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If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**MAJOR TRANSACTION
IN RELATION TO ACQUISITION OF
50.1% EQUITY INTERESTS IN THE TARGET COMPANY
AND THE COOPERATION AGREEMENT WITH THE VENDOR**

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

A letter from the Board is set out on pages 4 to 19 of this circular.

The Company has already received the written approval of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder from its controlling shareholder, Tianda Group, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information purposes only.

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Vendor from the Purchaser under the Share Transfer and Cooperation Agreement
“Board”	the board of directors of the Company
“Charity Foundation”	Yeung & Young Charity Foundation Limited 璠池漢方慈善基金有限公司, a company limited by guarantee established in Hong Kong controlled by the Target Company prior to completion of the Reorganization
“Company”	Tianda Pharmaceuticals Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00455)
“Completion”	completion of the Share Transfer and Cooperation Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged after the Acquisition of 50.1% equity interests in the Target Company upon 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 Valuer”	CHFT Advisory and Appraisals Ltd, a qualified valuer registered in Hong Kong
“Latest Practicable Date”	23 November 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2020, or such later date agreed by the Purchaser and the Vendor in writing
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“Ms. Wong”	Ms. Wong Sau Ping, a Hong Kong resident, mother of the Vendor and the 2% shareholder of the Target Company prior to completion of the Reorganization
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“Property”	Offices 1, 2 and 3 on 21st Floor, Fortune Centre, No. 48 Yun Ping Road, Causeway Bay, Hong Kong
“Property Acquisition Agreement”	the agreement entered into between the Vendor and the Property Owner on 22 May 2020 in relation to the transfer of 100% equity interests in Property Company by the Property Owner to the Target Company (the nominee of the Vendor) at the consideration of HK\$60,000,000
“Property Company”	Golden Element Limited, a limited liability company incorporated in Hong Kong which is the sole owner of the Property
“Property Owner”	a Hong Kong resident who is independent of the Company, its connected persons and the Vendor, being the sole shareholder of the Property Company before completion of the Property Acquisition Agreement
“Purchaser”	TDMall (Hong Kong) Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Qi’s Living”	Qi’s Living Company Limited, a limited liability company incorporated in Hong Kong and a 60%-owned subsidiary of the Target Company prior to completion of the Reorganization
“Reorganization”	reorganization of the Target Company to be completed on or before the Long Stop Date pursuant to the Share Transfer and Cooperation Agreement, details of which are set out in the section headed “The Acquisition – The Reorganisation” in the Letter from the Board in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Sale Shares”	5,010 ordinary shares of the Target Company, representing 50.1% of the total issued share capital therein
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into by the Target Company and its shareholders upon Completion

DEFINITIONS

“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Transfer and Cooperation Agreement”	the agreement dated 5 October 2020 entered into between the Purchaser and the Vendor in relation to, among others, the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Yeung & Young Medicare Centre Limited, a limited liability company incorporated in Hong Kong which is owned as to 98% by the Vendor and 2% by Ms. Wong prior to completion of the Reorganization
“Target Group”	the Target Company, Qi’s Living and the Property Company
“TDMall Group”	TDMall (Group) Limited, a limited liability company established in Macau and an indirect wholly-owned subsidiary of the Company
“Tianda Group”	Tianda Group Limited, the controlling shareholder of the Company which owns 1,194,971,370 Shares (representing approximately 55.58% of the total issued share capital of the Company) as at the Latest Practicable Date
“Tianda Pharmaceuticals (Hong Kong)”	Tianda Pharmaceuticals (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Vendor”	Dr. Yeung Ming Ha, a Hong Kong resident and the 98% shareholder of the Target Company prior to completion of the Reorganization
“Y&Y Group”	the Target Company and Qi’s Living
“%”	per cent

* For identification purposes only

In this circular, unless the context otherwise requires, any reference to the singular includes the plural and vice versa and any reference to a gender includes a reference to the other gender and the neuter.

Unless otherwise specified, for the purpose of this circular and for illustration purposes only, amounts denominated in HK\$ have been converted to RMB at the rate of HK\$1.13: RMB1.00, and vice versa. The Company does not make any representation that any amounts in RMB or HK\$ had been or may be converted at the Latest Practicable Date or any other date at such rate or any other rate.

LETTER FROM THE BOARD



Directors:

Executive Directors:

Mr. Fang Wen Quan (*Chairman and Managing Director*)

Mr. Lui Man Sang

Non-executive Directors:

Mr. Shen Bo

Mr. Feng Quanming

Dr. Lam Lee G.

Independent Non-executive Directors:

Mr. Lam Yat Fai

Mr. Chiu Sung Hong

Mr. Chiu Fan Wa

Registered office:

Cricket Square

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P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Head office and principal

place of business:

Suites 2405-2410, 24th Floor

CITIC Tower

No. 1 Tim Mei Avenue

Central

Hong Kong

24 November 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO ACQUISITION OF
50.1% EQUITY INTERESTS IN THE TARGET COMPANY
AND THE COOPERATION AGREEMENT WITH THE VENDOR**

INTRODUCTION

Reference is made to the announcement of the Company dated 5 October 2020 in respect of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Transfer and Cooperation Agreement; (ii) the financial information of the Group; (iii) the financial information of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) management discussion and analysis on the Target Group; (vi) the valuation report on the Property; (vii) the valuation report on the Y&Y Group and (viii) such other information as required under the Listing Rules.

LETTER FROM THE BOARD

THE SHARE TRANSFER AND COOPERATION AGREEMENT

The Acquisition

On 5 October 2020, the Purchaser and the Vendor entered into the Share Transfer and Cooperation Agreement, the principal terms of which are set out as follows:

- Date:** 5 October 2020
- Parties:** (1) the Purchaser; and
(2) the Vendor.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor is a third party independent of the Company and connected persons of the Company.

Subject Matter

The Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, which represent 50.1% of the issued shares of the Target Company as at the date of the Share Transfer and Cooperation Agreement.

Consideration

The consideration for the Acquisition is HK\$25,000,000, which shall be paid by the Purchaser to the Vendor by bank transfer on the date of Completion.

Service Commitment

Pursuant to the Share Transfer and Cooperation Agreement, the Vendor undertook that for a period of not less than 15 years upon Completion (the "**Service Period**"), she will serve as (i) a director of each of the Target Company and Qi's Living (a subsidiary of the Target Company); and (ii) the Chief Operating Officer (the "**COO**") of TDMall Group, the direct shareholder of the Purchaser and an indirect wholly-owned subsidiary of the Company, to assist the Purchaser in developing its business. The fees of the aforesaid positions are as follows:

Director of each of the Target Company and Qi's Living

The aggregate professional consultant fee for the directorship in the Target Company and Qi's Living will be HK\$220,000 per month for the first 12 months upon Completion, which shall be paid by the Target Company on monthly basis. After the first 12 months upon Completion, the professional consultant fee will be reviewed and adjusted by the board of directors of the Target Company. The adjustment shall be linked with the performance of the Target Company and Qi's Living.

The professional consultant fee is determined by the parties after having considered the following factors:

1. The Vendor has made the Profit Guarantee undertakings (as detailed below) and undertook, among others, that the Target Company's net profit will be growing steadily during her directorship in each of the Target Company and Qi's Living throughout the Service Period; and

LETTER FROM THE BOARD

2. The professional consultant fee will be reviewed regularly by the board of the Target Company which the Company will have majority control throughout the Service Period. Pursuant to the Share Transfer and Cooperation Agreement, if the Vendor fails to drive the Target Company's business and the Target Company records a decreasing trend on its profitability, the professional consultant fee will be adjusted downward by the board of the Target Company after the first 12 months upon Completion. Further, the Purchaser is also entitled to terminate the Vendor's directorship in the Target Company and/or Qi's Living and request for compensation prior to expiration of the Service Period if the Purchaser has reasonable cause to believe the Vendor has not carried out or is incapable of carrying out her duties as a director. The aforesaid review measures can help the Purchaser to adjust the Vendor's professional consultant fee in accordance with her service and the financial performance of the Target Company, as well as protect the Company's interests and ensure the Vendor will use her best endeavours after her sale of the controlling interest in the Target Company upon Completion.

Prior to expiration of the Service Period, if the Vendor ceases to act as director of the Target Company or Qi's Living, or the Purchaser terminates the directorship with reasonable causes due to the Vendor's failure to perform her director duties pursuant to applicable laws and regulations, the Vendor shall pay compensation to the Purchaser calculated as follows:

HK\$1.6667 million per year x the remaining Service Period

COO of TDMall Group

The COO service fee for the whole Service Period is HK\$25,000,000 (subject to downward adjustment conditional to fulfillment of Profit Guarantee (as defined below)), which shall be paid by TDMall Group via bank transfer in the following manner:

- (i) HK\$15,000,000 shall be paid on the date of Completion; and
- (ii) HK\$10,000,000 shall be paid within 7 business days upon fulfillment of the Profit Guarantee (as defined below).

The COO housing allowance of HK\$80,000 per month during the Service Period shall be paid by the Purchaser and be recorded as expense in the financial statements of the Purchaser.

The COO remuneration package is for the Vendor's service as the COO of TDMall Group, the direct sole shareholder of the Purchaser and an indirect wholly-owned subsidiary of the Company. The Company believes that arranging the TDMall Group to bear the expense of the COO service fee is fair and reasonable since such COO service is to be provided by the Vendor for TDMall Group apart from her directorship service in the Target Company and Qi's Living, which includes services such as implementing the daily operations of TDMall, operating the Chinese medicine clinics owned by the Company, etc. In addition, the Company believes the arrangement in relation to the COO housing allowance will increase the difficulties for the Vendor to meet the Purchaser's financial target to achieve a positive profit after tax as detailed in the sub-section headed "Profit Guarantee" below, which will in return motivate the Vendor to perform her COO duties well in order to meet such target in order to receive her remaining HK\$10,000,000 COO service fee.

LETTER FROM THE BOARD

The Company has been actively expanding its new style Chinese medicine clinic chain in the Guangdong-Hong Kong-Macau Greater Bay Area since early 2019, but the COO of TDMall Group has been vacant for a long time. Through the negotiation process with the Vendor, the Company believes the Vendor is the right candidate to act as the COO of TDMall Group and lead a professional team to develop TDMall business, after having considered her background as stated in the section headed "Information of the Group and Parties to the Share Transfer and Cooperation Agreement". The total COO service fee of HK\$25,000,000 for the Service Period (equivalent to approximately HK\$1,670,000 per annum) falls within the market range, especially taking into account that the Vendor opted for receiving the aggregate service fee in advance of the Service Period and gave up future upward adjustment in light of factors such as possible positive performance of TDMall Group and inflation during the Service Period. As for the rate of the COO housing allowance, such rate is determined with reference to the general market rate for COO level.

On the other hand, if prior to expiration of the Service Period the Vendor ceases to act as COO, or the Purchaser and/or TDMall Group terminates the COO engagement with reasonable causes due to the Vendor's failure to perform her COO duties pursuant to applicable laws and regulations, the Vendor shall pay compensation to the Purchaser calculated as follows:

If Profit Guarantee has been met: HK\$1.6667 million per year x the remaining Service Period

If Profit Guarantee has not been met: HK\$1 million per year x the remaining Service Period

Profit Guarantee

The Vendor guaranteed that for the year ending 31 March 2021, (i) the combined audited net profit after tax of the Target Company and Qi's Living shall be no less than HK\$6,000,000; and (ii) positive profit after tax (excluding the financial results of the Target Company and Qi's Living) shall be recognised from the audited financial statements of the Purchaser (the "**Profit Guarantee**"). If the Profit Guarantee cannot be satisfied upon the year ending 31 March 2021, such guarantee will be deferred to the next financial year until (i) and (ii) are met in the same financial year. The Profit Guarantee will be deemed as satisfied only when the conditions (i) and (ii) are met in the same financial year. There is no deadline for the Vendor to meet the Profit Guarantee during the Service Period. Nonetheless, if the Vendor failed to meet the Profit Guarantee before the expiration of the Service Period, the Vendor will lose her right to receive her remaining COO service fee of HK\$10,000,000.

