers. The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period.

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables:			
0–30 days	620	997	398
31–60 days	1,451	445	774
61–90 days	858	1,158	562
91–180 days	440	745	530
181–365 days	2,824	990	218
Over 365 days	392	1,861	–
	6,585	6,196	2,482

Before accepting any new customers, the Target Group assesses the potential customer's credit quality and defines credit limits by the customer. Credit limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Based on past experience and repayment history of the trade debtors, the directors of the Target Company believe that no impairment allowance is necessary in respect of these balances due to its insignificance.

Detail of credit policy impairment assessment of the trade receivables for the year ended 31 December 2021, 2022, and 2023 are set out in note 26(b).

Prepayments represent the prepayments mainly paid to suppliers for purchase of pharmaceutical products and raw materials. The Target Group was required to make prepayments to certain suppliers to secure regular supply of products and raw materials. The amount of prepayments to suppliers varied with the terms of supplier contracts entered into with different suppliers, which was determined based on the amount of goods purchased from the suppliers.

Other receivables mainly represent trade deposits to certain suppliers of HK$1,839,000, HK$1,129,000 and HK$1,657,000 as at 31 December 2021, 2022 and 2023 respectively to secure regular supply of products based on contract terms. The deposits paid will be refunded upon expiry of contracts.

The Target Group has not provided for impairment on trade deposits paid to suppliers during the Relevant Periods.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Target Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.2% to 0.3% per annum during the Relevant Periods.

20. TRADE AND OTHER PAYABLES

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	4,911	4,510	1,827
Other payables and accrued expenses *(note (i))*	33,498	24,742	19,712
Amounts due to a director of subsidiaries *(note (ii))*	30,631	28,191	1,414
Value-added tax and other tax payables	1,459	2,496	406
Contract liabilities *(note (iii))*	10,547	5,135	2,428
	81,046	65,074	25,787

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables:			
0–30 days	4,473	3,942	1,551
31–60 days	116	265	–
61–90 days	–	113	–
91–180 days	2	13	263
Over 180 days	320	177	13
	4,911	4,510	1,827

All contract liabilities, that are expected to be settled within the Target Group's normal operating cycle which is within 12 months after the end of the reporting period, are classified as current liabilities based on the Target Group's earliest obligation to transfer goods or services to the customers. The receipts in advance from customers for the years ended 31 December 2021, 2022 and 2023 were classified to contract liabilities.

Notes:

(i) As at 31 December 2021, 2022 and 2023, the Target Group received guarantee deposits from customers of HK$8,118,000, HK$11,523,000 and HK$12,285,000 for securing their regular supplies of pharmaceutical products.

As at 31 December 2021, 2022 and 2023, the Target Group accrued salaries of HK$1,745,000, HK$1,826,000 and HK$2,147,000 respectively.

As at 31 December 2021, 2022 and 2023, the Target Group accrued social insurance and housing fund of HK$1,524,000, HK$1,914,000 and HK$1,920,000 respectively.

The Target Group received staff advance of HK$7,090,000 and HK$6,525,000 (equivalent to RMB5,791,000 and RMB5,791,000) as at 31 December 2021 and 2022 respectively and has been fully settled by instalments in 2023.

As at 31 December 2021, the Target Group had a loan from a related party of HK$12,242,000 (equivalent to RMB10,000,000). The balance is unsecured, interest free and repayable on demand and has been fully repaid in 2022.

(ii) The balance is unsecured, interest free and repayable on demand.

On 31 December 2023, an agreement was signed among Hainan Nuwa, a director of subsidiaries and the sole shareholder of the Target Company to transfer the director's legal title in advance to Hainan Nuwa of RMB10,500,000 (equivalent to HK$11,598,000) to the sole shareholder of the Target Company.

On 31 December 2023, an agreement was signed among Wuhan Guanggu, a director of subsidiaries and the sole shareholder of the Target Company to transfer the director's legal title in advance to Wuhan Guanggu of RMB12,510,000 (equivalent to HK$13,817,000) to the sole shareholder of the Target Company.

(iii) Movement of contract liabilities during the years ended 31 December 2021, 2022 and 2023 are as follows:

	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	6,418	10,547	5,135
Increase in contract liabilities as a result of receipts in advance from customers	9,208	3,753	1,325
Decrease in contract liabilities as a result of recognition of revenue during the year that was included in the contract liabilities at the beginning of the year	(5,248)	(8,935)	(4,008)
Exchange realignment	169	(230)	(24)
At 31 December	10,547	5,135	2,428

The balance fluctuated with the sales orders received from customers during the Relevant Periods.

21. AMOUNT DUE TO SOLE SHAREHOLDER

The outstanding amounts are unsecured, interest-free and repayable on demand.

On 31 December 2023, the sole shareholder agreed to transfer the sole shareholder's loan of the Target Group, with an aggregate sum of HK$64,471,000, as at same date to the capital reserve of the Target Group. The Target Group's obligation to repay the sole shareholder's loan to the sole shareholder is hereby irrevocably and unconditionally waived.

22. LEASE LIABILITIES

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	665	4,497	4,388
Addition	3,784	368	-
Payments	(216)	(241)	(231)
Interest expense on lease liabilities	188	128	74
Exchange realignment	76	(364)	(86)
At 31 December	4,497	4,388	4,145
Lease liabilities payable			
Within 1 year	2,844	3,772	3,818
After 1 year but within 5 years	1,653	616	327
	4,497	4,388	4,145

During the Relevant Periods, lease obligation of HK$4,497,000, HK$4,388,000 and HK$4,145,000 is denominated in Renminbi. Except for such, no other lease obligations that are denominated in currencies other than the functional currencies of the Target Group as at 31 December 2021, 2022 and 2023.

As at 31 December 2021, 2022 and 2023, the lease liabilities of HK$1,663,000, HK$2,538,000 and HK$3,541,000 are not yet settled by the Target Group according to the lease agreement. No penalty interest is charged to those outstanding balances during the Relevant Periods.

23. BANK BORROWINGS

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	12,242	11,267	11,045
Due for payment:			
Within 1 year	12,242	11,267	11,045

The bank borrowings bear interest at floating interest rate of 1-year Loan Prime Rate ("**LPR**") per annum.

At 31 December 2021, 2022 and 2023, the Target Group's bank borrowings of HK$12,242,000, HK$11,267,000 and HK$11,045,000 were secured by rights-of-use assets in relation to land use rights amounting to HK$16,568,000, HK$14,929,000 and HK$14,321,000 respectively.

24. SHARE CAPITAL

The movements of share capital of the Target Group are as follows:

	Number of shares	Amount
	'000	*HK$'000*
Ordinary shares		
Issued and full paid:		
At 1 January 2021, 31 December 2021, 31 December 2022 and 31 December 2023	1	1

25. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remained unchanged from prior year.

The capital structure of the Target Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, various reserves and accumulated losses.

The directors of the Target Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Target Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Amortised cost	23,417	24,256	18,066
Financial liabilities			
Amortised cost	114,465	101,495	33,479

(b) Financial risk management objectives and policies

The management of the Target Group monitors and manages the financial risks relating to the operations of the Target Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

There has been no change to the types of the Target Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

Foreign currency risk management

The Target Group carries out its business in the PRC and all transactions are denominated in Renminbi and it does not have material foreign currency bank balances which expose the Target Group to foreign currency risk.

Interest rate risk management

The Target Group is exposed to cash flow interest rate risk in relation to bank deposits and bank borrowing at floating interest rates. The Target Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and LPR arising from the Target Group's RMB denominated borrowing. The Target Group aims at keeping borrowing at variable rates.

The Target Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowing in floating rates and ensure they are within reasonable range.

The directors consider the Target Group's exposure of the bank balances to cash flow interest rate risk is insignificant as interest bearing bank balances are within short maturity period. Besides, as the fluctuation of market interest rate on bank balances are not expected to be significant, no sensitivity analysis for the bank is prepared.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease in variable-rate bank borrowing is used and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as explained in above.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Group's loss after tax for the year ended 31 December 2021 would increase/decrease by HK$121,000 and profit after tax for the year ended 31 December 2022 and 2023 would decrease/increase by HK$116,000 and HK$111,000 respectively. This is mainly attributable to the Target Group's exposure to interest rates on its variable-rate bank borrowing.

The Target Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. The directors monitor the Target Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

Credit risk and impairment assessment

As at 31 December 2021, 2022 and 2023, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Target Group's credit risk arising from its financial assets is primarily attributable to its trade receivables and trade deposits paid to suppliers included in other receivables. In order to minimise the credit risk arising from its trade receivables and trade deposits to suppliers, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt and each deposit paid to supplier at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

The Target Group has concentration of credit risk on bank balances as 99% of balances are placed with five banks of which five is located in the PRC as at 31 December 2021, 2022 and 2023.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Target Group has concentration of credit risks on its outstanding trade receivables as 69%, 65% and 68% of its trade receivables were due from five customers as at 31 December 2021, 2022 and 2023 respectively. These customers are distributors which are private and state owned enterprises engaged in trading and wholesaling of drugs in the PRC as at 31 December 2021, 2022 and 2023. In addition, the Target Group also has concentration of credit risks on other receivables as 81% and 62% of the balance being trade deposits paid to two suppliers and one supplier in aggregate as at 31 December 2021 and 2022 respectively and 74% being trade deposits were paid to two suppliers in aggregate as at 31 December 2023. Such suppliers are also enterprises principally engaged in pharmaceutical trading and distribution in the PRC. In the opinion of the directors of the Target Company, indicators that there is no reasonable expectation of recovery include the failure of debtors to make ongoing settlement with the Target Group and the failure of debtors to make contractual payments on certain debts that are more than 365 days past due. The management of the Target Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts and to monitor credit risk on customers and suppliers.