The Board is of the view that the Profit Guarantee arrangement is fair and reasonable and in the interests of the Company and its Shareholders as a whole because:

For condition (i): The average net profit after tax of the Y&Y Group for the 3 financial years ended 31 March 2020 was approximately HK\$5,000,000. As stated above, the Target Company will bear the annual professional consultant fee of HK\$2,640,000 payable to the Vendor upon Completion, which is higher than the Vendor's current average annual director remuneration in the Y&Y Group of approximately HK\$1 million. Given the professional consultant fee may go up (depending on the decision of the board of the Target Company and subject to the financial performance of the Y&Y Group) and the COVID-19 pandemic is still far from over, the Board is of the view that the Vendor knows the Y&Y Group's operations very well and will use her best endeavours to further increase the revenue of Y&Y Group and press down the operating expenses as much as possible so as to fulfil the Profit Guarantee and obtain the remaining COO service fee.

LETTER FROM THE BOARD

For condition (ii): The Purchaser opened its first TDMall Chinese medicine clinic in Hong Kong in February 2020 and has still incurred a considerable amount of net loss up to the Latest Practicable Date. Upon Completion, the Vendor will act as the COO and take part in the management and daily operations of TDMall Group. The aforesaid payment arrangement of COO housing allowance will further motivate the Vendor to strive for the performance of the Purchaser. The Board is of the view that the Vendor will bring greater expertise and managerial experience to the Purchaser, enhance its product and service portfolios and expand its customer base, for achieving the profit target in condition (ii). The target is challenging at the moment, but both the Purchaser and the Vendor are confident to the turnaround of the Purchaser in achieving a positive net profit position in the future.

Although the Vendor is not required to compensate the Purchaser even the Profit Guarantee is not satisfied, the two conditions under the Profit Guarantee are indeed the performance indicators to the Vendor. The failure in meeting either of the two conditions would trigger downward adjustment of the professional consultant fee payable to the Vendor for her failure in committing a steadily profit growth during the Service Period. Further, in the event such failure to meet the Profit Guarantee is caused by the Vendor's failure to carry out her director's and/or COO's duty pursuant to applicable laws and regulations, the Purchaser may terminate her directorship in the Target Company and Qi's Living and/or her COO position in TDMall Group, as well as request the Vendor for compensation calculated under the mechanism set out above. For the avoidance of doubt, the Purchaser's entitlement to the compensations stated under the subsections headed "Service Commitment – Director of each of the Target Company and Qi's Living" and "Service Commitment – COO of TDMall Group" are not mutually exclusive, and the Vendor will be subject to both compensations in case the Vendor's directorship and COO position are both terminated. Taking into account the protective terms that are closely associated with the Profit Guarantee, the Board is of the view that the Profit Guarantee arrangement is fair and reasonable and in the interests of the Company and its shareholders.

Refundable Prepayment for the Property Company

Prior to the signing of the Share Transfer and Cooperation Agreement, the Vendor and the Property Owner entered into the Property Acquisition Agreement, pursuant to which the Property Owner transferred the entire issued shares of the Property Company to the Target Company as nominee of the Vendor at a consideration of HK\$60,000,000. As the Property Company would become a subsidiary of the Target Company, the Group (through TDMall Group) and the Vendor had also made prepayment (the "**Prepayment**") of HK\$30,060,000 and HK\$29,940,000 by bank transfer, respectively, to the Target Company in respect of the consideration under the Property Acquisition Agreement according to their respective shareholding proportions in the Target Company upon Completion.

The Prepayment made by the Group is inter-conditional with the Acquisition and is fully refundable within 7 business days upon the Purchaser's request in the event (i) the Share Transfer and Cooperation Agreement fails to be executed on or before 31 December 2020 (or such later date as may be agreed by the Purchaser); or (ii) the Share Transfer and Cooperation Agreement fails to proceed to Completion and the Purchaser has not become a 50.1% shareholder of the Target Company.

The Purchaser intends to, upon the written consent of the Vendor, convert the Prepayment into shareholder's loan of the Target Company upon Completion.

LETTER FROM THE BOARD

Basis of the consideration, the Service Fee and the Prepayment

The consideration is determined after arm's length negotiation between the Purchaser and the Vendor on normal commercial terms after taking into account, among other things, (i) future business prospects of the Y&Y Group and Chinese medicine and healthcare service industry; (ii) the benefits of the Acquisition as disclosed in the section headed "Reasons for and Benefits of the Share Transfer and Cooperation Agreement" below; (iii) the valuation of the fair value of the 50.1% equity interests in the Y&Y Group, as at 30 June 2020 prepared by the Independent Valuer using the guideline publicly-traded method under market approach as set out in Appendix VI to this circular; and (iv) financial performance and position of the Target Company and its subsidiary pursuant to their respective statutorily audited or unaudited financial statements for the financial years ended 31 March 2018, 2019 and 2020 and each of the three-month periods ended 30 June 2019 and 2020.

The followings are the factors that the Directors have considered to rely on the valuation report on the Y&Y Group: (i) the selection criteria and final screening for the public companies in the market approach analysis are strongly correlated with the business nature of the Y&Y Group, especially the Union Medical Healthcare Ltd, which also provides both medical care services and health products; (ii) the scale of the certain selected comparable public companies is larger than the Y&Y Group. However, the Y&Y Group's stable profitability and cash flow are the factors that made it as comparable to the selected peer companies; (iii) the lack of marketability discount can effectively adjust down the pricing multiple to avoid overvaluation of the Y&Y Group; and (iv) as mentioned in the management discussion and analysis on the Y&Y Group on page IV-2, the decrease in revenue for the year ended 31 March 2019 was due to the Vendor's maternity leave for a few weeks, and the decrease in revenue for the year ended 31 March 2020 was due to the occurrence of social movements in Hong Kong as well as the outbreak of COVID-19 pandemic. However, the average net profit for each of the recent two financial years is managed to be maintained at around HK\$5 million. Given the unfavourable factors mentioned above, the Directors believe that the potential profitability of the Y&Y Group has not yet been reflected in the recent years. Further, it is expected that upon completion of the Acquisition, the Y&Y Group will benefit from the economies of scale, bringing down the overall operating costs and leading to an even higher net profit level than the adopted amount in the valuation report. In conclusion, the Directors are of the view that market approach with other adjustments in the valuation report on the Y&Y Group is a fair and reasonable reference for the consideration of acquiring 50.1% equity interests of the Target Company.

The Service Fee payable by the Purchaser is on normal commercial terms and fair and reasonable after having considered the Vendor's Chinese medicine professional experience and her network and influence in the Chinese medicine industry.

The Prepayment paid by the Purchaser is on normal commercial terms and fair and reasonable after having considered the prevailing market prices of the building concerned in the Property Acquisition Agreement and other commercial buildings in the neighbourhood.

The Board considers that the consideration, the Service Fee and the Prepayment are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The consideration, the Service Fee and the Prepayment shall be settled by the internal resources of the Company.

LETTER FROM THE BOARD

Conditions precedent

Completion of the Share Transfer and Cooperation Agreement shall take place on the 5th business day (or such other date agreed by the parties in writing) upon fulfillment or waiver (if applicable) of all of the following conditions:

1. the results of the financial and legal due diligence in respect of the assets, operations, financial situation, prospects and other conditions of the Target Group are to the satisfaction of the Purchaser;
2. the representations and warranties made by the parties in the Share Transfer and Cooperation Agreement being accurate, true and complete in all material respects and not being misleading in any material respects from the date of the Share Transfer and Cooperation Agreement up to Completion;
3. there be no material adverse change in respect of the Target Group since the date of the Share Transfer and Cooperation Agreement or occurrence of any incident which will have a material adverse effect on the business, prospects, operating performance or financing situation of the Target Group;
4. the audit reports for the year ended 31 March 2020 with unqualified opinions issued by the qualified auditors for both the Target Company and Qi's Living being provided by the Vendor to the Purchaser;
5. the Reorganisation (as defined below) is completed and relevant supporting documents have been provided by the Vendor to the reasonable satisfaction of the Purchaser;
6. all requisite filings or registrations having been made with, and all requisite authorisations have been obtained from all applicable governmental authorities, or other third parties which are necessary in connection with the execution and performance of the Share Transfer and Cooperation Agreement and any transactions contemplated thereunder; and
7. the Purchaser (and/or its controlling shareholder) and the Vendor having obtained all requisite approvals (including the approval(s) from the board of directors and/or other requisite approvals) and complied with relevant regulations under the applicable laws and the Listing Rules with respect to the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder.

The Purchaser may waive any of the above conditions save for conditions 6 and 7. If the above conditions cannot be fulfilled or waived (if applicable) in full on or before the Long Stop Date, the Share Transfer and Cooperation Agreement shall terminate and each party's rights and obligations thereunder shall cease save for any antecedent breach.

As at the Latest Practicable Date, condition(s) 6 and 7 have been fulfilled.

LETTER FROM THE BOARD

The Reorganisation

As one of the conditions precedent to the Share Transfer and Cooperation Agreement, the Vendor shall complete the following reorganisation of the Target Company (the “**Reorganisation**”) on or before the Long Stop Date:

1. Ms. Wong shall transfer 200 shares in the Target Company to the Vendor (representing 2% of the total issued share capital of the Target Company);
2. The Vendor shall transfer 4,000 shares in Qi’s Living to the Target Company (representing 40% of the total issued share capital of Qi’s Living); and
3. The Charity Foundation shall be spun off from the Target Company.

Vendor’s Undertakings

The Vendor undertook in the Share Transfer and Cooperation Agreement that, among others:

1. the combined audited net profit after tax of the Target Company and Qi’s Living for the year ended 31 March 2020 shall not be less than HK\$5,000,001, and there will not be any material changes in assets or liabilities of the Target Group from the date of the Share Transfer and Cooperation Agreement up to Completion, unless with prior written approval from the Purchaser or contemplated under the Share Transfer and Cooperation Agreement; and the Vendor shall settle the loan owed by her to the Target Company before Completion;
2. there are no products or patents registered under the Vendor’s name or registered jointly by her with other party(ies) in relation to the Target Group’s business as at Completion; and
3. the relevant licenses, permit, registration or compliance certificates of each of the Target Company or Qi’s Living remain and continue to be valid, effective and renewable on the date of Completion.

Completion

Upon Completion, the Target Company will be owned as to 50.1% by the Purchaser and 49.9% by the Vendor, respectively. The Target Company will become an indirect non-wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

Shareholders’ Agreement

Pursuant to the Share Transfer and Cooperation Agreement, the Purchaser, the Vendor and the Target Company shall enter into the Shareholders’ Agreement on the date of Completion. The principal terms of the Shareholders’ Agreement are set out as follows:

LETTER FROM THE BOARD

Obligations of the Shareholders

The Purchaser shall be responsible for formulating and implementing the development strategies, major investment plans, financing plans and dividend policy of the Target Group; and be responsible for internal control, financial budgeting, and preparation of the consolidated financial statements of the Target Group.

The Vendor shall act as a director of each of the Target Company and Qi's Living for the Service Period, and be responsible for the operation and management of the Target Group to ensure its business development and continuous growth of profit. Further, the Vendor shall use her reasonable endeavor to ensure the relevant licenses, permit, registration or compliance certificates remain and continue to be valid, effective and renewable.

Composition of the Board of Directors

The board of directors of the Target Company shall comprise 3 members, of which 2 shall be appointed by the Purchaser, and the remaining member shall be the Vendor. The chairman of the board of directors of the Target Company shall be elected by the simple majority of the members of the board of directors. The daily business, operation and management of the Target Group shall be delegated to and led by the Vendor; while other members of the board of directors should actively cooperate with the Vendor with a sincere and goodwill attitude.

Transfer of Shares

Unless with the written consent of the other shareholder, any shareholder of the Target Company shall not pledge, charge (no matter such charge is fixed or floating) or create encumbrance of any kind on the shares of the Target Company; or to sell, transfer or in any other way dispose of any of its/her shares in the Target Company (or any rights attached thereto).

Notwithstanding the aforesaid, a shareholder of the Target Company may transfer its/her shares to a third party if the transferring shareholder has provided a notice to the non-transferring shareholder to offer to transfer such shares to the non-transferring shareholder on the same terms and conditions as such transferring shareholder has offered to the third party. If the non-transferring shareholder does not accept the terms set out on the notice within 15 business days, the transferring shareholder may proceed with the transfer to the third party.

Non-competition

The Vendor undertook that, during the longer of (i) the period which the Vendor serves as a director of the Target Company or Qi's Living; or (ii) the period from the date of the Shareholders' Agreement until the Vendor ceases to be a shareholder of any member of the Target Group, the Vendor shall not and shall not procure her affiliate(s):

- (i) on her own, or through partnership, cooperation, joint venture, investment, financing, contracting or any other method, directly or indirectly operate, invest, engage or attempt to engage any business which have or may have competition with the principal business of the Target Group in the regions where the Purchaser has operation; and
- (ii) on her own, through cooperation or investment with other third party, or by way of acting as consultant (whether paid or not), operate or assist any third party to operate business which is similar to the business engaged by the Purchaser or the Group in the region(s) where the Purchaser has operation.

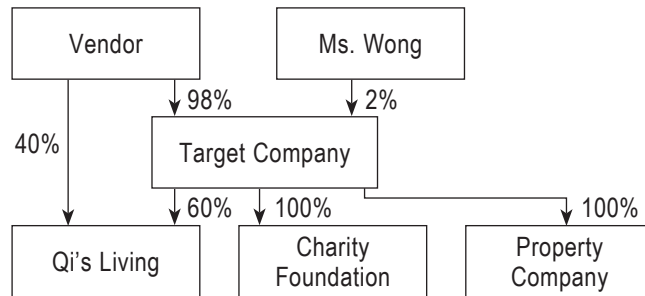
LETTER FROM THE BOARD

INFORMATION OF THE TARGET GROUP

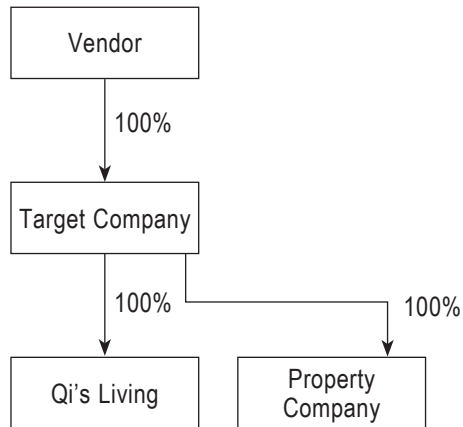
Upon Completion, the Target Group shall consist of the Target Company, Qi's Living and the Property Company. Set out below is the group structure of the Target Group (i) prior to completion of the Reorganization; (ii) after completion of the Reorganization; and (iii) immediately after Completion.

Group structure of the Target Group

Prior to completion of the Reorganization

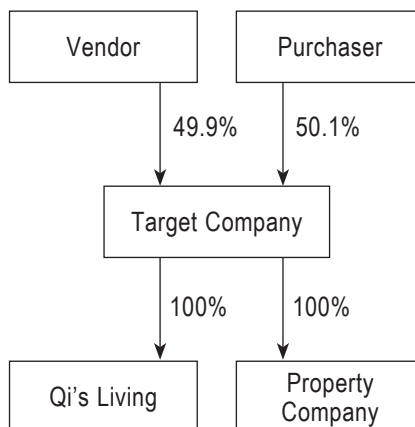


After completion of the Reorganization



LETTER FROM THE BOARD

Immediately after Completion



The Target Group

The Target Company is a company incorporated in Hong Kong with a registered capital of HK\$10,000 divided into 10,000 shares. Prior to completion of the Reorganization, it is owned as to 9,800 shares by the Vendor and 200 shares by Ms. Wong, a Hong Kong resident and the mother of the Vendor. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Ms. Wong is a third party independent of the Company and its connected persons. After completion of the Reorganization, all 10,000 shares are owned by the Vendor. As at the Latest Practicable Date, the Target Company is the Target Group's only Chinese medical institution which is located at 22/F, Fortune Centre, 48 Yun Ping Road, Causeway Bay, Hong Kong, which is principally engaged in the provision of high-end and modern Chinese medical services, including Chinese medical consultation, acupuncture, cupping therapy, "Tui Na" therapeutic massage, skin and body check and other health management services, based on traditional Chinese medicine ("TCM") theories and evidence-based science and equipped with state-of-the-art medical technology and equipment.

Qi's Living is a company incorporated in Hong Kong with a registered capital of HK\$10,000 divided into 10,000 shares. Prior to completion of the Reorganization, it is owned as to 6,000 shares by the Target Company and 4,000 shares by the Vendor. After completion of the Reorganization, all 10,000 shares are owned by the Target Company. Qi's Living is principally engaged in the sales of TCM health products in Hong Kong.

The Vendor holds the degrees of PhD in Chinese Medicine (CUHK), Master of Chinese Medicine (HKBU), and Bachelor of Chinese Medicine and Bachelor of Science (Hons) in Biomedical Science (HKBU). As at the Latest Practicable Date, the Vendor is the only registered Chinese medicine practitioner under the Target Group. As a renowned registered Chinese medicine practitioner, the Vendor has gained wide public recognition and media presence for her exquisite medical skills and popular publications relating to Chinese medicine and healthcare. In addition to the clinical work, the Vendor has widely participated in research and development of organic Chinese medicinal skincare products and gained profound knowledge in Chinese medicine dermatology. The Target Group intends to expand its business by opening new stores or clinics in Hong Kong, and in the long run develop its market in the PRC as well. Through the cooperation under the Share Transfer and Cooperation Agreement, the Target Group can leverage the cooperation with TDMall Group to gain a better understanding of the PRC market and access the right resources. The Target Group will expand its team when such cooperation takes place upon Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Property Company is a company incorporated in Hong Kong with a registered capital of HK\$1 divided into 1 share, which is owned by the Target Company. The Property Company is an investment holding company and its principal asset is the Property. As at the Latest Practicable Date, the Property is under renovation for the Target Company and Qi's Living self-use purpose. It is expected the Target Company and Qi's Living will move to the Property for operations from December 2020 onwards and the lease for the current clinic address at 22/F, Fortune Centre, 48 Yun Ping Road, Causeway Bay, Hong Kong will be terminated accordingly.

Financial Information of the Target Group

Set out below are summaries of the consolidated audited financial information of the Y&Y Group for the three financial years ended 31 March 2018, 31 March 2019 and 31 March 2020 as extracted from Appendix IIA to this circular and the audited financial information of the Property Company for the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 as extracted from Appendix IIB to this circular:

The Y&Y Group

	For the year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	14,936	14,022	13,354
Profit before income tax	6,069	5,576	6,119
Profit and total comprehensive income for the year	5,069	4,860	5,329

The audited net asset value as at 31 March 2020 was HK\$3,568,000.

The Property Company

	For the year ended 31 December		
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	1,363	1,302	1,277
Profit/(loss) before income tax	6,524	3,541	(398)
Profit/(loss) and total comprehensive income for the year	6,524	3,541	(398)

The audited net asset value as at 31 December 2019 was HK\$46,651,000.

LETTER FROM THE BOARD

Information of the Property

The Property is situated at Offices 1, 2 and 3 on 21st Floor, Fortune Centre, No. 48 Yun Ping Road, Causeway Bay, Hong Kong with a total gross area of approximately 2,713 square feet. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Property is for commercial use. As at the Latest Practicable Date, the Property is free from encumbrance and wholly-owned by the Property Company, which is in turn wholly-owned by the Target Company.

Currently, the Target Company and Qi's Living have leased an office for their daily operations in Causeway Bay, Hong Kong, which is located in the same building of the Property. The Directors consider that relocation of the Target Group's office to the Property can help eliminate the recurring rental payments and avoid future rental fluctuations of the Target Group, which is beneficial to the Target Group in the long run.

PROPERTY VALUATION

A valuation of the Property has been prepared by the Independent Valuer using the market value basis that provides an indication of value by comparing the Property with identical or comparable properties (that are similar) for which price information is available. The market value of the Property as at 30 September 2020 as appraised by the Independent Valuer was HK\$60,700,000.

The Property is classified as investment property as set out in Appendix IIB to this circular, which is consistent to the Group's accounting policy to state the investment properties at fair value using the fair value model. As at 30 June 2020, being the date to which the financial information in Appendix IIB were made up, the value of the Property amounted to HK\$60,000,000. The market value of the Property under investment property as at 30 September 2020 was HK\$60,700,000 as set out in Appendix V to this circular.

INFORMATION OF THE GROUP AND PARTIES TO THE SHARE TRANSFER AND COOPERATION AGREEMENT

The Company is an investment holding company listed on the Main Board of the Stock Exchange. With its headquarters based in Hong Kong, the Group implements the three strategic policy objectives: development of TCM as its foundation, development of innovative drugs and medical technologies, as well as development of high-quality medical and healthcare services. It is committed to becoming a pharmaceutical enterprise with competitive advantages and core competencies in drug R&D and manufacturing, Chinese medical consultation and treatment, medical technology and health management. The Company forges the entire TCM industrial chain from Chinese medicine, Chinese medicinal herbs to the application of artificial intelligence in TCM and engages in the supply of Chinese medicinal herbs and the production of TCM decoction pieces. It has established the "Tianda standard", a Chinese medicinal herbs quality control standard, and the modern Chinese medicine clinic - TDMall.

The Purchaser is a limited liability company established in Hong Kong and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the investment of establishing and operating TCM medical centres in Hong Kong, while seeking market expansion through franchising.

LETTER FROM THE BOARD

TDMall Group is principally engaged in the investment, establishment and operation of Chinese medical clinics, devoted to promoting TCM culture, revitalizing TCM industry, promoting the TCM industry, cultivating TCM professionals and providing quality TCM services that are accessible to everyone on a global scale. TDMall practices TCM by adhering to the philosophy that “a great physician treats an illness before it develops”, following the treatment principle of “medication should be stopped once its efficacy shows and treatment should be centred on the patient”. TDMall exercises strict control on the quality of Chinese medicinal materials by complying with the “Tianda Standard”. By integrating modern medical science and other innovative technologies, TDMall provides featured specialities, general TCM treatment, health preservation and health management services and establishes personalized systems for disease diagnosis, treatment and prevention along with health preservation, thereby achieving the unification of man and nature, of tradition and modernity as well as of prevention and treatment in pursuit of the harmony of man and the universe. Based in the Guangdong-Hong Kong-Macau Greater Bay Area, TDMall implements a nationwide and global business plan, opening TDMalls in Zhuhai, Hong Kong and Sydney successively from 2019 onwards. Making full use of Internet information technology, big data, artificial intelligence and other innovative technologies, Tianda Pharmaceuticals has been constructing a “Cloud TDMall” to implement the integration of online and offline TCM services, remote diagnosis and treatment and expert consultation, which provides a high-quality, convenient and comprehensive TCM health services for the general public and strives to promote TCM inheritance, innovation and development.

As a registered Chinese medicine practitioner, the Vendor has gained strong public recognition and media presence through years of clinical experience and popular publications relating to Chinese medicine and healthcare. In addition to clinical work, the Vendor is also actively involved in the research and development of Chinese medicine and the development of organic Chinese skincare products and accumulated substantial knowledge in Chinese medicine dermatology. She is the director and the sole shareholder of the Target Company, and the director of Qi’s Living as at the Latest Practicable Date. Pursuant to the Share Transfer and Cooperation Agreement, she will be appointed as the COO of TDMall Group upon Completion. The Vendor is independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE TRANSFER AND COOPERATION AGREEMENT

1. Enhancing the business and operational efficiency of TDMall and facilitating the development of TDMall in the Guangdong-Hong Kong-Macau Greater Bay Area

Responding to national policy, the Group comprehensively promotes the development of the TCM business with a special focus on building TDMall, a modern Chinese clinic operation dedicated to providing quality TCM services emphasizing “specialities for special illness, effective result by featured treatments, combination of recovery and health-preservation, and harmony between nature and mankind”.

The Target Company’s extensive experience and expertise in the operation of Chinese medical clinics and sales of TCM healthcare products will be conducive to enhancing the business and operational efficiency of TDMall and the performance of the Group’s TCM health care services segment. As a renowned registered Chinese medicine practitioner in Hong Kong, the Vendor has gained strong public recognition through years of clinical experience and popular publications relating to Chinese medicine and healthcare. The Vendor’s joining the TDMall Group will bring greater expertise and managerial experience to the Group and is expected to bring more opportunities for the business development of the Purchaser, facilitate the Group’s capturing strategic opportunities in the Guangdong-Hong Kong-Macau Greater Bay Area, and accelerate its development in the Chinese medicine industry and the TDMall business.

LETTER FROM THE BOARD

2. Enlargement of service portfolio and consumer base

The Target Company is a Chinese medical institution in Hong Kong, which provides high-end and modern Chinese medical services, including Chinese medical consultation, acupuncture, cupping therapy, “Tui Na” therapeutic massage, skin and body check and other health management services. The Directors believe that, through the creation of complementary advantages and promotion of synergistic development by integrating the Target Company’s service system with its own, the Chinese medicine services provided by the Group will cover a wide range of customer segments.