The Target Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade receivables/ deposits paid to suppliers**	**Other financial assets/other items**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates in full.	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Target Group's financial assets, which are subject to ECL assessment:

	Notes	**External credit rating**	**Internal credit rating**	**Gross carrying amount**		
				2021	**2022**	**2023**
				HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	19	A	N/A	14,552	16,234	13,347
Trade receivables	18	N/A	Low risk *(note ii)*	6,585	6,196	2,482
Other receivables	18	N/A	Low risk *(note iii)*	2,280	1,826	2,237
				23,417	24,256	18,066

Notes:

i. For the purposes of internal credit risk management, the Target Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

ii. For trade receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Target Group determines the ECLs on these items by past due status.

In addition, the Target Group performs impairment assessment under ECL model on trade receivables with significant balances and credit-impaired individually and/or collectively. Except for trade receivable from those customers whose internal crediting are classified as credit-impaired, which are assessed for impairment individually, the Target Group measures loss allowances for remaining trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Target Group's different customer bases. The Target Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers variable reasonable and supportive forwarding-looking information. The Target Group is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

At 31 December 2021

	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*
Types of customers				
Low risk customers				
Current (not past due)	0%	6,270	–	6,270
1–365 days past due	0%	191	–	191
Over 365 days past due	0%	124	–	124
		6,585	–	6,585

At 31 December 2022

	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*
Types of customers				
Low risk customers				
Current (not past due)	0%	4,169	–	4,169
1–365 days past due	0%	2,027	–	2,027
		6,196	–	6,196

At 31 December 2023

	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*
Types of customers				
Low risk customers				
Current (not past due)	0%	908	–	908
1–365 days past due	0%	1,574	–	1,574
		2,482	–	2,482

ECL rates are based on actual loss experience over the past 12 months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables. At the end of each reporting period, the directors of the Target Company have performed impairment assessment, and concluded that no loss allowance was recognised as at 31 December 2021, 2022 and 2023 in accordance with HKFRS 9 as the amount is immaterial.

iii.

	Gross carrying amount	**Loss allowance**	**Net carrying amount**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables			
At 31 December 2021	2,280	–	2,280
At 31 December 2022	1,826	–	1,826
At 31 December 2023	2,237	–	2,237

At the end of the reporting period, the directors of the Target Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk. Accordingly, no loss allowance was recognised as at 31 December 2021, 2022 and 2023 in accordance with HKFRS 9 as the amount is immaterial.

Other than the above, the Target Group does not have other significant concentration of credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors, which has built an appropriate liquidity risk management framework to meet the Target Group's short, medium and long-term funding and liquidity management requirements. The Target Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following table details the Target Group'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 Group can be required to pay. The maturity dates for other non- derivative financial liabilities are based on the agreed repayment dates.

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

	Weighted average interest rate	On demand or less than 1 year	Between 1 year and 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2021					
Non-derivative financial liabilities					
Trade and other payables	–	58,670	–	58,670	58,671
Amount due to sole shareholder	–	39,055	–	39,055	39,055
Bank borrowings	5.49%	12,691	–	12,691	12,242
Lease liabilities	5.80%	2,978	1,748	4,726	4,497
		113,394	1,748	115,142	114,465
At 31 December 2022					
Non-derivative financial liabilities					
Trade and other payables	–	46,784	–	46,784	46,784
Amount due to sole shareholder	–	39,056	–	39,056	39,056
Bank borrowings	3.95%	11,701	–	11,701	11,267
Lease liabilities	5.80%	3,847	656	4,503	4,388
		101,388	656	102,044	101,495
At 31 December 2023					
Non-derivative financial liabilities					
Trade and other payables	–	18,289	–	18,289	18,289
Bank borrowing	3.85%	11,471	–	11,471	11,045
Lease liabilities	5.80%	3,846	338	4,184	4,145
		33,606	338	33,944	33,479

(c) Fair value measurements of financial instruments

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Target Company consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statement approximate their fair values.

27. PLEDGE OF ASSETS

During the Relevant Periods, the Target Group pledged the right-of-use assets with aggregate carrying values of approximately HK$16,568,000, HK$14,929,000 and HK$14,321,000 respectively to secure the general banking facilities granted to the Target Group.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities *HK$'000*	**Bank borrowing** *HK$'000*	**Amount due to sole shareholder** *HK$'000*	**Amounts due to a director of subsidiaries** *HK$'000*	**Loan from a related company** *HK$'000*	**Total** *HK$'000*
At 1 January 2021	665	11,883	39,065	27,236	11,883	90,732
Changes from financing cash flows:						
Payment for principal portion of lease liabilities	(172)	–	–	–	–	(172)
Payment for interest expenses	(44)	(675)	–	–	–	(719)
Advances from a director of subsidiaries	–	–	–	2,534	–	2,534
Repayment to sole shareholder	–	–	(10)	–	–	(10)
Repayment of bank borrowing	–	(12,067)	–	–	–	(12,067)
New borrowing raised	–	12,067	–	–	–	12,067
Total changes from financing cash flows	(216)	(675)	(10)	2,534	–	1,633
Exchange adjustments	76	359	–	861	359	1,655
Other changes:						
Interest expenses	188	675	–	–	–	863
Addition of lease liabilities	3,784	–	–	–	–	3,784
Total other changes	3,972	675	–	–	–	4,647

	Lease liabilities *HK$'000*	Bank borrowing *HK$'000*	Amount due to sole shareholder *HK$'000*	Amounts due to a director of subsidiaries *HK$'000*	Loan from a related company *HK$'000*	Total *HK$'000*
At 31 December 2021	4,497	12,242	39,055	30,631	12,242	98,667
Changes from financing cash flows:						
Payment for principal portion of lease liabilities	(199)	–	–	–	–	(199)
Payment for interest expenses	(42)	(468)	–	–	–	(510)
Repayment of bank borrowing	–	(11,583)	–	–	–	(11,583)
New borrowing raised	–	11,583	–	–	–	11,583
Repayment of loan from a related company	–	–	–	–	(11,583)	(11,583)
Advance from sole shareholder	–	–	1	–	–	1
Total changes from financing cash flows	(241)	(468)	1	–	(11,583)	(12,291)
Exchange adjustments	(364)	(975)	–	(2,440)	(659)	(4,438)
Other changes:						
Interest expenses	128	468	–	–	–	596
Addition to lease liabilities	368	–	–	–	–	368
Total other changes	496	468	–	–	–	964
At 31 December 2022	**4,388**	**11,267**	**39,056**	**28,191**	**–**	**82,902**

	Lease liabilities *HK$'000*	Bank borrowing *HK$'000*	Amount due to sole shareholder *HK$'000*	Amounts due to a director of subsidiaries *HK$'000*	Loan from a related company *HK$'000*	Total *HK$'000*
At 1 January 2023	4,388	11,267	39,056	28,191	–	82,902
Changes from financing cash flows:						
Payment for principal portion of lease liabilities	(201)	–	–	–	–	(201)
Payment for interest expenses	(30)	(428)	–	–	–	(458)
Repayment of advance from a director of subsidiaries	–	–	–	(808)	–	(808)
Repayment of bank borrowing	–	(11,056)	–	–	–	(11,056)
New borrowing raised	–	11,056	–	–	–	11,056
Total changes from financing cash flows	(231)	(428)	–	(808)	–	(1,467)
Exchange adjustments	(86)	(222)	–	(554)	–	(862)
Other changes:						
Interest expenses	74	428	–	–	–	502
Transfer *(note 20)*	–	–	25,415	(25,415)	–	–
Capitalisation of shareholder's loan	–	–	(64,471)	–	–	(64,471)
Total other changes	74	428	(39,056)	(25,415)	–	(63,969)
At 31 December 2023	**4,145**	**11,045**	**–**	**1,414**	**–**	**16,604**

29. RELATED PARTY DISCLOSURES

(i) Related party transactions

Other than as disclosed elsewhere in the Historical Financial Information, the Target Group has no transactions and balances with related parties.

(ii) Remuneration for key management personnel of the Target Group

Key management personnel comprises the directors and other members of the Target Group.

The remuneration of directors and other members of the Target Group during the Relevant Periods were as follows:

	2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Salaries, allowances, discretionary bonus and other benefits in kind	1,933	1,604	2,325
Contributions to defined contribution plans	111	121	145
	2,044	1,725	2,470

30. CAPITAL COMMITMENTS

	2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Acquisition of property, plant and equipment	–	–	127
Construction of property, plant and equipment	941	1,211	2,172
	941	1,211	2,299

31. PARTICULARS OF SUBSIDIARIES

The following list contains the particulars of subsidiaries of the Target Group over the Relevant Periods. The shares held are all ordinary shares.

Name of company	Place and date of incorporation/ registration and place of operations	Registered/ paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Target Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
Hubei Nuwa *(Note (b))*	PRC/Mainland China	Registered share capital of USD15,000,000 and paid share capital of USD15,000,000	2021–2023: 100%	2021–2023: 100%	–	Investment holding

			Proportion of ownership interest			
Name of company	**Place and date of incorporation/ registration and place of operations**	**Registered/ paid-up capital**	**The Group's effective interest**	**Held by the Target Company**	**Held by subsidiaries**	**Principal activities**
Wuhan Guanggu *(Note (c))*	PRC/Mainland China	Registered share capital of RMB46,000,000 and paid share capital of RMB46,000,000	2021–2023: 100%	–	2021–2023: 100%	Investment holding and provision of marketing and promotion service to an intergroup company
Hainan Nuwa *(Note (b))*	PRC/Mainland China	Registered share capital of RMB5,000,000 and paid share capital of RMB5,000,000	2021–2023: 100%	–	2021–2023: 100%	Provision of marketing and promotion service and distribution of pharmaceutical products
Xian Taij *(Note (b))*	PRC/Mainland China	Registered share capital of RMB38,850,000 and paid share capital of RMB38,850,000	2021–2023: 100%	–	2021–2023: 100%	Trading of pharmaceutical products
Shaanxi Nuwa Pharmaceutical Co.,Ltd *(Note (b))*	PRC/Mainland China	Registered share capital of RMB20,000,000 and paid share capital of RMB Nil	2021: 100% *(Note (a))*	–	2021: 100% *(Note (a))*	Investment holding

Notes:

(a) 100% of equity interest of this subsidiary has been disposed to a third party at a consideration of RMB10,500,000 which is equivalent to HK$12,162,000. The transaction has been completed on 2 June 2022.

(b) No statutory financial statements were available as there was no requirement by the local authorities to issue audited accounts.

(c) The statutory audited financial statements for the year ended 31 December 2021 was audited by Xianning Gongxin Certificate Public Accountants Co.,Ltd (咸寧公信會計師事務有限責任公司), a firm of certified public accountants registered in the PRC. No statutory financial statements for the years ended 31 December 2022 and 2023 were available as there was no requirement by the local authorities to issue audited accounts.

(d) All subsidiaries have adopted 31 December as their financial year end date.

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2023.

(2) MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2021, 31 DECEMBER 2022 AND 31 DECEMBER 2023

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2021, 2022 and 2023 ("**Relevant Periods**"). The following financial information is based on the accountants' report of the Target Company as set out in page II-1 to page II-47.

BUSINESS REVIEW

Target Company is a company incorporated in Hong Kong with limited liability. The Target Group is principally engaged in manufacturing, distribution and trading of pharmaceutical products in PRC.

Immediately prior to Completion, Target Company was owned as to 100% by Mr. U Man Iong. After Completion, Target Company will be owned as to 16% by on indirect wholly-owned subsidiary of the Company and 84% by Mr. U Man Iong.

FINANCIAL REVIEW

Revenue

Revenue was contributed by (i) trading of own manufactured products, (ii) distribution of pharmaceutical products and (iii) provision of marketing and promotion services.

The income from trading of own manufactured products recorded for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$86.6 million, HK$70.1 million and HK$57.7 million respectively. The decrease is mainly due to a product Lifukang Detergent (利夫康洗劑) experiencing reduced demand from customers, resulting from the adverse impact of pharmaceutical policy in the PRC and the decrease in the demand from customers in a product Rujiling Capsule (乳疾靈膠囊) resulting from the highly competitive with the several similar products in the PRC market.

The income from distribution of pharmaceutical products recorded for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$3.6 million, HK$3.1 million and HK$9.8 million respectively. The increase is mainly due to the launch of a product Oxytocin Injection (縮宮素注射液) that started at the end of 2022.

The income from provision of marketing and promotion services recorded for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$22.9 million, HK$17.0 million and HK$25.3 million respectively. The increase is mainly due to the increase in promotion service income from Oxytocin Injection and partial offset by the decrease in the promotion service income from Yimucao Dispersible Tablets (益母草分散片) due to the adverse impact of pharmaceutical policy in the PRC.

	2021 Revenue *HK$'000*	2022 Revenue *HK$'000*	2023 Revenue *HK$'000*
Product			
Rujiling Capsule	9,464	7,371	4,775
Lifukang Detergent	76,683	61,386	52,347
Ankun Capsule	148	–	–
Gongyankang Granules	79	34	105
Loratadine Orally Disintegrating Tablets	240	1,344	355
Benozil Tablets	–	–	103
Trading of own manufactured products	86,614	70,135	57,685
Jianfu Capsule	911	382	–
Yimucao Dispersible Tablets	2,659	2,176	1,801
Nitrofurantoin Tablets	–	–	450
Oxytocin Injection	–	575	7,522
Distribution of pharmaceutical products	3,570	3,133	9,773
Promotion services – Oxytocin Injection	22,913	15,778	10,448
Promotion services – Yimucao Dispersible Tablets	–	1,251	14,884
Provision of marketing and promotion services	22,913	17,029	25,332
Total	113,097	90,297	92,790

Cost of sales

The cost of sales for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$25.3 million, HK$20.5 million and HK$19.7 million respectively. The decrease was mainly due to decrease in the cost of production due to the product Lifukang Detergent experiencing reduced demand from customers, resulting from the adverse impact of pharmaceutical policy in the PRC; and partial offset by the increase in the distribution of pharmaceutical products due to the launch of the product Oxytocin Injection that started at the end of 2022.

	2021	**2022**	**2023**
	Cost of sales	**Cost of sales**	**Cost of sales**
	HK$'000	*HK$'000*	*HK$'000*
Product			
Rujiling Capsule	2,733	2,052	1,230
Lifukang Detergent	19,687	14,785	10,597
Ankun Capsule	89	–	–
Gongyankang Granules	135	61	48
Loratadine Orally Disintegrating Tablets	343	1,072	239
Benozil Tablets	–	–	105
Trading of own manufactured products	22,987	17,970	12,219
Jianfu Capsule	361	141	–
Yimucao Dispersible Tablets	1,993	1,845	1,385
Nitrofurantoin Tablets	–	–	429
Oxytocin Injection	–	502	5,625
Distribution of pharmaceutical products	2,354	2,488	7,439
Provision of marketing and promotion services	–	–	–
Total	25,341	20,458	19,658

Gross Profit and Gross Profit Margin

The gross profit for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$87.8 million, HK$69.8 million and HK$73.1 million respectively. The increase in gross profit of the Group was mainly attributable to the increase in income from distribution of pharmaceutical products due to the launch of the product Oxytocin Injection that started at the end of 2022 and income from provision of marketing and promotion services due to the increase in promotion service income from the product Oxytocin Injection and partially set off by the decrease in a trading of its own manufactured product Lifukang Detergent experiencing reduced demand from customers, resulting from the adverse impact of pharmaceutical policy in the PRC and decrease in the promotion service income from the product Yimucao Dispersible Tablets due to the adverse impact of pharmaceutical policy in the PRC.

	2021	**Gross profit %**	**2022**	**Gross profit %**	**2023**	**Gross profit %**
Trading of own manufactured products	63,627	73.5%	52,165	74.4%	45,466	78.8%
Distribution of pharmaceutical products	1,216	34.1%	645	20.6%	2,334	23.9%
Provision of marketing and promotion services	22,913	100.0%	17,029	100.0%	25,332	100.0%
Total	87,756	77.6%	69,839	77.3%	73,132	78.8%

	2021 Gross profit *HK$'000*	2022 Gross profit *HK$'000*	2023 Gross profit *HK$'000*
Product			
Rujiling Capsule	6,731	5,319	3,545
Lifukang Detergent	56,996	46,601	41,750
Ankun Capsule	59	–	–
Gongyankang Granules	(56)	(27)	57
Loratadine Orally Disintegrating Tablets	(103)	272	116
Benozil Tablets	–	–	(2)
Trading of own manufactured products	63,627	52,165	45,466
Jianfu Capsule	550	241	–
Yimucao Dispersible Tablets	666	331	416
Nitrofurantoin Tablets	–	–	21
Oxytocin Injection	–	73	1,897
Distribution of pharmaceutical products	1,216	645	2,334
Promotion services – Oxytocin Injection	22,913	15,778	10,448
Promotion services – Yimucao Dispersible Tablets	–	1,251	14,884
Provision of marketing and promotion services	22,913	17,029	25,332
Total	87,756	69,839	73,132

Other income, gains and losses, net

The net other gains for the three years ended 31 December 2021, 2022 and 2023 were HK$0.7 million, HK$4.2 million and HK$1.3 million respectively. The decrease was mainly due to the absence of fair value gain of investment in subsidiary.

Selling and distribution expenses

The selling and distribution expenses for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$79.3 million, HK$58.3 million and HK$47.9 million respectively. The decrease was mainly due to the products Lifukang Detergent and Yimucao Dispersible Tablets experiencing reduced demand from customers, resulting from the adverse impact of pharmaceutical policy in the PRC and partial offset by the increase in provision of marketing and promotion services fee due to launch of the product Oxytocin Injection that started at the end of 2022, in line with the income from distribution of pharmaceutical products.

	2021	**2022**	**2023**
	HK$	*HK$*	*HK$*
Service fee expenses related product			
Rujiling Capsule	5,008,962	4,025,760	2,311,207
Lifukang Detergent	47,948,115	37,305,481	27,566,551
Jianfu Capsule	–	142,238	–
Yimucao Dispersible Tablets	22,766,519	13,327,528	5,563,546
Oxytocin Injection	–	641,087	9,587,252
Total	75,723,596	55,442,094	45,028,556

Administrative expenses

The administrative expenses for the three years ended 31 December 2021, 2022 and 2023 were approximately HK$18.2 million, HK$13.9 million and HK$16.2 million respectively. The increase in 2023 was mainly due to the increase in the salaries of employees and increase in the professional fee related the research and consultancy service.

Income tax expense

The income tax expense for the three years ended 31 December 2021, 2022 and 2023 were approximately nil.

(Loss) profit for the year

The loss for the year ended 31 December 2021 were approximately HK$9.9. The profit for the two years ended 31 December 2022 and 2023 was approximately HK$1.2 million and HK$9.8 million respectively.

Significant investments, material acquisitions and disposals

There was no significant investment, material acquisitions and disposals of subsidiaries and associated companies during the Relevant Periods.

Capital structure, liquidity and financial resources

The Target Group generally financed its operations through its internal resources generated from its operating activities and banking facilities. There is no foreign currency net investment hedged by currency borrowings and other hedging instruments.