3. Improving the Group’s financial performance and enhancing its market capitalisation

Upon Completion, the Company will become the controlling shareholder of the Target Group. The results of the Target Group will be consolidated into the Group’s financial statements, it is expected that the ongoing profitability of the Target Group will contribute to the Group’s consolidated income and profits, thereby improving its overall financial performance and increasing its market capitalization.

Based on the aforesaid reasons, the Directors are of the view that the terms of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

After Completion, the Target Company will become an indirect non-wholly-owned subsidiary of the Group and the result of the Target Group will be consolidated into the consolidated financial statements of the Group.

The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular for illustrative purposes, which was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisition and the transactions contemplated therein had been completed on 31 March 2020. According to the Unaudited Pro Forma Financial Information, the financial effects of the Acquisition on the Group is summarized as follows:

1. Assets

As at 31 March 2020, the audited consolidated total assets of the Group were approximately HK\$933,122,000. According to the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group would have increased to approximately HK\$938,106,000.

2. Liabilities

As at 31 March 2020, the audited consolidated total liabilities of the Group were approximately HK\$173,359,000. According to the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have increased to approximately HK\$202,283,000.

LETTER FROM THE BOARD

3. Earnings

For the year ended 31 March 2020, the audited consolidated profit attributable to owners of the parent of the Company was approximately HK\$3,143,000. According to the consolidated financial information of the Y&Y Group as set out in Appendix IIA to this circular, the audited consolidated net profit of the Y&Y Group for the year ended 31 March 2020 was HK\$5,329,000, it is expected that after Completion, the Y&Y Group would make a positive contribution to the profit of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Share Transfer and Cooperation Agreement exceed(s) 25% but all are less than 100%, the transactions contemplated under the Share Transfer and Cooperation Agreement constitute a major transaction of the Company and are therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has received the written approval of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder from Tianda Group, owner of 1,194,971,370 Shares (representing approximately 55.58% of the total issued share capital of the Company). As (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder; and (ii) Tianda Group holds more than 50% of the voting rights that would be exercisable at such general meeting, no physical general meeting is required to be convened for the approval of Share Transfer and Cooperation Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

RECOMMENDATION

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

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Tianda Pharmaceuticals Limited
FANG Wen Quan
Chairman and Managing Director

I. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 March 2018, 2019 and 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.tiandapharma.com>):

Annual report for the year ended 31 March 2018 (pages 64 to 152):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0726/ltm20180726923.pdf>

Annual report for the year ended 31 March 2019 (pages 64 to 176):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0725/ltm20190725127.pdf>

Annual report for the year ended 31 March 2020 (pages 68 to 168):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0728/2020072800473.pdf>

II. INDEBTEDNESS STATEMENT

At the close of business on 30 September 2020, being the latest practicable date for this statement of indebtedness prior to the printing of this circular, the Enlarged Group had approximately HK\$82,242,000 outstanding indebtedness comprising the following:

(A) Bank Borrowings

As at 30 September 2020, the Enlarged Group had outstanding bank borrowings of approximately RMB57,013,000 (equivalent to approximately HK\$64,425,000, which were secured by certain of the Enlarged Group's right-of-use assets, property, plant and equipment and assets of a disposal group held for sale.

(B) Lease Liabilities

As at 30 September 2020, the Enlarged Group had lease liabilities of approximately HK\$17,817,000, which were related to the lease contracts for clinics, offices and warehouses used in its operation.

(C) Contingent liabilities

As at 30 September 2020, the Enlarged Group had no contingent liability.

Save as disclosed above and apart from intra-group liabilities, at the close of business on 30 September 2020, the Enlarged Group did not have any debt securities issued and outstanding, authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing, bank overdrafts, liabilities under acceptances (other than normal trade bills and payables) or acceptance credits, hire purchase or other finance lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material change in indebtedness and contingent liabilities of the Enlarged Group since 30 September 2020 and up to the Latest Practicable Date.

III. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change to the financial or trading position of the Group since 31 March 2020, being the date to which the latest audited consolidated financial statements of the Company were published.

IV. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, taking into account the expected Completion of the Share Transfer and Cooperation Agreement and the transactions contemplated thereunder, the internal financial resources available and existing available facilities of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for at least twelve months from the date of publication of this circular in the absence of unforeseen circumstances.

V. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is rooted in the Guangdong-Hong Kong-Macao Greater Bay Area, and implements three key development strategies, including “the development of the Chinese medicine business as the foundation, the development of innovative medicines and medical technologies and the development of quality medical and healthcare services”. It is committed to becoming a pharmaceutical enterprise with competitive advantages and core competencies in drug R&D and manufacturing, Chinese medical consultation and treatment, medical technology and health management.

The Group forges the entire TCM industrial chain from Chinese medicine practice, Chinese herbal medicine to the application of artificial intelligence in TCM and engages in the supply of Chinese medicinal herbs and the production of TCM decoction pieces. It has also established the “Tianda Standard” to control its TCM quality, and launched TDMall, a modern style Chinese medicine clinic. TDMall adheres to the Chinese medicine philosophy of “a great physician treats an illness before it develops”, and always abides by the treatment principle of “medication should be stopped once its efficacy shows and treatment should be centred on the patient”. TDMall exercises strict control on the quality of Chinese medicinal materials by complying with the “Tianda Standard”. By integrating modern medical science and other innovative technologies, TDMall provides featured specialities, general TCM treatment, health preservation and health management services and establishes personalized systems for disease diagnosis, treatment and prevention along with health preservation, thereby achieving the unification of man and nature of tradition and modernity as well as of prevention and treatment in pursuit of the harmony of man and the universe. TDMall is based in the Guangdong-Hong Kong-Macao Greater Bay Area, seeking to expand nationwide and even globally in the long run. Currently TDMalls have been opened in Zhuhai, Hong Kong and Sydney successively from 2019 onwards. Through leveraging Internet technology, big data, AI and other innovative technologies, it has been constructing a “Cloud TDMall”, designed to realize the integration of online and offline Chinese medicine services, remote diagnosis and treatment and joint expert consultation services, to enable the provision of quality, convenient and comprehensive Chinese medicine healthcare services to the public, with an aim of promoting TCM inheritance innovation and development.

As disclosed in the section of “Letter from the Board –REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE TRANSFER AND COOPERATION AGREEMENT”, the acquisition and cooperation will bring multiple benefits to the Group. Besides, the acquisition and cooperation represent an important step for the Group in the development of the entire TCM industry chain, laying an important foundation and accumulating necessary experience for the expansion and accelerated development of TDMall in the Greater Bay Area, as well as across China and the world. In addition to endogenous growth, The Group has attached great importance to exogenous growth, engaging in mergers and acquisitions to acquire successful operating entities, talent and experience in the industry as a way to accelerate the pace of business development, and it will continue to identify relevant opportunities. As Chinese medicine has been gaining more attention across the world, we are optimistic about the prospects of the global development of TCM, and will make short, medium and long term development plans in line with national policies. Step by step, The Group is heading towards achieving the goal of becoming a leading comprehensive pharmaceutical enterprise.

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



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TIANDA PHARMACEUTICALS LIMITED

Introduction

We report on the historical financial information of Yeung & Young Medicare Centre Limited (the "Target Company") and its subsidiary, Qi's Living Company Limited (together, the "Y&Y Group") set out on pages IIA-4 to IIA-51, which comprises the consolidated statements of financial position as at 31 March 2018, 2019, 2020 and 30 June 2020, and the statements of financial position of the Target Company as at 31 March 2018, 2019, 2020 and 30 June 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages IIA-4 to IIA-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Tianda Pharmaceuticals Limited (the "Company") dated 24 November 2020 (the "Circular") in connection with the proposed acquisition of 50.1% equity interest of the Target Company.

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, 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 give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company and the Y&Y Group as at 31 March 2018, 2019, 2020 and 30 June 2020 and of the Y&Y Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Historical Financial Information

We have reviewed the stub period comparative historical financial information of the Y&Y Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended 30 June 2019 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED**Adjustments**

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

BDO Limited

Certified Public Accountants

Cheung Wing Yin

Practising Certificate Number P06946

Hong Kong

24 November 2020

HISTORICAL FINANCIAL INFORMATION OF THE Y&Y GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report. The consolidated financial statements of the Y&Y Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing (the "HKSA's") issued by the HKICPA (the "Underlying Financial Statements").

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

I. HISTORICAL FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 March			Three months ended 30 June	
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	6	14,936	14,022	13,354	3,617	2,924
Cost of sales		(1,190)	(1,020)	(1,016)	(245)	(175)
Gross profit		13,746	13,002	12,338	3,372	2,749
Other income	7	95	131	106	24	—*
Administrative expenses		(7,742)	(7,479)	(6,294)	(1,289)	(743)
Finance costs	8	(30)	(78)	(31)	(13)	—
Profit before income tax	9	6,069	5,576	6,119	2,094	2,006
Income tax expense	11	(1,000)	(716)	(790)	(136)	(145)
Profit and total comprehensive income for the year/period		<u>5,069</u>	<u>4,860</u>	<u>5,329</u>	<u>1,958</u>	<u>1,861</u>
Profit/(loss) and total comprehensive income attributable to:						
Owners of the Target Company		5,073	4,177	4,652	1,781	1,861
Non-controlling interests		(4)	683	677	177	—*
Profit and total comprehensive income for the year/period		<u>5,069</u>	<u>4,860</u>	<u>5,329</u>	<u>1,958</u>	<u>1,861</u>

* Represents amount less than HK\$1,000

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 March			As at
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	30 June 2020 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	13	1,921	1,860	183	119
Right-of-use assets	14(a)	90	1,215	93	-
Deposits	17	393	404	404	404
Deferred tax assets	24	-	-	37	46
		<u>2,404</u>	<u>3,479</u>	<u>717</u>	<u>569</u>
Current assets					
Inventories	15	103	110	89	89
Trade receivables	16	38	88	37	60
Deposits and prepayment	17	3	4	2	1
Amount due from a director	21	-	2	7,640	8,667
Amount due from a related company	21	-	10	-	-
Cash and cash equivalents	18	7,546	4,705	556	1,782
		<u>7,690</u>	<u>4,919</u>	<u>8,324</u>	<u>10,599</u>
Current liabilities					
Trade payables	19	62	5	59	69
Other payables and accruals	20	3,157	3,636	4,049	4,239
Amount due to a director	21	1,735	-	-	-
Amount due to a related company	21	-	-	456	466
Lease liabilities	14(b)	95	1,145	98	-
Tax payables		2,382	162	811	965
		<u>7,431</u>	<u>4,948</u>	<u>5,473</u>	<u>5,739</u>
Net current assets/(liabilities)		<u>259</u>	<u>(29)</u>	<u>2,851</u>	<u>4,860</u>
Total assets less current liabilities		<u>2,663</u>	<u>3,450</u>	<u>3,568</u>	<u>5,429</u>

	Notes	As at 31 March			As at
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	30 June 2020 HK\$'000
Non-current liabilities					
Lease liabilities	14(b)	–	98	–	–
Deferred tax liabilities	24	133	113	–	–
		<u>133</u>	<u>211</u>	<u>–</u>	<u>–</u>
Net assets		<u>2,530</u>	<u>3,239</u>	<u>3,568</u>	<u>5,429</u>
EQUITY					
Share capital	22	10	10	10	10
Retained profits		<u>2,520</u>	<u>2,546</u>	<u>2,198</u>	<u>4,059</u>
Equity attributable to the owners of the Target Company		<u>2,530</u>	<u>2,556</u>	<u>2,208</u>	<u>4,069</u>
Non-controlling interests		<u>–*</u>	<u>683</u>	<u>1,360</u>	<u>1,360</u>
Total equity		<u>2,530</u>	<u>3,239</u>	<u>3,568</u>	<u>5,429</u>