As at 31 December 2021 and 2022, Target Company had net liabilities of approximately HK$49.8 million, HK$47.7 million respectively. As at 31 December 2023, Target Company had net assets of approximately HK$26.7 million. The gearing ratio of Target Company was approximately -103.1%, -105.4% and 41.4% respectively. The gearing ratio is calculated by total bank and other borrowings of the Target Group divided by the consolidated total equity of Target Company.

The debt-to-assets ratio of Target Company was approximately 58.4%, 69.1% and 16.3% respectively. The debt-to-assets ratio is calculated by total bank and other borrowings of the Target Group divided by the consolidated total assets of Target Company.

Contingent liabilities

As at 31 December 2021, 2022 and 2023, Target Company did not have any contingent liabilities.

Charges on assets

There was no charge on any asset as at 31 December 2021, 2022 and 2023.

Foreign currency exposure

The Target Group carries out its business in the PRC and most of the transactions are denominated in Renminbi. The Target Group does not have foreign currency bank balances which expose the Target Group to foreign currency risk. The carrying amount of the Target Group's monetary assets is denominated in the Target Group's functional currency at the end of reporting period.

Capital Commitments

As at 31 December 2021, 2022 and 2023, the Target Group did not have any material capital commitment.

Employees and remuneration policy

As at 31 December 2021, 2022 and 2023, Target Group hired 138, 132 and 129 staffs respectively. The Target Group's remuneration policy is based on the positions, duties and performance of the employees. The employees' remunerations vary according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Target Group offers comprehensive and competitive remuneration and benefits packages to all its employees. The Target Group also provides other employee benefits governed by the relevant local governments for its employees in the PRC.

Future plans and prospects

The Group expects the Target Company to continue to engage in manufacturing, distribution and trading of pharmaceutical products in the PRC.

The following is the text of a report, prepared for the purpose of inclusion in this Circular, received from the Company's reporting accountants, Moore CPA Limited, Certified Public Accountants, Hong Kong.

(A) ACCOUNTANTS' REPORT ON THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF NEW RAY MEDICINE INTERNATIONAL HOLDING LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (THE "GROUP") INCLUDING ACQUIRED EQUITY INTERESTS IN CHINA NVWA PHARMACEUTICAL GROUP LIMITED (THE "TARGET COMPANY") (COLLECTIVELY AS THE "ENLARGED GROUP")

1. Basis of preparation

The unaudited pro forma financial information that includes unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition on the basis of notes set out below for illustrating the effect of the Acquisition, as if the Acquisition had taken place on 31 December 2023 for the preparation of the unaudited pro forma consolidated statement of assets and liabilities.

The unaudited pro forma financial information is prepared based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2023 or at any further date.

The unaudited pro forma financial information for the year ended 31 December 2023 is prepared based on the consolidated statement of financial position of the Group as at 31 December 2023 as extracted from the consolidated financial statements set out in the latest published annual report of the Group, after making pro forma adjustments of the Acquisition that are (i) directly attributable to the Acquisition ; and (ii) factually supportable, as described in the accompanying notes.

2. Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group

	The Group as at 31 December 2023	Pro forma adjustment		Unaudited pro forma of Enlarged Group as at 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current assets				
Property, plant and equipment	12,016			12,016
Right-of-use assets	17,403			17,403
Prepayment for a distribution right	2,856			2,856
Equity instruments at fair value through other comprehensive income	43,067	17,280		60,347
Financial asset at fair value through profit or loss	36,608			36,608
Other prepayment	1,457			1,457
	113,407	17,280	–	130,687
Current assets				
Inventories	31,167			31,167
Trade and other receivables	240,219			240,219
Prepayment for a distribution right	2,856			2,856
Bank balances and cash	103,954	(17,280)		86,674
	378,196	(17,280)	–	360,916
Current liabilities				
Trade and other payables	5,267		268	5,535
Lease liabilities	288			288
	5,555	–	268	5,823
Net current assets	372,641	(17,280)	(268)	355,093
Total assets less current liabilities	486,048	–	(268)	485,780
Non-current liabilities				
Deferred tax liabilities	5,795			5,795
	480,253	–	(268)	479,985

Notes:

(1) The amounts are extracted from the latest published consolidated financial statements of the Group for the year ended 31 December 2023.

(2) On 16 May 2024, Major Bright Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of New Ray Medicine International Holding Limited, entered into the Sale and Purchase Agreement to acquire 16% of the equity interest in the Target Company for consideration of HK$17,280,000 from the sole shareholder of the Target Company, U Man Iong.

Based on the Sale and Purchase Agreement, the Consideration of HK$17,280,000 will be settled in cash at Completion.

Upon Completion, the Group holds 16% equity interest in the Target Company. The directors of the Company consider that the Group does not have control nor significant influence over the Target Company since the Group does not have the right to appoint any director of the board of the Target Company. The directors of the Company have elected to designate this investment in equity instrument at fair value through other comprehensive income as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run.

For illustrative purposes, pro forma adjustment was made in the unaudited pro forma consolidated statement of assets and liabilities to reflect that the purchase consideration of HK$17,280,000 on the Completion Date, had been settled in cash, assuming the Acquisition had been completed on 31 December 2023.

(3) The adjustment represents the estimated expenditures incurred in connection with the Acquisition which is charged to profit or loss of the Group including the accountancy, legal, valuation and other professional services fess to be borne by the Group of approximately HK$268,000.

(4) Save as set out above, no other adjustments have been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Group and the Target Company entered into subsequent to 31 December 2023.

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

To the Directors of New Ray Medicine International Holding Limited

We have completed our assurance engagement to report on the compilation of Unaudited Pro Forma Financial Information of New Ray Medicine International Holding Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2023 and two related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Part A of Appendix III to the circular dated 21 June 2024 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the acquisition of 16% equity interests in China Nvwa Pharmaceutical Group Limited on the Group's financial position as at 31 December 2023 as if the transaction had taken place on 31 December 2023. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's consolidated financial statements for the year ended 31 December 2023, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Management

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 behaviour.

The firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "*Quality Management for Firms That Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements*" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including 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 Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2023 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 of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

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

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

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

Moore CPA Limited
Certified Public Accountants

Leung Man Chung
Practising Certificate Number: P08074
Hong Kong, 21 June 2024

The following is the text of a report, prepared for the purpose of inclusion in this Circular received from Ascent Partners Valuation Service Limited, an independent valuer, in connection with its valuation of the equity interest of the Target Group.

Date: 21 June 2024

The Board of Directors
New Ray Medicine International Holding Limited
Room 911B, 9/F, Tower 1, Silvercord
30 Canton Road, Tsim Sha Tsui
Hong Kong

Dear Sir/Madam,

Re: Valuation of 16% Equity Interest in China Nvwa Pharmaceutical Group Limited and its subsidiaries

In accordance with the instruction of **New Ray Medicine International Holding Limited** (the "**Company**"), we have undertaken a valuation task to determine the fair value of 16% equity interest in **China Nvwa Pharmaceutical Group Limited together with its subsidiaries** (the "**Target Group**") as of **31 March 2024** (the "**Valuation Date**").

This report outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinion and our conclusion of value.

Ascent Partners Valuation Service Limited ("**Ascent Partners**") is an independent firm providing full range of valuation and advisory services. This report is prepared independently in accordance with the International Valuation Standards[1]. Neither Ascent Partners nor any authors of this report hold any interest in the Company, the Target Group or their related parties. The fee for providing this report is based on Ascent Partners' normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in this report.

[1] International Valuation Standards (IVS) serve as the key guide for valuation professionals globally to underpin consistency, transparency and confidence in valuations. URL: https://www.ivsc.org/standards/

1. PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the fair value of equity interest of the Target Group as of the Valuation Date. This report outlines our latest findings and valuation conclusion and is prepared solely for the senior management of the Company for public disclosure purpose.

2. SCOPE OF WORK

In conducting this valuation exercise, we have:

- Co-ordinated with the Company representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target Group, including the legal documents, licenses, financial statements, projections, etc. made available to us;
- Discussed with the senior management of the Target Group (the "**Management**") and the Company to understand the history, business model, operations, customer base, business development plan and profit forecast, etc. of the business enterprises for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Target Group made available to us and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the equity interest of Target Group; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target Group and its authorized representatives.

3. BACKGROUND OF THE TARGET GROUP

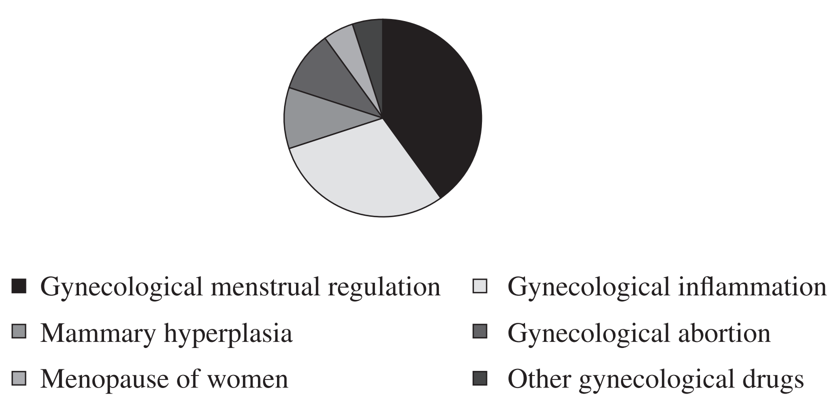
The Target Group primarily focuses on manufacturing, developing, distributing, and selling pharmaceutical products, with a particular emphasis on gynecological-related Chinese medicine. In addition, it provides marketing and promotion services in the Chinese market.

4. INDUSTRY OVERVIEW

The gynecological proprietary Chinese medicine industry focuses on treating women's reproductive system diseases and promoting gynecological health using Chinese herbal formulations. These medicines are tailored to individual patients based on traditional Chinese medicine theories, considering their condition, physique, and pulse. They are available in various forms for internal use, including granules, pills, powders, and decoctions.