* Represents amount less than HK\$1,000

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at 31 March			As at
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	30 June 2020 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	13	1,921	1,860	183	119
Investments in subsidiaries	25	6	6	6	6
Right-of-use assets	14(a)	90	1,215	93	–
Deposits	17	393	404	404	404
Deferred tax assets	24	–	–	37	46
		<u>2,410</u>	<u>3,485</u>	<u>723</u>	<u>575</u>
Current assets					
Inventories		103	96	76	76
Trade receivables	16	38	88	37	60
Deposits and prepayment	17	3	4	2	1
Amount due from a director	21	–	–	7,630	8,657
Amount due from a related company	21	–	10	–	–
Amount due from a subsidiary	25	61	–	–	–
Cash and cash equivalents	18	7,496	4,657	494	1,721
Tax recoverable		–	152	–	–
		<u>7,701</u>	<u>5,007</u>	<u>8,239</u>	<u>10,515</u>
Current liabilities					
Trade payables	19	62	5	59	69
Other payables and accruals	20	3,157	3,630	4,037	4,227
Amount due to a director	21	1,745	8	–	–
Amount due to a related company	21	–	–	456	466
Amount due to a subsidiary	25	–	1,954	3,951	3,951
Lease liabilities	14(b)	95	1,145	98	–
Tax payables		2,382	–	187	341
		<u>7,441</u>	<u>6,742</u>	<u>8,788</u>	<u>9,054</u>
Net current assets/(liabilities)		<u>260</u>	<u>(1,735)</u>	<u>(549)</u>	<u>1,461</u>
Total assets less current liabilities		<u>2,670</u>	<u>1,750</u>	<u>174</u>	<u>2,036</u>

		As at 31 March			As at
		2018	2019	2020	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2020
					HK\$'000
Non-current liabilities					
Lease liabilities	14(b)	–	98	–	–
Deferred tax liabilities	24	133	113	–	–
		<u>133</u>	<u>211</u>	<u>–</u>	<u>–</u>
Net assets		<u>2,537</u>	<u>1,539</u>	<u>174</u>	<u>2,036</u>
EQUITY					
Share capital	22	10	10	10	10
Retained profits	23	<u>2,527</u>	<u>1,529</u>	<u>164</u>	<u>2,026</u>
Total equity		<u>2,537</u>	<u>1,539</u>	<u>174</u>	<u>2,036</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company			Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 22)	Retained profits HK\$'000	Sub-total HK\$'000		
At 1 April 2017	10	7,888	7,898	4	7,902
Profit and total comprehensive income for the year	–	5,073	5,073	(4)	5,069
Dividend (Note 12)	–	(10,441)	(10,441)	–	(10,441)
At 31 March 2018 and 1 April 2018	10	2,520	2,530	–*	2,530
Profit and total comprehensive income for the year	–	4,177	4,177	683	4,860
Dividend (Note 12)	–	(4,151)	(4,151)	–	(4,151)
At 31 March 2019 and 1 April 2019	10	2,546	2,556	683	3,239
Profit and total comprehensive income for the year	–	4,652	4,652	677	5,329
Dividend (Note 12)	–	(5,000)	(5,000)	–	(5,000)
At 31 March 2020 and 1 April 2020	10	2,198	2,208	1,360	3,568
Profit and total comprehensive income for the period	–	1,861	1,861	–*	1,861
At 30 June 2020	<u>10</u>	<u>4,059</u>	<u>4,069</u>	<u>1,360</u>	<u>5,429</u>
For the three months ended 30 June 2019					
At 1 April 2019	10	2,546	2,556	683	3,239
Profit and total comprehensive income for the period	–	1,781	1,781	177	1,958
At 30 June 2019 (unaudited)	<u>10</u>	<u>4,327</u>	<u>4,337</u>	<u>860</u>	<u>5,197</u>

* Represents amount less than HK\$1,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 March			Three months ended 30 June	
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000
Cash flows from operating activities						
Profit before income tax		6,069	5,576	6,119	2,094	2,006
Adjustments for:						
Finance costs	8	30	78	31	13	–
Interest income	7	–	(17)	(66)	(24)	–*
Depreciation of property, plant and equipment	9	591	805	961	252	64
Depreciation of right-of-use assets	9	1,081	1,118	1,122	280	93
		<u>7,771</u>	<u>7,560</u>	<u>8,167</u>	<u>2,615</u>	<u>2,163</u>
Operating profit before working capital changes						
(Increase)/decrease in inventories		(4)	(7)	21	–	–
Decrease/(increase) in trade receivables		79	(50)	51	(30)	(23)
Decrease/(increase) in deposits and prepayment		60	(12)	2	(1)	1
Increase/(decrease) in trade payables		52	(57)	54	63	10
Increase in other payables and accruals		527	479	413	709	190
		<u>8,485</u>	<u>7,913</u>	<u>8,708</u>	<u>3,356</u>	<u>2,341</u>
Cash generated from operations						
Income tax paid, net		–	(2,956)	(291)	(342)	–
		<u>8,485</u>	<u>4,957</u>	<u>8,417</u>	<u>3,014</u>	<u>2,341</u>
Net cash generated from operating activities						
Cash flows from investing activities						
Interest received		–	17	66	24	–*
Purchase of property, plant and equipment		(1,959)	(744)	–	–	–
		<u>(1,959)</u>	<u>(727)</u>	<u>66</u>	<u>24</u>	<u>–</u>
Net cash (used in)/generated from investing activities						

	Note	Year ended 31 March			Three months ended 30 June	
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000
Cash flows from financing activities						
Dividend paid		–	(4,000)	–	–	–
Advance to/(from) a related company		–	(10)	466	458	10
Advance (to)/from a director		(9,466)	(1,888)	(11,922)	9	(1,027)
Repayment of principal portion of lease liabilities		(1,104)	(1,095)	(1,145)	(281)	(98)
Repayment of interest portion of lease liabilities		(30)	(78)	(31)	(13)	–
Net cash (used in)/generated from financing activities		<u>(10,600)</u>	<u>(7,071)</u>	<u>(12,632)</u>	<u>173</u>	<u>(1,115)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,074)</u>	<u>(2,841)</u>	<u>(4,149)</u>	<u>3,211</u>	<u>1,226</u>
Cash and cash equivalents at the beginning of the year/period		<u>11,620</u>	<u>7,546</u>	<u>4,705</u>	<u>4,705</u>	<u>556</u>
Cash and cash equivalents at the end of the year/period	18	<u><u>7,546</u></u>	<u><u>4,705</u></u>	<u><u>556</u></u>	<u><u>7,916</u></u>	<u><u>1,782</u></u>

* Represents amount less than HK\$1,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

1.1 Corporation information

The Target Company was incorporated in Hong Kong with limited liability. The address of its registered office and principal place of business is 22/F, Fortune Centre, 48 Yun Ping Road, Causeway Bay. The Target Company is principally engaged in providing medical consultation services.

Particulars of the Target Company's subsidiaries at the date of this report are as follows:

Name of subsidiaries	Date and place of incorporation and form of business structure	Particulars of issued and fully paid share capital	Ownership interest held by the Target Company					Principal activities
			At 31 March		At 30 June		At date of this report	
			2018	2019	2020	2020		
Qi's Living Company Limited ("Qi's Living") (Note 2)	18 November 2016, Hong Kong, limited liability	HK\$10,000	60%	60%	60%	60%	100%	Trading of traditional Chinese medicine health products
Golden Element Limited ("Golden Element") (Note 4)	24 October 2007, Hong Kong, limited liability	HK\$1	n/a	n/a	n/a	n/a	100%	Property investment

Notes:

- The statutory financial statements of the Target Company for the years ended 2018, 2019 and 2020 were prepared in accordance with Hong Kong Financial Reporting Standard for Private Entities ("HKFRS for Private Entities") issued by the HKICPA and were audited by Sky Base Partners CPA Limited. At the date of the report, Dr. Yeung holds 100% equity interest in the Target Company.
- The statutory financial statements of Qi's Living for the period from 18 November 2016 (date of incorporation) to 31 March 2019 and year ended 31 March 2020 were prepared in accordance with HKFRS for Private Entities issued by the HKICPA and were audited by Sky Base Partners CPA Limited. As at 30 June 2020, Qi's Living was 60% held by the Target Company and 40% held by Dr. Yeung Ming Ha ("Dr. Yeung").

On 23 September 2020, Dr. Yeung transferred 4,000 shares in Qi's Living to the Target Company (representing 40% of the total issued share capital of Qi's Living). Accordingly, the effective equity interest in Qi's Living held by the Target Company was increased to 100%.

- Yeung & Young Charity Foundation Limited ("Charity Foundation"), a company with limited by guarantee and registered as a charitable institution under Section 88 of Inland Revenue Ordinance. The statutory financial statements of Charity Foundation for the period from 18 January 2018 (date of incorporation) to 31 March 2019 and year ended 31 March 2020 were prepared in accordance with HKFRS for Private Entities issued by the HKICPA and were audited by Sky Base Partners CPA Limited. On 22 September 2020, the Target Company ceased its participation in the Charity Foundation by withdrawal from and termination of the membership therein. Accordingly, the effective equity interest in Charity Foundation held by the Target Company was reduced to zero.

4. On 18 September 2020, the Y&Y Group had completed acquisition of the Golden Element from an independent third party, pursuant to which the independent third party transferred the entire issued shares of Golden Element, a limited liability company incorporated in Hong Kong, to the Target Company at a consideration of HK\$60,000,000 (the "Property Acquisition"). At the date of the report, Golden Element is a wholly-owned subsidiary of the Target Company. The historical financial information of Golden Element for the years ended 31 December 2017, 2018, 2019 and six-month period ended 30 June 2020 is set out in Appendix IIB to this Circular.

1.2 Proposed acquisition

On 5 October 2020, the Company announced its proposal to acquire 50.1% equity interest of the Target Company at a cash consideration of HK\$25,000,000 (the "Proposed Acquisition") pursuant to the sale and purchase agreement entered into between a wholly-owned subsidiary of the Company as the purchaser and Dr. Yeung.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

(a) Statement of compliance and basis of consolidation

The Historical Financial Information has been prepared in accordance with accounting policies set out in Note 4 below which conform with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and interpretations (hereinafter collectively referred to as the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the purpose of preparation of the Historical Financial Information, the Target Company has consistently adopted all applicable new or revised HKFRSs effective for the accounting periods commencing from 1 April 2020 throughout the Relevant Periods, including HKFRS 9, Financial instruments, HKFRS 15, Revenue from contracts with customers, HKFRS 16, Lease, together with the relevant transitional provisions in the preparation of the Historical Financial Information throughout the Relevant Periods.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires director of the Target Company to exercise its judgement in the process of applying the 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.

The Stub Period Comparative Historical Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The Historical Financial Information of the Y&Y Group has been prepared solely for inclusion in the Circular of the Company in connection with the Proposed Acquisition. For the purpose of preparation of the Historical Financial Information of the Y&Y Group, the assets and liabilities and operating results of the Charity Foundation have been excluded (i.e. a “carve-out” basis).

Management of the Company is of the view that it is more appropriate to present the Historical Financial Information during the Relevant Periods on a “carve-out” basis, due to the following reasons:

- Y&Y Group is clearly delineated from Charity Foundation in terms of the nature of business and management.
- There are clearly identifiable assets, liabilities, revenue and expenditures of the Y&Y Group and of Charity Foundation respectively.
- It is practicable to identify the historical financial information attributable to the Y&Y Group’s business given that the accounting books and records of the Y&Y Group are maintained separately from the accounting books and records of Charity Foundation.
- Charity Foundation does not form part of the assets to be acquired by the Company under the Proposed Acquisition and hence its historical financial information is not relevant to the trading record of the business proposed to be acquired. The directors of the Company believe that presenting the consolidated financial information of the Y&Y Group and Charity Foundation, which would include the results of Charity Foundation that is not the subject of the Proposed Acquisition, would provide irrelevant and potentially misleading financial information to the users of this Historical Financial Information. As such, presenting the historical financial information of the Y&Y Group on a “carve-out” basis would provide more direct and relevant information to the users of the financial information.

No significant adjustments or allocations of expenses for adoption of a “carve-out” basis were made in the financial information. For the purpose of the Proposed Acquisition as stated in Note 1.2, the financial information of the Y&Y Group has been prepared and presented on “carve-out” basis as if the Charity Foundation was excluded in preparing the financial information throughout the Relevant Periods.

(b) Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis, unless otherwise stated. The measurement bases are fully described in the accounting policies below in Note 4.

(c) Functional and presentation currency

The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Y&Y Group and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

3. NEW OR REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued and have not been early adopted by the Target Company. The Target Company’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 16	COVID-19 Related Rent Concessions ¹
Amendments to HKAS 1	Classification of liabilities as Current or Non-Current ³
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle ²

¹ Effective for annual periods beginning on or after 1 June 2020

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

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

The director of the Target Company anticipates that the application of the new and revised HKFRSs that had been issued but not yet effective will have no material impact on the results and the financial position of the Y&Y Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

4.1 Basis of consolidation and subsidiaries

The Historical Financial Information incorporates the financial statements of the Y&Y Group for the Relevant Periods on a consolidated basis as set out in Note 2. A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Y&Y Group's voting rights and potential voting rights.

The financial information of Qi's Living is prepared for same reporting period as the Target Company, using consistent accounting policies. The results of Qi's Living are consolidated from the date on which the Y&Y Group obtains control, and continues to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Y&Y Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on consolidation.

Y&Y 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 described above. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Y&Y Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Y&Y Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Y&Y Group.

If the Y&Y Group loses control of a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Y&Y Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Y&Y Group had directly disposed of the related assets or liabilities.

In the Target Company's statements of financial position, investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

4.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Y&Y Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation on property, plant and equipment is provided to write off the cost of an item of property, plant and equipment to its residual value, if any, over their estimated useful lives, using straight-line method. The depreciation rates per annum are as follow:

Leasehold improvements	33.33%
Furniture, fixtures and office equipment	33.33%

If there is an indication that there has been a significant change in the depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations. The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. When asset is sold or retire, their cost and accumulated depreciation are removed from the accounts and any gain or loss arising on retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

4.3 Leasing

Y&Y Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

Y&Y Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Y&Y Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities and are separately disclosed on the consolidated statement of financial position. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of lease terms and the estimated useful lives of the assets as follows:

Office premises

Over the lease terms

If ownership of the leased asset transfers to the Y&Y Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Y&Y Group and payments of penalties for termination of a lease, if the lease term reflects the Y&Y Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Y&Y Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases

The Y&Y Group applies the short-term lease recognition exemption to its short-term leases of office (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term lease are recognised as an expense on a straight-line basis over the lease term.

4.4 Financial Instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Y&Y Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Y&Y Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for Note 4.7 below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Y&Y Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

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

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

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

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

(ii) Impairment of financial assets

Y&Y Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Y&Y Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, Y&Y Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, Y&Y 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Y&Y Group considers a financial asset in default when contractual payments are 60 to 180 days past due. However, in certain cases, Y&Y Group may also consider a financial asset to be in default when internal or external information indicates that the Y&Y Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Y&Y Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component, Y&Y Group applies the simplified approach in calculating ECLs. Y&Y Group has assessed the credit risk exposure that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(iii) Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost including trade payables and accruals, and amounts due to a director and a related company are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss. Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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

(iv) Effective interest method

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

4.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined calculated the first in, first out (FIFO) method. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less any estimated costs to be incurred to completion and disposal.

4.6 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Y&Y Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits.

4.7 Revenue recognition

Y&Y 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 Y&Y Group's performance as Y&Y Group performs;
- Y&Y Group's performance creates and enhances an asset that the customer controls as Y&Y Group performs; or
- Y&Y Group's performance does not create an asset with an alternative use to Y&Y Group and Y&Y 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) Sales of Chinese medicine, skincare and healthcare products

Revenue from the sales of Chinese medicine, skincare and healthcare products is recognised at the point in time when control of the assets is transferred to the customer, generally coincides with the time on delivery of the skincare and healthcare products to the customer.

(b) Medical consultation and treatment services

Revenue from the Medical consultation and treatment services are satisfied at the point in time when services have been rendered.

Prepaid medical consultation and treatment services not yet rendered, which are non-refundable and with no expiry dates, are deferred and reported as contract liabilities in the consolidated statement of financial position.

(c) Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

4.8 Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Y&Y Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Y&Y Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

4.9 Share capital

Ordinary shares are classified as equity.

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

4.10 Impairment of non-financial assets

At the end of each Relevant Periods, assets that are subject to depreciation and amortisation are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the recoverable amount (i.e. the higher of the fair value less costs of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.11 Employee benefits

Short-term employee benefits

Salaries, wages, annual bonuses, paid annual leave, leave passage and the cost to the Y&Y Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Y&Y Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined contribution retirement plan

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

4.12 Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Y&Y Group has a present legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.13 Income tax

Income tax comprise current tax and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Y&Y Group operates.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases using 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 against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the related tax benefit to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. However, the measurement of deferred tax liabilities associated with an investment property measured at fair value does not exceed the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the reporting date. Deferred tax is recognised in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4.14 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability and the Target Company's financial statements in the period in which the dividends are approved by the Target Company's shareholders or directors, where appropriate.

4.15 Related parties

- (a) A person or a close member of that person's family is related to the Y&Y Group if that person:
 - (i) has control or joint control of the Y&Y Group;
 - (ii) has significant influence over the Y&Y Group; or
 - (iii) is a member of the key management personnel of the Y&Y Group or of the Target Company's parent.

- (b) An entity is related to the Y&Y Group if any of the following conditions applies:
- (i) the entity and the Y&Y Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Y&Y Group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Y&Y Group or an entity related to the Y&Y Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, of any member of the Y&Y Group of which it is a part, provides key management personnel services to the Y&Y Group or to the Y&Y Group's parent.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependants of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Impairment of non-financial assets

The carrying values of the Y&Y Group's property, plant and equipment and right-of-use assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. The director of the Target Company considers all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amounts of the Y&Y Group's non-financial assets may exceed their recoverable amount (i.e. impaired).

(b) Depreciation of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimate residual value. The determination of the useful lives and residual values involve management's estimation. Y&Y Group assesses annually the residual value and the useful life of the property, plant and equipment and right-of-use assets and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

6. REVENUE AND SEGMENT INFORMATION

Revenue recognised during the Relevant Periods is as follows:

	Year ended 31 March			Three months ended	
	2018	2019	2020	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
Revenue from contracts with customers					
– Medical consultation and treatment services	8,377	8,381	8,346	2,235	1,942
– Sales of Chinese medicine, skincare and healthcare products	6,559	5,641	5,008	1,382	982
	<u>14,936</u>	<u>14,022</u>	<u>13,354</u>	<u>3,617</u>	<u>2,924</u>
Timing of revenue recognition					
– At a point in time	<u>14,936</u>	<u>14,022</u>	<u>13,354</u>	<u>3,617</u>	<u>2,924</u>

Segment information

Y&Y Group's operating activities are solely derived from Chinese medical business in Hong Kong. The Y&Y Group's director reviews the overall results of financial position of the Y&Y Group as a whole prepared based on the same accounting policies. Accordingly, Y&Y Group has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

The Target Company is domiciled in Hong Kong. As all the Y&Y Group's revenue from external customers are derived from and all of the Y&Y Group's non-current assets are located in Hong Kong, hence no information of the Y&Y Group's revenue and non-current assets by geographical location is presented.

Information about major customers

None of Y&Y Group's customers contributed 10% or more of the Y&Y Group's total revenue during the Relevant Periods.

7. OTHER INCOME

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Bank interest income	–	17	66	24	–*
Sundry income	95	114	40	–	–
	<u>95</u>	<u>131</u>	<u>106</u>	<u>24</u>	<u>–*</u>

* Represents amount less than HK\$1,000

8. FINANCE COSTS

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Interest expenses on lease liabilities	30	78	31	13	–
	<u>30</u>	<u>78</u>	<u>31</u>	<u>13</u>	<u>–</u>

9. PROFIT BEFORE INCOME TAX

Y&Y Group's profit before income tax is arrived at after charging:

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Auditor's remuneration	20	14	22	–	–
Cost of inventories	721	560	571	181	84
Depreciation charge:					
– property, plant and equipment	591	805	961	252	64
– right-of-use assets	1,081	1,118	1,122	280	93
Staff costs (including directors' emoluments) (Note 10):					
– salaries, allowances and other benefits	3,222	3,042	2,243	360	221
– pension scheme contributions	85	75	49	14	9
	<u>3,307</u>	<u>3,117</u>	<u>2,292</u>	<u>374</u>	<u>230</u>

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance, Cap. 622 and the Companies (Disclosure of Information about Benefits of Directors) Regulation, Cap. 622G is as follows:

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Director					
Dr. Yeung Ming Ha					
Fees	–	–	–	–	–
Salaries and allowances	1,272	960	905	90	90
Pension scheme contributions	18	18	18	5	5
	<u>1,290</u>	<u>978</u>	<u>923</u>	<u>95</u>	<u>95</u>
Director					
Wong Sau Ping					
Fees	–	–	–	–	–
Salaries and allowances	399	–	–	–	–
Pension scheme contributions	–	–	–	–	–
	<u>399</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

There was no arrangement under which the directors waived or agreed to waive any remuneration during the Relevant Periods. During the Relevant Periods, no remuneration was paid by Y&Y Group to the directors as an inducement to join or upon joining the Y&Y Group or as compensation for loss of office.

(b) Five highest paid individuals' emoluments

Of the five individuals of the Y&Y Group with the highest emoluments for the Relevant Periods, 2, 1, 1, 1, 1 of which for the years ended 31 March 2018, 2019 and 2020 and the three months ended 30 June 2019 and 2020, respectively, are directors whose emoluments are included in Note 10(a) above. Emoluments payable to the remaining highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 March			Three months ended	
				30 June	
	2018	2019	2020	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)				
Salaries, allowances and benefits in kind	980	1,194	919	206	101
Pension scheme contributions	47	36	22	9	4
	<u>1,027</u>	<u>1,230</u>	<u>941</u>	<u>215</u>	<u>105</u>

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Y&Y Group are within the following bands:

	Year ended 31 March			Three months ended	
				30 June	
	2018	2019	2020	2019	2020
	<i>Number of Individuals</i>	<i>Number of Individuals</i>	<i>Number of Individuals</i>	<i>Number of Individuals</i>	<i>Number of Individuals</i>
	(Unaudited)				
Nil to HK\$1,000,000	<u>3</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no remuneration was paid by the Y&Y Group to any of the five highest paid employees as an inducement to join or upon joining the Y&Y Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Current tax					
– Charge for the year/period	887	736	940	170	154
Deferred tax (Note 24)	113	(20)	(150)	(34)	(9)
Income tax expense	<u>1,000</u>	<u>716</u>	<u>790</u>	<u>136</u>	<u>145</u>

Hong Kong Profits tax has been provided at the rate of 16.5% of the estimated assessable profits during the Relevant Periods, except for the Target Company which is a qualifying corporation under the two-tiered Profits Tax rate regime. For the Target Company, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Reconciliation between income tax expense and accounting profits at applicable tax rate is as follows:

	Year ended 31 March			Three months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Profit before income tax	<u>6,069</u>	<u>5,576</u>	<u>6,119</u>	<u>2,094</u>	<u>2,006</u>
Tax calculated at the applicable rate	1,002	755	845	180	165
Tax effect of non-deductible expenses	30	–	–	–	–
Tax effect of temporary differences not recognised	–	(3)	(11)	(4)	–
Tax losses utilised from previous year	2	–	–	–	–
Tax concession	(30)	(40)	(40)	(40)	(20)
Others	(4)	4	(4)	–	–
Income tax expense	<u>1,000</u>	<u>716</u>	<u>790</u>	<u>136</u>	<u>145</u>

12. DIVIDENDS

Interim dividend for the years ended 31 March 2018, 2019 and 2020 of HK\$10,441,000, HK\$4,151,000 and HK\$5,000,000, respectively, was declared. No dividend was paid or declared during the three months period ended 30 June 2020.