Currently, the gynecological medicine industry in China exhibits low market concentration and primarily emphasizes gynecological menstrual medicines and inflammatory drugs. Leading products in the market include Jieeryin lotion, Baofukang suppository, Fuyankang tablet, Gynecological Qianjin tablet, Red core gynecological cleaning lotion, Matrine gel, Gynecological Qianjin capsule, Xiaomi suppository, Kangfu gel, and others. These products compete fiercely for market share within the gynecological inflammatory drug segment.

Market segmentation of Gynecological proprietary Chinese medicine in 2022



In recent years, China's gynecological proprietary Chinese medicine market has experienced significant growth due to the country's rapid economic development and increased awareness of women's health. The government has implemented supportive policies to modernize and innovate traditional Chinese medicine, promoting its integration with Western medicine. The Maternal and Child Safety Action Plan (2021–2025), issued by the National Health Commission, specifically emphasizes the use of traditional Chinese medicine in obstetrics, gynecology, and pediatrics. The plan encourages collaborative diagnosis and treatment systems that combine traditional Chinese and Western medicine. As a result of these policies and the rising demand, the industry has exhibited steady growth.

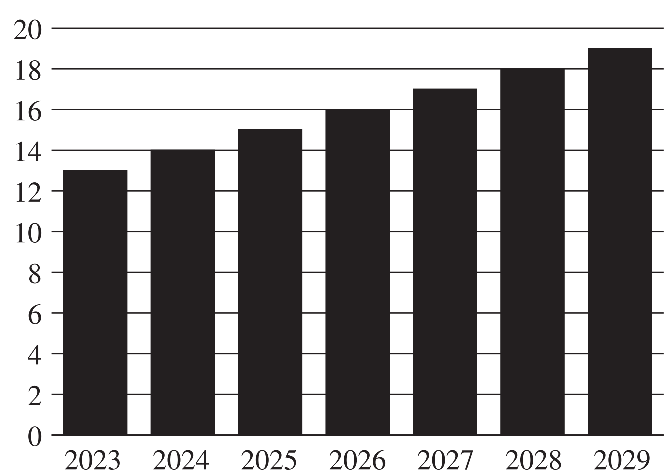
Advancements in science and technology have led to a better understanding and higher standards for extracting, separating, purifying, and detecting active ingredients in Chinese herbal medicine. This progress is expected to enhance the quality and effectiveness of gynecological proprietary Chinese medicines. Additionally, increased investment in research and development will lead to the development of new drugs to address complex gynecological conditions, catering to diverse clinical needs.

The gynecological proprietary Chinese medicine industry could expand into international markets, particularly in Asia and Africa, due to the growing recognition of traditional Chinese medicine. E-commerce platforms and cross-border trade facilitate the expansion of online sales, thereby increasing market coverage. Emerging trends in personalized treatment and precision medicine involve utilizing big data and artificial intelligence to develop tailored treatment plans based on individual patient characteristics. Integrating gynecological proprietary Chinese medicines with Western medicine offers complementary treatment approaches, providing comprehensive and effective options for patients.

As consumer health awareness continues to rise, gynecological proprietary Chinese medicine enterprises should consider providing value-added services such as health consultations and disease prevention education. Furthermore, these companies can expand their involvement in women's health management throughout various life stages, offering comprehensive solutions for women's well-being.

According to the forecast by Zhiyanzhan Industry Research Institute, the market size of China's gynecological proprietary Chinese medicine industry is projected to reach 18.704 billion yuan by 2029. The following is the market size forecast for the gynecological proprietary Chinese medicine industry in China from 2023 to 2029:

Market size forecast of China's Gynecological proprietary Chinese Medicine Industry in 2023–2029 (Billion)



5. ECONOMIC OVERVIEW

In 2023, China experienced a significant rebound in economic activity following the reopening after the COVID-19 pandemic. The country's real GDP recovered to 5.2%, in line with the government's target of around 5%. This recovery was primarily driven by domestic demand, with private consumption playing a crucial role. To facilitate this recovery, the Chinese government implemented various supportive macroeconomic policies. These policies included further relaxation of monetary measures, tax relief for both businesses and households, and increased fiscal spending on disaster relief efforts.

China has enjoyed a remarkable period of economic expansion, which has brought about significant improvements in living standards and a substantial reduction in extreme poverty. However, this growth has also given rise to certain imbalances and vulnerabilities. The excessive investments in infrastructure and real estate have resulted in a surge in debt levels among property developers, local governments (**LG**), and local government financing vehicles. Recognizing these issues, the government has taken proactive measures to curb excessive leverage among developers. These efforts have necessitated a correction in the property market, which continues to impact economic activity, particularly in terms of LG finances. Considering these structural challenges, the authorities have rightly announced their intention to shift towards high-quality growth while addressing risks associated with the property sector and LG debt.

Although inflation decreased in 2023, largely influenced by lower energy and food prices, it is expected to gradually increase to 1.6% in 2024. This increase is driven by the narrowing output gap and the diminishing impact of commodity price fluctuations. However, it is important to note that the outlook carries a high level of uncertainty, particularly given the existence of significant imbalances and associated vulnerabilities within the economy.

There are considerable downside risks to consider. For instance, a more severe contraction in the property sector could further weigh on private demand, erode confidence, strain local government finances, and result in disinflationary pressures and adverse macro-financial feedback loops. Additionally, a greater-than-expected decline in external demand, tightening global conditions, and increased geopolitical tensions pose additional risks.

On a positive note, decisive policy actions, including accelerated restructuring in the property sector, have the potential to boost confidence and lead to a stronger-than-expected rebound in private investment. Implementing such measures could have a positive impact on the overall economic outlook.

Looking ahead, China is expected to experience a slowdown in growth, which is projected to slow to 4.5% and 4.3% in 2024 and 2025, respectively, reflecting short term headwinds but also growing structural constraints to growth, including high levels of debt, population ageing and persistent economic imbalances. Furthermore, in the medium term, growth is expected to gradually decline, reaching around 3.5% in 2028. This decline can be attributed to challenges such as weak productivity and an aging population.

China Economic Outlook	2020	2021	2022	2023	2024f	2025f
Real GDP growth *(%)*	2.2	8.4	3.0	5.2	4.5	4.3
Consumer Price Index *(% change, average)*	2.5	0.9	2.0	0.2	1.6	2.1
Current account balance *(% of GDP)*	1.7	2.0	2.2	1.5	0.7	0.3
Consolidated fiscal balance *(% of GDP)*	-8.5	-4.0	-6.4	-6.5	-6.4	-4.2

Source: World Bank

6. BASIS OF VALUATION

Our valuation is carried out on a fair value basis. Hong Kong Financial Reporting Standard (HKFRS) 13 *Fair Value Measurement* defines fair value as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date*".

7. BASIS OF OPINION

We have conducted our valuation with reference to International Valuation Standards issued by International Valuation Standards Council (IVSC).[2] The valuation procedure includes review of the financial and economic conditions of the subject business, an assessment of key assumptions, estimates, and representations made by the Target Group. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent, and unbiased.

The following factors also form a considerable part of our basis of opinion:

- Assumptions on the market and on the business of the Target Group that are considered to be fair and reasonable;
- Historical financial performance that reflects the business operation of the Target Group;
- Consideration and analysis on the micro- and macro-economic factors; and

[2] The IVSC has been in existence for more than 25 years. its origins were in the need identified by a number of professional bodies from around the world for uniformity in the valuation approaches used in real estate markets. Over the past decade it has evolved and expanded and now produces standards for many types of assets, including plant and equipment, intangible assets and businesses. The International Valuation Standards are already recognised and accepted by a wide range of organisations including the UK Financial Services Authority, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India and the European Public Real Estate Association amongst others. IVSC has also worked in liaison with the International Accounting Standards Board (IASB) in producing guidance on valuations required under IFRS, an increasingly important need as IFRS is adopted in more a states.

- Analytical review of the Target Group's business.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

8. SOURCES OF INFORMATION

In conducting our valuation of the subject asset, we have considered, reviewed and relied upon the following key information provided by the instructing party and from the public:

- Overview of the business nature of the Target Group;
- Historical financial reports of the Target Group;
- Publications and research reports regarding the related industry; and
- Bloomberg, Hong Kong Stock Exchange and other reliable sources of market data.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this valuation. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Company.

We also conducted research using various sources including government statistical releases and other publications to verify the reasonableness and fairness of information provided and we believe that the information is reasonable and reliable.

Our opinion is based upon existing economic, market, financial and other conditions which can be evaluated on the date of this report, and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control, or the control of any party involved in this valuation exercise.

9. VALUATION APPROACH AND METHODOLOGY

In carrying out this valuation exercise, we have considered the following approaches and methodologies:

Cost Approach – The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history. This approach is the most practical way to produce a reliable valuation without a known established market.

Unlike market and income approaches which incorporate either market sentiments or future earnings capacity of an asset as a function to determine its current value, the cost approach considers the fundamental cost that takes to form the asset.

Market Approach – In this approach, the value of an asset is appraised with reference to market prices of similar assets. A general way of estimating a value indication of an asset, the market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect differences in terms, conditions, etc. relative to the market comparative. Assets for which there is an established market may be appraised by this approach.

There are two methods to implement the market approach:

The Guideline Transaction Method – In the first method, the transaction data for companies in a business similar to that of the subject company are used. A database of buy and sale records on enterprises with financial fundamentals and principal business similar to the subject company is used as the basis for valuation. Assets which have an established market may be appraised by this approach. However, this method has not been adopted in this valuation because insufficient market transaction data are available.