13. PROPERTY, PLANT AND EQUIPMENT

Y&Y Group and Target Company	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2017	113	1,349	1,462
Additions	197	1,762	1,959
At 31 March 2018	310	3,111	3,421
Additions	–	744	744
At 31 March 2019	310	3,855	4,165
Transfer	–	(2,850)	(2,850)
At 31 March 2020 and 30 June 2020	310	1,005	1,315
Accumulated depreciation			
At 1 April 2017	110	799	909
Charge for the year	31	560	591
At 31 March 2018	141	1,359	1,500
Charge for the year	66	739	805
At 31 March 2019	207	2,098	2,305
Charge for the year	66	895	961
Transfer	–	(2,134)	(2,134)
At 31 March 2020	273	859	1,132
Charge for the period	16	48	64
At 30 June 2020	289	907	1,196
Net carrying amount			
At 31 March 2018	169	1,752	1,921
At 31 March 2019	103	1,757	1,860
At 31 March 2020	37	146	183
At 30 June 2020	21	98	119

14. LEASES

Y&Y Group leases office premises. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(a) Right-of-use assets

The carrying amounts of the Y&Y Group's and the Target Company's right-of-use assets and the movements are as follows:

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
At the beginning of the year/period	1,171	90	1,215	93
Additions	–	2,243	–	–
Depreciation charge	(1,081)	(1,118)	(1,122)	(93)
At the end of the year/period	<u>90</u>	<u>1,215</u>	<u>93</u>	<u>–</u>

(b) Lease liabilities

As at 31 March 2018, 2019 and 2020, and 30 June 2020, the total future minimum lease payments of the Y&Y Group and the Target Company as a lessee under non-cancellable operating leases in respect of office premises was payable as follows:

	2018		As at 31 March		2020		As at 30 June 2020	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	95	95	1,145	1,176	98	98	–	–
After 1 year but within 2 years	–	–	98	98	–	–	–	–
	<u>95</u>	<u>95</u>	<u>1,243</u>	<u>1,274</u>	<u>98</u>	<u>98</u>	<u>–</u>	<u>–</u>
Less: total future interest expenses		–		(31)		–		–
Present value of lease liabilities		<u>95</u>		<u>1,243</u>		<u>98</u>		<u>–</u>

The present value of future lease payments are analysed as follows:

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Current liabilities	95	1,145	98	–
Non-current liabilities	–	98	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Operating leases relate to office premises with lease terms of two years.

15. INVENTORIES

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Finished goods	103	110	89	89
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16. TRADE RECEIVABLES

Y&Y Group and Target Company	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Trade receivables	38	88	37	60
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Y&Y Group's trading terms with its customers are mainly on credit. The credit periods are ranged from 60 to 180 days. Y&Y Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Y&Y Group's trade receivables relate to a large number of customers, there is no significant concentration of credit risk. Y&Y Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The ageing analysis of trade receivables based on the invoice date as at the end of the Relevant Periods is as follows:

Y&Y Group and Target Company	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
0 to 30 days	17	69	16	40
31 to 60 days	–	–	1	–
61 to 90 days	7	–	–	–
90 to 180 days	4	6	9	–
Over 180 days	10	13	11	20
	<u>38</u>	<u>88</u>	<u>37</u>	<u>60</u>

The director of the Target Company estimated that the expected loss for trade receivables is minimal with reference to the historical records, past experience and also available reasonable and supportive forward-looking information of these debtors, and the recurring overdue records of these debtors with satisfactory settlement history.

17. DEPOSITS AND PREPAYMENT

Y&Y Group and Target Company	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Non-current assets				
Deposits	<u>393</u>	<u>404</u>	<u>404</u>	<u>404</u>
Current assets				
Deposits	3	–	–	–
Prepayment	<u>–</u>	<u>4</u>	<u>2</u>	<u>1</u>
	<u>3</u>	<u>4</u>	<u>2</u>	<u>1</u>

The maximum exposure to credit risk at the reporting dates is the carrying amounts. Y&Y Group does not hold any collateral as security.

18. CASH AND CASH EQUIVALENTS

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Y&Y Group				
Cash at banks	7,544	4,703	556	1,782
Cash on hand	2	2	–	–
	<u>7,546</u>	<u>4,705</u>	<u>556</u>	<u>1,782</u>
Target Company				
Cash at banks	7,494	4,655	494	1,721
Cash on hand	2	2	–	–
	<u>7,496</u>	<u>4,657</u>	<u>494</u>	<u>1,721</u>

19. TRADE PAYABLES

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Y&Y Group and Target Company				
Trade payables	62	5	59	69
	<u>62</u>	<u>5</u>	<u>59</u>	<u>69</u>

The average credit period granted to the Y&Y Group is 30 to 60 days. An ageing analysis of the trade payables as at the end of the Relevant Periods, based on the invoice date, is as follow:

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
0 to 30 days	62	5	25	37
31 to 60 days	–	–	34	8
61 to 90 days	–	–	–	1
Over 90 days	–	–	–	23
	<u>62</u>	<u>5</u>	<u>59</u>	<u>69</u>

20. OTHER PAYABLES AND ACCRUALS

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Y&Y Group				
Current liabilities				
Contract liabilities (<i>Note</i>)	3,010	3,592	4,003	4,160
Accruals	147	44	46	79
	<u>3,157</u>	<u>3,636</u>	<u>4,049</u>	<u>4,239</u>
Target Company				
Current liabilities				
Contract liabilities (<i>Note</i>)	3,010	3,592	4,003	4,160
Accruals	147	38	34	67
	<u>3,157</u>	<u>3,630</u>	<u>4,037</u>	<u>4,227</u>

Note:

Contract liabilities include advances received from customers to deliver goods and services, such receipts in advance remain as contract liabilities until the performance obligations are satisfied. The changes in contract liabilities during the Relevant Periods are mainly due to increase in receipts less the revenue recognised upon the provision of goods and services in relation to the contract liabilities.

The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 March			Three months ended	
	2018	2019	2020	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	<u>1,135</u>	<u>1,249</u>	<u>1,301</u>	<u>798</u>	<u>653</u>

The Y&Y Group has applied the practical expedient and therefore the above information does not include information about revenue that the Y&Y Group will be entitled to when it satisfies the remaining performance obligations that had an original expected duration of one year or less.

21. BALANCES WITH A DIRECTOR/A RELATED COMPANY

The amounts due from/to a director and a related company were unsecured, interest-free and repayable on demand. The maximum exposure to credit risk at the reporting dates is the carrying amounts of the assets. The Y&Y Group does not hold any collateral as security.

Y&Y Group

Particulars of amounts due from a director and a related company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Director) Regulation, are as follows:

	At 1 April	As at 31 March			As at
	2017	2018	2019	2020	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due (to)/from a director	(760)	(1,735)	2	7,640	8,667
Amount due from/(to) a related company	–	–	10	(456)	(466)

Maximum amounts outstanding due from a director/a related company disclosed are as follows:

	As at 31 March			As at
	2018	2019	2020	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a director	–	2	7,640	8,667
Amount due from a related company	–	10	–	–

Target Company

	At 1 April 2017 HK\$'000	2018 HK\$'000	As at 31 March 2019 HK\$'000	2020 HK\$'000	As at 30 June 2020 HK\$'000
Amount due (to)/from a director	<u>(760)</u>	<u>(1,745)</u>	<u>(8)</u>	<u>7,630</u>	<u>8,657</u>
Amount due from/(to) a related company	<u>–</u>	<u>–</u>	<u>10</u>	<u>(456)</u>	<u>(466)</u>

Maximum amounts outstanding due from a director/a related company disclosed are as follows:

	2018 HK\$'000	As at 31 March 2019 HK\$'000	2020 HK\$'000	As at 30 June 2020 HK\$'000
Amount due from a director	<u>–</u>	<u>–</u>	<u>7,630</u>	<u>8,657</u>
Amount due from a related company	<u>–</u>	<u>10</u>	<u>–</u>	<u>–</u>

22. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary share, issued and fully paid		
At 1 April 2017, 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020	<u>10,000</u>	<u>10</u>

23. RESERVES

The amounts of the Y&Y Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the each of the Relevant Periods are set out below:

Target Company	Retained profits HK\$'000
As at 1 April 2017	7,888
Profit and total comprehensive income for the year	5,080
Dividend (<i>Note 12</i>)	<u>(10,441)</u>
As at 31 March 2018 and 1 April 2018	2,527
Profit and total comprehensive income for the year	3,153
Dividend (<i>Note 12</i>)	<u>(4,151)</u>
As at 31 March 2019 and 1 April 2019	1,529
Profit and total comprehensive income for the year	3,635
Dividend (<i>Note 12</i>)	<u>(5,000)</u>
As at 31 March 2020 and 1 April 2020	164
Profit and total comprehensive income for the period	<u>1,862</u>
As at 30 June 2020	<u><u>2,026</u></u>

24. DEFERRED TAX

The net movements on the deferred tax liabilities/(assets) are as follows:

Y&Y Group and Target Company	Depreciation in excess of related depreciation allowance HK\$'000
As at 1 April 2017	20
Deferred tax debited to profit or loss during the year (Note 11)	113
	<hr/>
As at 31 March 2018 and 1 April 2018	133
Deferred tax credited to profit or loss during the year (Note 11)	(20)
	<hr/>
As at 31 March 2019 and 1 April 2019	113
Deferred tax credited to profit or loss during the year (Note 11)	(150)
	<hr/>
As at 31 March 2020 and 1 April 2020	(37)
Deferred tax credited to profit or loss during the period (Note 11)	(9)
	<hr/>
As at 30 June 2020	(46)
	<hr/> <hr/>

25. INVESTMENTS IN SUBSIDIARIES

Target Company	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Unlisted shares, at cost	6	6	6	6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The particulars of subsidiaries of the Y&Y Group are set out in Note 1. No impairment losses on investments in subsidiaries were recognised during the Relevant Periods. The Target Company and its subsidiaries have adopted 31 March as their financial year end date.

Amounts due from/(to) a subsidiary are unsecured, interest-free and repayable on demand.

Set out below are details of the Y&Y Group's subsidiary with material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Percentage of equity interests held by NCI:				
– Qi's Living	40%	40%	40%	40%
Summarised statements of financial position				
Current assets	60	2,025	4,036	4,035
Current liabilities	61	319	636	636
Net (liabilities)/assets	(1)	1,706	3,400	3,399
Carrying amount of NCI	–*	683	1,360	1,360
Summarised statements of profit or loss				
Revenue	–	2,304	2,297	–
(Loss)/profit and total comprehensive income	(11)	1,707	1,694	(1)
(Loss)/profit and total comprehensive income allocated to NCI	(4)	683	677	–*
Summarised statements of cash flows				
Net cash flow generated from/(used in) operating activities	50	(2)	14	–*
Net cash flow generated from investing activities	–*	–*	–*	–*
Net cash inflow/(outflow)	<u>50</u>	<u>(2)</u>	<u>14</u>	<u>–*</u>

* Represents amount less than HK\$1,000

26. COMMITMENTS

Y&Y Group and the Target Company had no significant capital commitments at the end of each of the Relevant Periods.

27. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Y&Y Group's and Target Company's financial assets and liabilities as recognised at the Relevant Periods are analysed as follows:

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Y&Y Group				
Financial assets				
<i>At amortised costs:</i>				
– Trade receivables	38	88	37	60
– Deposits	396	404	404	404
– Amount due from a related company	–	10	–	–
– Amount due from a director	–	2	7,640	8,667
– Cash and cash equivalents	7,546	4,705	556	1,782
	<u>7,980</u>	<u>5,209</u>	<u>8,637</u>	<u>10,913</u>
Financial liabilities				
<i>At amortised cost:</i>				
– Trade payables	62	5	59	69
– Accruals	147	44	46	79
– Amount due to a director	1,735	–	–	–
– Amount due to a related company	–	–	456	466
– Lease liabilities	95	1,243	98	–
	<u>2,039</u>	<u>1,292</u>	<u>659</u>	<u>614</u>
Target Company				
Financial assets				
<i>At amortised costs:</i>				
– Trade receivables	38	88	37	60
– Deposits	396	404	404	404
– Amount due from a director	–	–	7,630	8,657
– Amount due from a related company	–	10	–	–
– Amount due from a subsidiary	61	–	–	–
– Cash and cash equivalents	7,496	4,657	494	1,721
	<u>7,991</u>	<u>5,159</u>	<u>8,565</u>	<u>10,842</u>

	As at 31 March			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Financial liabilities				
<i>At amortised cost:</i>				
– Trade payables	62	5	59	69
– Accruals	147	38	34	67
– Amount due to a director	1,745	8	–	–
– Amount due to a related company	–	–	456	466
– Amount due to a subsidiary	–	1,954	3,951	3,951
– Lease liabilities	95	1,243	98	–
	<u>2,049</u>	<u>3,248</u>	<u>4,598</u>	<u>4,553</u>

The fair values of the Y&Y Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

28. FINANCIAL RISK MANAGEMENT

Y&Y Group is exposed to a variety of financial risks, as detailed below, which are managed by the director of the Target Company.

(a) Credit risk

Credit risk mainly arises from financial assets at amortised cost. Y&Y Group trades only with recognised and creditworthy third parties. It is the Y&Y Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, credit risk on cash and cash equivalents is mitigated as cash is deposited in bank of high credit rating. Deposits and the balances with a related party and a director are monitored on an ongoing basis and the exposure to bad debts based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information, in the opinion of the director, is not significant.

Y&Y Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Y&Y Group defines counterparties as having similar characteristics if they are related entities. Y&Y Group has no significant concentration of credit risk.

(b) Liquidity risk

The maturity profile of the Y&Y Group's financial liabilities as at the reporting date, based on the contractual undiscounted cash flows is as follows:

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	On demand or within 1 year <i>HK\$'000</i>	1 to 2 years <i>HK\$'000</i>
As at 31 March 2018				
Trade payables	62	62	62	–
Accruals	147	147	147	–
Amount due to a director	1,735	1,735	1,735	–
Lease liabilities	95	95	95	–
	<u>2,039</u>	<u>2,039</u>	<u>2,039</u>	<u>–</u>
As at 31 March 2019				
Trade payables	5	5	5	–
Accruals	44	44	44	–
Lease liabilities	1,243	1,274	1,176	98
	<u>1,292</u>	<u>1,323</u>	<u>1,225</u>	<u>98</u>
As at 31 March 2020				
Trade payables	59	59	59	–
Accruals	46	46	46	–
Amount due to a related company	456	456	456	–
Lease liabilities	98	98	98	–
	<u>659</u>	<u>659</u>	<u>659</u>	<u>–</u>
As at 30 June 2020				
Trade payables	69	69	69	–
Accruals	79	79	79	–
Amount due to a related company	466	466	466	–
	<u>614</u>	<u>614</u>	<u>614</u>	<u>–</u>

(c) Interest rate risk

Y&Y Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. Y&Y Group has not used any financial instruments to hedge potential fluctuations in interest rates.

29. CAPITAL MANAGEMENT

The primary objectives of the Y&Y Group's capital management are to safeguard the Y&Y Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

Y&Y Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Y&Y Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. Y&Y Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Y&Y Group comprises all components of the shareholders' equity.

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**(a) Major non-cash transactions**

During the years ended 31 March 2018, 2019 and 2020, the Target Company settled dividend of HK\$10,441,000, HK\$151,000 and HK\$5,000,000 by offsetting against current account balance with the director.

During the year ended 31 March 2019, the Y&Y Group had a non-cash additions to right-of-use assets and lease liabilities of HK\$2,243,000 and HK\$2,243,000, respectively, in respect of lease arrangements of office.

During the year ended 31 March 2020, the Y&Y Group had a non-cash transfer of office equipment at net carrying amount of HK\$716,000 which was settled by offsetting with amount due from a director.

- (b) Reconciliation of liabilities arising from financial activities during the Relevant Periods are as follows:

	Year ended			Three months ended
	31 March 2018	31 March 2019	31 March 2020	30 June 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lease liabilities				
At beginning of the year/period	1,199	95	1,243	98
Changes from cash flows:				
Repayment of principal portion of lease liabilities	(1,104)	(1,095)	(1,145)	(98)
Repayment of interest portion of lease liabilities	(30)	(78)	(31)	—
Total changes from financing cash flows	65	(1,078)	67	—
Additions of lease liabilities	—	2,243	—	—
Interest expenses	30	78	31	—
At end of year/period	<u>95</u>	<u>1,243</u>	<u>98</u>	<u>—</u>
Amount due (from)/to a related company				
At beginning of the year/period	—	—	(10)	456
Changes from cash flows:				
Advance (to)/from a related company	—	(10)	466	10
At end of year/period	<u>—</u>	<u>(10)</u>	<u>456</u>	<u>466</u>

	Year ended			Three months ended
	31 March	31 March	31 March	30 June
	2018	2019	2020	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due to/(from) a director				
At beginning of the year/period	760	1,735	–	–
Changes from cash flows:				
Advance to a director	(9,466)	(1,888)	–	–
Other changes (note (a))	10,441	151	–	–
	<u>1,735</u>	<u>(2)</u>	<u>–</u>	<u>–</u>

31. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these Historical Financial Information, Y&Y Group had the following related party transactions:

(a) Transaction with a related party

	As at 31 March			As at
	2018	2019	2020	30 June
	2018	2019	2020	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Donations to Charity Foundation	<u>8</u>	<u>51</u>	<u>–</u>	<u>–</u>

(b) Compensation of key management personnel

Details of the remuneration paid to key management personnel are set out in Note 10 to the Historical Financial Information.

32. EVENT AFTER THE REPORTING PERIOD

Subsequent to the Relevant Periods in September 2020, the Y&Y Group has completed acquisition of Golden Element from an independent third party, pursuant to which the independent third party transferred the entire issued shares of Golden Element, to the Target Company at a consideration of HK\$60,000,000 as set out in Note 1.1. The Group and Dr. Yeung had made payment of HK\$30,060,000 (the "Prepayment") and HK\$29,940,000, respectively. The Prepayment made by the Group is inter-conditional with the Proposed Acquisition.

On 5 October 2020, an indirect wholly-owned subsidiary of the Company, conditionally agreed to acquire, and Dr. Yeung conditionally agreed to sell, 5,010 ordinary shares of the Target Company, which represent 50.1% of the issued shares of the Target Company at a consideration of HK\$25,000,000.

Except as disclosed as above, there is no other significant event undertaken by the Y&Y Group subsequent to the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020.

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



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TIANDA PHARMACEUTICALS LIMITED

Introduction

We report on the historical financial information of Golden Element Limited ("Golden Element") set out on pages IIB-3 to IIB-36, which comprises the statements of financial position as at 31 December 2017, 2018, 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the periods then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages IIB-3 to IIB-36 forms an integral part of this report, which has been prepared for inclusion in the circular of Tianda Pharmaceuticals Limited (the "Company") dated 24 November 2020 (the "Circular") in connection with the proposed acquisition of 50.1% equity interest of Yeung & Young Medicare Centre Limited.

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, 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 give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of Golden Element as at 31 December 2017, 2018, 2019 and 30 June 2020 and of Golden Element's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Historical Financial Information

We have reviewed the stub period comparative historical financial information of Golden Element which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED***Adjustments***

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-3 have been made.

BDO Limited

Certified Public Accountants

Cheung Wing Yin

Practising Certificate Number P06946

Hong Kong

24 November 2020

HISTORICAL FINANCIAL INFORMATION OF THE PROPERTY COMPANY

Preparation of the Historical Financial Information

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

The financial statements of Golden Element Limited ("Golden Element") for the Relevant Periods, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing (the "HKSA's") issued by the HKICPA (the "Underlying Financial Statements").

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

I. HISTORICAL FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000
Revenue	6	1,363	1,302	1,277	651	600
Other income	7	545	–	–	–	–
Changes in fair value of investment property	13	5,200	3,300	(900)	(450)	(5,500)
Administrative expenses		(359)	(684)	(271)	(120)	(110)
Finance costs	8	(225)	(377)	(504)	(213)	(207)
Profit/(loss) before income tax	9	6,524	3,541	(398)	(132)	(5,217)
Income tax expense	11	–	–	–	–	–
Profit/(loss) and total comprehensive income for the year/ period		<u>6,524</u>	<u>3,541</u>	<u>(398)</u>	<u>(132)</u>	<u>(5,217)</u>

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	30 June 2020 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	855	869	632	–
Investment properties	13	63,100	66,400	65,500	60,000
		<u>63,955</u>	<u>67,269</u>	<u>66,132</u>	<u>60,000</u>
Current assets					
Deposits and prepayment	14	38	32	25	24
Amount due from a director	17	–	–	686	–
Cash and cash equivalents	15	834	244	206	7
		<u>872</u>	<u>276</u>	<u>917</u>	<u>31</u>
Current liabilities					
Other payables and accruals	16	393	394	386	377
Amount due to a director	17	1,797	596	–	18,220
Bank borrowings	18	19,129	19,506	20,012	–
		<u>21,319</u>	<u>20,496</u>	<u>20,398</u>	<u>18,597</u>
Net current liabilities		<u>(20,447)</u>	<u>(20,220)</u>	<u>(19,481)</u>	<u>(18,566)</u>
Net assets		<u>43,508</u>	<u>47,049</u>	<u>46,651</u>	<u>41,434</u>
EQUITY					
Share capital	19	–*	–*	–*	–*
Retained profits		<u>43,508</u>	<u>47,049</u>	<u>46,651</u>	<u>41,434</u>
Total equity		<u>43,508</u>	<u>47,049</u>	<u>46,651</u>	<u>41,434</u>

* Represents amount less than HK\$1,000

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i> <i>(Note 19)</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017	–*	36,984	36,984
Profit and total comprehensive income for the year	–	6,524	6,524
At 31 December 2017 and 1 January 2018	–*	43,508	43,508
Profit and total comprehensive income for the year	–	3,541	3,541
At 31 December 2018 and 1 January 2019	–*	47,049	47,049
Loss and total comprehensive income for the year	–	(398)	(398)
At 31 December 2019 and 1 January 2020	–*	46,651	46,651
Loss and total comprehensive income for the period	–	(5,217)	(5,217)
At 30 June 2020	–*	41,434	41,434
For the six months ended 30 June 2019			
At 1 January 2019	–*	47,049	47,049
Loss and total comprehensive income for the period	–	(132)	(132)
At 30 June 2019 (unaudited)	–*	46,917	46,917

* Represents amount less than HK\$1,000

STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000
Cash flows from operating activities						
Profit/(loss) before income tax		6,524	3,541	(398)	(132)	(5,217)
Adjustments for:						
Finance costs	8	225	377	504	213	207
Depreciation of property, plant and equipment	9	225	259	237	119	109
Changes in fair value of investment property	13	(5,200)	(3,300)	900	450	5,500
Gain on disposal of investment property	9	(545)	–	–	–	–
Loss on disposal of property, plant and equipment	9	–	275	–	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating profit before working capital changes						
		1,229	1,152	1,243	650	599
(Increase)/decrease in deposits and prepayment		(8)	6	7	4	1
(Decrease)/increase in other payables and accruals		(21)	1	(6)	(1)	(9)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities						
		<u>1,200</u>	<u>1,159</u>	<u>1,244</u>	<u>653</u>	<u>591</u>
Cash flows from investing activities						
Purchase of property, plant and equipment		(1,080)	(948)	–	–	–
Proceeds from disposal of property, plant and equipment		–	400	–	–	523
Proceeds from disposal of investment property		23,545	–	–	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) investing activities						
		<u>22,465</u>	<u>(548)</u>	<u>–</u>	<u>–</u>	<u>523</u>

	Note	Year ended 31 December			Six months ended 30 June	
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000	2020 HK\$'000
Cash flows from financing activities						
Repayment of bank borrowings		(7,990)	–	–	–	(20,219)
Advance (to)/from a director		(8,456)	(1,201)	(1,282)	(300)	18,906
Repayment to a related party		(6,964)	–	–	–	–
Net cash used in financing activities		<u>(23,410)</u>	<u>(1,201)</u>	<u>(1,282)</u>	<u>(300)</u>	<u>(1,313)</u>
Net increase/(decrease) in cash and cash equivalents		<u>255</u>	<u>(590)</u>	<u>(38)</u>	<u>353</u>	<u>(199)</u>
Cash and cash equivalents at the beginning of the year/period		<u>579</u>	<u>834</u>	<u>244</u>	<u>244</u>	<u>206</u>
Cash and cash equivalents at the end of the year/period	15	<u><u>834</u></u>	<u><u>244</u></u>	<u><u>206</u></u>	<u><u>597</u></u>	<u><u>7</u></u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Golden Element was incorporated in Hong Kong with limited liability. The address of its registered office and principal place of business is Room 2202, 22/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong. Golden Element is principally engaged in property investment.

Pursuant to a share transfer and cooperation agreement (the “Agreement”) dated 5 October 2020, entered into by TDMall (Hong Kong) Limited (“TDMall”), an indirect wholly-owned subsidiary of the Company and Dr. Yeung Ming Ha (“Dr. Yeung”), TDMall agreed to acquire, and Dr. Yeung agreed to dispose of, the 50.1% equity interests in Yeung & Young Medicare Centre Limited (“Y&Y”) at a total consideration of HK\$25,000,000 (the “Proposed Acquisition”). Prior to the signing of the Agreement, Dr. Yeung and a property owner entered into a property acquisition agreement, pursuant to which the property owner transferred the entire issued shares of Golden Element to Y&Y as nominee of Dr. Yeung. Accordingly, Golden Element becomes a subsidiary of Y&Y.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

(a) Statement of compliance

The Historical Financial Information of Golden Element has been prepared in accordance with accounting policies set out in Note 4 below which conform with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretations (hereinafter collectively referred to as the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

For the purpose of preparation of the Historical Financial Information, Golden Element