The Guideline Public Company Method – In the second method, the valuation multiples derived from the market prices and financial data of guideline public companies are used to appraise the subject company. The valuation multiples derived from the adopted guideline public companies are applied to the financial data of the subject company to arrive at its fair value.

Income Approach – In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership. The value of the asset to be valued is developed through the application of the discounted cash flow method to devolve the values of expected future income generated by the asset into a present value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its underlying business operation.

Approach Adopted – In this valuation exercise, the cost approach is not adopted because it does not capture the future economic benefits contributed by the Target Group and it is not generally adopted in the valuation of a going concern. The income approach is not adopted because it requires detailed information for the business operation and long-term financial projections, which requires the Management's estimation and assumptions with uncertainty. We believed that the market approach would be appropriate and reasonable in the appraisal for the fair value of the Target Group. The fair value of the Target Group has been developed through the Guideline Public Company Method. Since there are sufficient public companies in a similar business and with a similar business model as those of the company being valued with shares being traded freely and actively on the markets, their market values are good indicators of the industry. Hence, this method is adopted in this valuation.

10. ASSUMPTIONS AND NOTES TO VALUATION

The following assumptions considered, having significant sensitivity effects in this valuation, have been evaluated and validated in arriving at our assessed values.

(a) We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Target Group.

(b) As part of our analysis, we have reviewed the information related to this valuation, which is made available to us. We have no reason to doubt the accuracy and fairness of such information on which we have relied to a considerable extent in arriving at our opinion of value.

(c) Based on the International Valuation Standards, assumptions are suppositions taken to be true. Assumptions involve facts, conditions, or situations affect the subject of, or approach to, a valuation but which may not be capable or worthy of verification. All valuations are dependent to some degree on the adoption of assumptions.

11. ANALYSIS AND VALUATION

In this valuation task, following ratios have been considered:

- Price-to-Revenue
- Price-to-Book Value
- Price-to-Earnings

The Price-to-Revenue ratio is considered not appropriate since revenue does not take into account the profitability of a company, which affects its value.

The Price-to-Book ratio is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any market value added (as reflected by a price to book ratio of larger than 1), should have its own competencies and advantages. These intangible company-specific competencies and advantages are not captured in the price-to-book ratio and so it is not a good measurement of the market value of a company. As per Pablo Fernandez, PricewaterhouseCoopers Professor of Corporate Finance, IESE Business School, book value bears little relationship to market value, only if the company adds no value.

The **Price-to-Earnings ratio** ("**P/E**") is considered appropriate and is adopted in this valuation because it is the most employed valuation multiples. It relates the market value of a company's equity to its normalized earnings, an important driver of shareholder value. This multiple is derived by dividing the market capitalization of the underlying company as of the Valuation Date to its audited Trailing Twelve Months ("**TTM**") historical earnings as of the Valuation Date.

The table below shows the TTM P/E ratios of the guideline public companies adopted in this valuation:

Ticker	**Guideline Public Company**	**P/E**
000423 CH Equity	Dong-E-E-Jiao Co., Ltd.	34.45
002873 CH Equity	Guiyang XinTian Pharmaceutical Co., Ltd.	35.75
301331 CH Equity	Enwei Pharmaceutical Co., Ltd.	28.87
600479 CH Equity	Zhuzhou Qianjin Pharmaceutical Co., Ltd.	14.46
600771 CH Equity	GuangYuYuan Chinese Herbal Medicine Co., Ltd.	133.96

Source: Bloomberg

Details with the selection and exclusion criteria of these guideline public companies can be found in Appendix II.

Outliers of Valuation Multiples

The Grubbs' Test is employed to identify the outliers of the P/E multiples, by using their arithmetic mean ("**μ**") and standard derivation ("σ").

Mean, μ	49.50
Standard Deviation, σ	47.96
Upper bound, $\mu + 1.645\ \sigma$	128.40
Lower bound, $\mu - 1.645\ \sigma$	-163.25

Based on the Grubbs' Test, any P/E ratio falling beyond 1.645 σ above or below the μ could be considered an outlier. Consequently, the P/E ratio of 600771 CH Equity, exceeding the below upper bound of 128.40, is treated as an outlier and excluded from the valuation calculation. The table below shows the unadjusted P/E multiples of the guideline public companies finally adopted:

Ticker	**Guideline Public Company**	**P/E**
000423 CH Equity	Dong-E-E-Jiao Co., Ltd.	34.45
002873 CH Equity	Guiyang XinTian Pharmaceutical Co., Ltd.	35.75
301331 CH Equity	Enwei Pharmaceutical Co., Ltd.	28.87
600479 CH Equity	Zhuzhou Qianjin Pharmaceutical Co., Ltd.	14.46

Adjustment of Valuation Multiples for Size

Guideline public companies are often of significantly different in size as compared to the Target Group, leading to different risk premiums with respect to company size. A guideline public company with lower risk premium of size (i.e. larger size) than the Target Group generally implied lower inherent risk in terms of business operation and financial performance, resulting in higher valuation multiple that derives into higher value. Similarly, the Target Group with higher risk premium of size (i.e. smaller size) implied higher business risk, resulting in lower valuation multiple. Therefore, the P/E ratio is adjusted to account the difference in size effect between the guideline public companies and the Target Group by using the following formula suggested by Nina Milenković from KPMG:

$$M_{adj} = \frac{1}{\frac{1}{M_{or}} + (SRP_s - SRP_B)}$$

where:

- M_{adj} is the adjusted P/E for size.
- M_{or} is the original P/E of the guideline public companies.
- SRP_s is the Size Risk Premium of the Target Group.
- SRP_B is the Size Risk Premium of the guideline public companies.

Source: Market Multiples Adjustments for Differences in Risk Profile – An Airline Company Example

As suggested by Kroll Cost of Capital 2023, a small company size risk premium of 4.70% is applied to the Target Group, and a range of size premium between 0.64% and 1.99% is applied to the guideline public companies according to their respective sizes (i.e. market capitalisation). As a result, the average of the adjusted Price-to-Earnings multiples of 14.57 listed in the following table is adopted to derive the fair value of equity interest of business operation in the Target Group.

Guideline Public Company	**Equity** *(Million, USD)*	**Size Premium**	**Adjusted P/E**
000423 CH Equity	5,485	0.64%	14.36
002873 CH Equity	400	1.99%	18.16
301331 CH Equity	345	1.99%	16.20
600479 CH Equity	641	1.14%	9.54
Average P/E Multiple			**14.57**

The average of the valuation multiples of guideline public companies is then applied to the TTM earnings of the Target Group to derive the value of its 100% equity value.

Adjustment of Valuation for Illiquidity

As the Target Group is a private firm and its shares lack marketability, i.e. they are non-trading and non-marketable, compared to the shares of adopted guideline public companies, an adjustment for the lack of marketability of the equity interest in the Target Group is adopted by the means of a DLOM of 15.70%. The adopted DLOM value is referenced from "2023 Stout Restricted Stock Study Companion Guide" published by Stout Risius Ross, LLC.

According to the audited financial statement of the Target Group, the valuation steps are shown below:

Audited TTM earnings of the Target Group	HK$9,763,000
P/E	14.57x
100% Equity interest in the Target Group before adjustment:	HK$142,200,000
Less: 15.7% discount for lack of marketability of the Target Group	
Adjusted 100% equity interest in the Target Group	HK$120,000,000
16% Equity interest in the Target Group	**HK$19,200,000**

12. VALUATION COMMENTS

As part of our analysis, we have reviewed the financial and business information, such as project documents and other pertinent data concerning the Target Group, provided to us by the Target Group and the Company. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and have obtained such further information as is considered necessary for the purpose of this valuation.

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

13. RISK FACTORS

(a) General Economic, Political, and Social Considerations

Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in global political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of the Target Group. None of these changes can be foreseen with certainty.

(b) Inflation

The concurrent loosening of monetary policies by the central banks in many developed and developing countries pose a significant risk of inflation, which will erode the profitability of the Target Group.

(c) Company Specific Risk

The performance of the Target Group may be better or worse than the expectation, and the resulting earnings and cash flows can be very uncertain. The possibility of severe operational incidence, whether it is exogenous or endogenous, cannot be precluded.

(d) Technological Changes

Any changes in the technological developments and advancements may have significant impacts on the projections of the future income of the Target Group. To remain competitive in the industry, the Target Group may be required to make substantial capital expenditures to keep up with technological changes.

(e) Concentration Risk

The revenue of the Target Group is heavily dependent on a single business segment. There is no guarantee that this business relationship can be maintained and that the products of the Target Group will remain popular.

14. OPINION OF VALUE

Based on the result of our investigations and analyses outlined in this report, we are of the opinion that the fair value of the 16% equity interest in the Target Group as of the Valuation Date, free from any encumbrances, is **HK$19,200,000**.

Yours faithfully,
For and on behalf of
Ascent Partners Valuation Service Limited

William Yuen	**Paul Wu**
Director	*Principal*
CFA, CVA, FRM	*MSc, CMA (Aust.), CVA*

Notes:

1. Mr. William Yuen is a Chartered Financial Analyst® (CFA) charterholder, Chartered Valuer and Appraiser (CVA), and Financial Risk Manager (FRM) – Certified by the Global Association of Risk Professionals. He also holds a Master degree of Science in Finance. Mr. Yuen has over 10 years' experience in valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries.

2. Mr. Paul Wu is a Certified Management Accountant (CMA) and Chartered Valuer and Appraiser (CVA). He has extensive experience in corporate advisory and valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries. Prior to working in the financial service industry, Mr. Wu had worked as a senior management in world class technology companies.

3. This valuation report is co-authored by Mr. Wayne Hu, CFA

APPENDIX I LIMITING CONDITIONS

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation and other pertinent data concerning this valuation made available to us. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.

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

3. Ascent Partners shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation unless prior arrangements have been made.

4. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

5. Our conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

6. We assume that there are no hidden or unexpected conditions associated with valuation subject that might adversely affect the reported value(s). Further, we assume no responsibility for changes in market conditions after the date of this report.

7. This valuation report has been prepared solely for the use of the designated party. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any other party without Ascent Partners' prior written consent.

8. This report is confidential to the client for the specific purpose to which it refers and is for the use only of the party to whom it is addressed. No responsibility is accepted with respect to any third party for the whole or any part of its contents.

APPENDIX II GUIDELINE PUBLIC COMPANIES

Bloomberg is searched exhaustively for all listed companies principally engaged in manufacturing, developing, and selling pharmaceutical products according to the following criteria:

a. Majority of revenue (≥50%) is generated from manufacturing and selling specialty pharmaceutical products, similar to the Target Group;

b. Majority of revenue (≥50%) is generated in China, matching the geographic focus of the Target Group;

c. Shares are listed on the stock exchange(s) of China or Hong Kong and have been actively traded for a reasonable period; and

d. Detailed financial and operational information is available from Bloomberg or other publicly available sources.

The exhaustive search resulted in a short-list of 189 companies. Our separate research found an additional 3 companies that meet the above criteria but not covered by the short-list.

To better align with the focus of the Target Group's pharmaceutical business segment, which specialises in manufacturing and selling gynecological-related Chinese medications, we examined the business model and product profiles of the short-listed 192 companies, with the information obtained from the companies' websites and/or other reliable sources.

Only companies with a material proportion (≥25%) of gross profit attributed to gynecological-related Chinese medicine were finally adopted.

Since our searches for eligible guideline public companies are exhaustive and we only consider companies that meet both above-mentioned criteria, which are specific to the business operation of the Target Group, we believe that the adopted companies listed below provide representative, fair and reasonable comparisons:

Stock Code	**Company Name**
000423 CH Equity	Dong-E-E-Jiao Co., Ltd.
002873 CH Equity	Guiyang XinTian Pharmaceutical Co., Ltd.
301331 CH Equity	Enwei Pharmaceutical Co., Ltd.
600479 CH Equity	Zhuzhou Qianjin Pharmaceutical Co., Ltd.
600771 CH Equity	GuangYuYuan Chinese Herbal Medicine Co., Ltd.

The tables presented below offer a quantitative analysis, comparing the Target Group with the chosen guideline public companies:

Shortlisted companies	Revenue generated from manufacturing and selling specialty pharmaceutical products (%)	Revenue generated in China (%)	Revenue for the Target Group
000423 CH Equity	97%	100%	
002873 CH Equity	100%	100%	Revenue relating to specialty pharmaceutical products accounts for 62%, 100% generated in China.
301331 CH Equity	99%	100%	
600479 CH Equity	50%	100%	
600771 CH Equity	92%	100%	

Shortlisted companies	Gross Profit contributed by gynecological-related Chinese medicine (%)	Gross Profit contributed by gynecological-related Chinese medicine (%) of the Target Group
000423 CH Equity	99%	
002873 CH Equity	71%	
301331 CH Equity	55%	62%
600479 CH Equity	28%	
600771 CH Equity	25%	

Guideline Public Company 1

Ticker: 000423 CH Equity

Name: Dong-E-E-Jiao Co., Ltd.

Exchange: Shenzhen

Description: Dong-E-E-Jiao Co., Ltd. primarily manufactures and sells traditional Chinese medicine, health care products, health foods, and bio-medicine. The company also engages in gelatin products manufacturing.

Guideline Public Company 2

Ticker: 002873 CH Equity

Name: Guiyang XinTian Pharmaceutical Co., Ltd.

Exchange: Shenzhen

Description: Guiyang XinTian Pharmaceutical Co., Ltd. manufactures and distributes medical products. The Company produces antineoplastic agents, gynecological medicines, urinary drugs, anti-cold medicines, cardiovascular drugs, and other products. Guiyang XinTian Pharmaceutical markets its products throughout China.

Guideline Public Company 3

Ticker: 301331 CH Equity

Name: Enwei Pharmaceutical Co., Ltd.

Exchange: Shenzhen

Description: Enwei Pharmaceutical Co., Ltd. manufactures and distributes medical products. The Company produces gynecological products, pediatric medications, respiratory system medications, and other products. Enwei Pharmaceutical also provides medical products.

Guideline Public Company 4

Ticker: 600479 CH Equity

Name: Zhuzhou Qianjin Pharmaceutical Co., Ltd.

Exchange: Shanghai

Description: Zhuzhou Qianjin Pharmaceutical Co., Ltd. develops and manufactures pharmaceutical products. The Company's products include Chinese traditional medicines and healthcare products.

Guideline Public Company 5

Ticker: 600771 CH Equity

Name: GuangYuYuan Chinese Herbal Medicine Co., Ltd.

Exchange: Shanghai

Description: GuangYuYuan Chinese Herbal Medicine Co., Ltd. develops and manufactures Chinese raw material medicines, Western raw material medicines, tablets, capsules, injections, and other pharmaceutical products. The Company also provides advertising services.

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 regarding 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. DIRECTORS' AND CHIEF EXECUTIVES' INTEREST

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 622 of the Laws of Hong Kong) ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	**Nature of interest**	**Number of Shares or underlying Shares** *(Note 1)*	**Approximate percentage of interest in the Company** *(Note 2)*
Wang Qiuqin	Beneficial owner	16,600,000 (L)	0.99% *(Note 3)*
Chu Xueping	(i) Beneficial owner (ii) Interest of a controlled corporation	443,272,000 (L)	26.51% *(Note 4)*
Zhou Wan	Beneficial owner	15,000,000 (L)	0.90% *(Note 3)*

Notes:

1. The letter "L" denotes the Director's long position in such Shares.

2. The total number of 1,671,846,657 shares of the Company in issue as at the Latest Practicable Date has been used for the calculation of the approximate percentage.

3. These interests are underlying shares of the Company in respect of share options granted by the Company on 14 June 2022 and vested on 14 June 2022 pursuant to the share option scheme adopted by the Company on 25 October 2013. Such underlying shares of the Company had an exercise period from 14 June 2022 to 13 June 2027 with an exercise price of HK$0.287 per share.

4. (i) Chu Xueping, in his capacity as beneficial owner, is interested in 16,600,000 underlying shares of the Company in respect of share options granted by the Company on 14 June 2022 and vested on 14 June 2022 pursuant to the share option scheme adopted by the Company on 25 October 2013. Such underlying shares of the Company had an exercise period from 14 June 2022 to 13 June 2027 with an exercise price of HK$0.287 per share.

   (ii) Chu Xueping, through a controlled corporation, is interested in 426,672,000 shares of the Company. As at the Latest Practicable Date, Eagle Amber Holdings Limited was beneficially owned by Chu Xueping as to 50.0%. As such, Chu Xueping was deemed to be interested in the 426,672,000 shares of the Company held by Eagle Amber Holdings Limited under Part XV of the SFO.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the following parties, other than the Directors or chief executives of the Company, had interests or short positions in the Shares and 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 or was recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of interest in the Company *(Note 2)*
Eagle Amber Holdings Limited *(Note 3)*	Beneficial owner	426,672,000 (L)	25.52%
Dai Xiaosong *(Note 3)*	Interest of a controlled corporation	426,672,000 (L)	25.52%

Name of Shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of interest in the Company *(Note 2)*
Zhou Ling *(Note 4)*	Beneficial owner and interest of spouse	161,400,000 (L)	9.65%
Yang Fang *(Note 4)*	Beneficial owner and interest of spouse	161,400,000 (L)	9.65%
Qian Shenglei	Beneficial owner	119,752,000 (L)	7.16%

Notes:

1. The letter "L" denotes the person's long position in such Shares.

2. The total number of 1,671,846,657 shares of the Company in issue as at the Latest Practicable Date has been used for the calculation of the approximate percentage.

3. Eagle Amber Holdings Limited was beneficially owned by Chu Xueping and Dai Xiaosong as to 50.0% and 50.0% respectively. As such, Dai Xiaosong was deemed to be interested in the 426,672,000 shares of the Company held by Eagle Amber Holdings Limited under Part XV of the SFO. Chu Xueping's interest in the Shares is set out in the paragraph headed "Directors' and Chief Executives' Interest" above.

4. Mr. Zhou Ling beneficially owns 132,188,952 shares of the Company. Ms. Yang Fang beneficially owns 29,211,048 shares of the Company. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, by virtue of the provisions under Part XV of the SFO, (i) Mr. Zhou Ling was deemed to be interested in all the shares of the Company held by Ms. Yang Fang; and (ii) Ms. Yang Fang was deemed to be interested in all the shares of the Company held by Mr. Zhou Ling.

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors, there was no other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was recorded in the register required to be kept by the Company under section 336 of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective close associates had any business which competes or may compete with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts 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 CONTRACT OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which was significant in relation to the business of the Group, nor had any Director had any direct or indirect interest in any assets which have been 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 since 31 December 2023, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. LITIGATION

On 17 November 2020, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of the Hong Kong Special Administrative Region ("**Court**") by the Securities and Futures Commission ("**SFC**") pursuant to section 214 of the SFO ("**Petition**"). The Petition named three respondents. Apart from the Company, the other two parties named as respondents by the Petition are two former Directors, namely, Mr. Zhou Ling ("**1st Respondent**") and Mr. Dai Haidong ("**2nd Respondent**"). The 1st Respondent and the 2nd Respondent retired and resigned from their positions as executive Directors on 27 June 2018 and 5 November 2015 respectively.

Pursuant to the Petition, the SFC alleged that, during the period from 2015 to 2018, each of the 1st Respondent and the 2nd Respondent has been wholly or partly responsible for the business or affairs of the Company having been conducted in a manner (i) involving misfeasance or other misconduct towards it or its members or any part of its members; (ii) resulting in its members or any part of its members not having been given all the information with respect to its business or affairs that they might reasonably expect; and/or (iii) unfairly prejudicial to its members or any part of its members. In particular, the SFC alleged that, *inter alia,*

(1) the 1st Respondent and the 2nd Respondent had breached their duties as directors of the Company in relation to the Group's acquisition of 50% interest in Saike International (details of such acquisition were disclosed in the announcements of the Company dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015);

(2) the 1st Respondent had made a secret profit in the sum of HK$26 million out of the Group's acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) (details of such acquisition were disclosed in the announcements of the Company dated 5 December 2016 and 14 March 2017); and

(3) the 1st Respondent was responsible for misfeasance and/or misconduct which was unfairly prejudicial to the members or any part of the members of the Company, comprising various artificial transactions involving dealings in a number of pharmaceutical products.

In the Petition, the SFC applies for, inter alia, an order that the 1st Respondent do pay to the Company the sum of HK$26 million with interest thereon at such rate and for such period as the Court thinks fit. No order or relief is sought against the Company in the Petition. The Petition was fixed to be heard on 11 May 2021.

On 4 May 2021, the SFC, the Company, the 1st Respondent and the 2nd Respondent made a joint application by way of consent summons ("**Consent Summons**") in respect of the vacation of the hearing date fixed for the Petition. On 5 May 2021, the Court made an order in terms of the Consent Summons as amended, among other things, that the hearing date of the Petition scheduled to be held on 11 May 2021 be vacated and leave be granted to the parties to fix a case management conference on a date in consultation with counsel's diaries. Details of the Petition are disclosed in the Company's announcements dated 18 November 2020 and 10 May 2021. The said case management conference was subsequently fixed on 24 August 2022. At the said case management conference held on 24 August 2022, it was ordered that, among other things, a second case management conference was fixed to be held on 2 December 2022. The Company has received the notice of trial on 17 January 2023, informing the Company that the hearing date of the case has reserved from 30 July to 7 August 2024 and the pre-trial review is scheduled to be heard on 16 April 2024. On 16 April 2024, the Court made an order relating to, among other things, (i) the conduct of the trial in accordance with certain timetable; (ii) the filing, lodging, serving, and/or making (as the case may be) of certain documents and interlocutory applications (if any); and (iii) the giving of evidence and the relevant arrangements.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by members of the Group within two years immediately preceding the date of this circular which are or may be material:

(1) the cooperation agreement ("**Cooperation Agreement**") dated 11 July 2022 entered into between China New Rich Medicine Holding Co. Limited ("**China New Rich**"), a wholly-owned subsidiary of the Company, 浙江萬馬產業發展集團有限公司 (in English, for identification purpose only, Zhejiang Wanma Industrial Development Group Co., Ltd.) ("**Zhejiang Wanma**") and Mr. Yang Ying in respect of, others, the capital contribution and operation and management of the affairs of 嵊州新鋭萬馬實業有限公司 (in English, for identification purpose only, Shengzhou Xin Rui Wan Ma Enterprises Co., Ltd.), further details of which are set out in the announcements of the Company dated 11 July 2022 and 26 July 2022;

(2) the supplemental agreement to the Cooperation Agreement dated 16 January 2023 entered into between China New Rich, Zhejiang Wanma and Mr. Yang Ying in relation to certain amendments to the Cooperation Agreement, further details of which are set out in the announcement of the Company dated 16 January 2023;

(3) the cooperation agreement dated 24 May 2024 entered into between Zhejiang Xinrui Biopharmaceutical Co., Ltd. (浙江新鋭生物藥業有限公司) ("**Zhejiang Xinrui Biopharmaceutical**"), an indirect wholly-owned subsidiary of the Company, Zhejiang Wanma and 杭州觀聖管理諮詢有限公司 (in English, for identification purpose only, Hangzhou Guansheng Management Consulting Co., Ltd.) ("**Hangzhou Guansheng**") in respect of, among other things, the increase in capital contribution and operation and management of the affairs of Shengzhou Xinrui Wanlin Enterprise Management Co., Ltd. (嵊州新鋭萬霖企業管理有限公司), a company owned as to 40%, 39% and 21% by Zhejiang Wanma, Zhejiang Xinrui Biopharmaceutical and Hangzhou Guansheng respectively, further details of which are set out in the announcement of the Company dated 24 May 2024;

(4) the cornerstone investment agreement dated 28 May 2024 entered into between China New Rich Medicine Holding Co. Limited ("**China New Rich**"), a wholly-owned subsidiary of the Company, Jiangxi Rimag Group Co., Ltd. (江西一脈陽光集團股份有限公司) ("**Jiangxi Rimag Group**"), CITIC Securities (Hong Kong) Limited and CLSA Limited, pursuant to which China New Rich had agreed to subscribe up to a maximum of HK$12,000,000 for the overseas listed foreign shares in the share capital of Jiangxi Rimag Group with nominal value of RMB1.00 each at the offer price of such shares to be subscribed for and traded in HK$ and were to be listed on the Stock Exchange pursuant to the global offering of such shares, further details of which are set out in the announcement of the Company dated 30 May 2024; and

(5) the Sale and Purchase Agreement.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts whose statements have been included in this circular:

Name	Qualification
Moore CPA Limited	Certified Public Accountants, being the reporting accountant for (i) the unaudited pro forma financial information of the Enlarged Group; and (ii) the financial information of the Target Group
Ascent Partners Valuation Service Limited	Independent Valuer

Each of the above named experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters or opinions or reports or references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the above named experts had not had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above named experts had not had any direct or indirect interests in any assets which have been, since 31 December 2023 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. CORPORATE INFORMATION OF THE COMPANY

The registered office of the Company is situated at Clarendon House, 2 Church Street Hamilton HM11 Bermuda.

The headquarters of the Company is situated at B–C, 37/F, Dikai International Center 19 Dangui Road, Hangzhou, the PRC.

The principal place of business in Hong Kong of the Company is situated at Room 911B, 9th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong.

The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

The company secretary of the Company is Mr. Ng Yat Sing, who is a member of the Hong Kong Institute of Certified Public Accountants.

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.newraymedicine.com) for a period of 14 days commencing from the date of this circular:

(1) the Sale and Purchase Agreement;

(2) the accountants' report on the Target Group issued by Moore CPA Limited as set out in Appendix II to this circular;

(3) the report on the unaudited pro forma financial information of the Enlarged Group issued by Moore CPA Limited as set out in Appendix III to this circular;

(4) the valuation report of 16% equity interest in the Target Group prepared by Ascent Partners Valuation Service Limited as set out in Appendix IV to this circular; and

(5) the written consents as referred to in the paragraph headed "Experts and consents" in this appendix.

New Ray Medicine
新 銳 醫 藥

New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6108)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting ("**Meeting**") of New Ray Medicine International Holding Limited ("**Company**") will be held at Units 1203B, 1204–1205, 12/F, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong on Tuesday, 16 July 2024 at 9:00 a.m., for the purpose of considering and, if thought fit, passing with or without modification the following resolution which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the sale and purchase agreement dated 16 May 2024 entered into between Major Bright Holdings Limited, an indirect wholly-owned subsidiary of the Company, as the purchaser and U Man Iong as the vendor in respect of the Acquisition (as defined in the circular of the Company dated 21 June 2024, a copy of which is tabled at the Meeting and marked "A" and initialed by the chairman of the Meeting for identification purpose) ("**Sale and Purchase Agreement**", a copy of which is tabled at the Meeting and marked "B" and initialed by the chairman of the Meeting for identification purpose) and all the transactions contemplated thereunder be and are hereby approved; and

(b) the board of directors of the Company ("**Directors**") or a duly authorised committee of the board of Directors be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as it considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Acquisition and to agree to such variation, amendments or waiver or matters relating thereto (excluding any variation, amendments or waiver of such documents or any terms thereof, which are fundamentally and materially different from those as provided for in the Sale and Purchase Agreement and which shall be subject to approval of the shareholders of the Company) as are, in the opinion of the board of Directors or a duly authorised committee, in the interest of the Company and its shareholders as a whole."

On behalf of the Board
New Ray Medicine International Holding Limited
Wang Qiuqin
Chairman, Chief Executive Officer & Executive Director

Hong Kong, 21 June 2024

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Headquarters:
B–C, 37/F
Dikai International Center
19 Dangui Road
Hangzhou, the PRC

Principal place of business in Hong Kong:
Room 911B, 9th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend the Meeting and vote on his behalf. A proxy needs not be a member of the Company but must attend the Meeting in person to represent the member of the Company.

2. A form of proxy for use at the Meeting and its adjournment (if any) is published on the website of The Stock Exchange of Hong Kong Limited and that of the Company.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. In order to be valid, a form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, in accordance with the instructions printed thereon as soon as possible and in any event by 9:00 a.m. (Hong Kong time) on Sunday, 14 July 2024 or not less than 48 hours before the time appointed for holding any adjourned Meeting. The completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting or any adjournment thereof if he so wish. In that event, his form of proxy will be deemed to have been revoked.

5. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto; but if more than one of such joint holders are present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. To ascertain a member's entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Thursday, 11 July 2024 to Tuesday, 16 July 2024 (both days inclusive), during which no transfer of Shares will be registered. The last registration date to determine the eligibility to attend the Meeting will be on Wednesday, 10 July 2024. In order to qualify for the entitlement to attend and vote at the Meeting, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Wednesday, 10 July 2024.

As at the date of this notice, the executive Directors are Ms. Wang Qiuqin, Mr. Huo Zhihong, Mr. Chu Xueping and Ms. Zhou Wan; and the independent non-executive Directors are Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny.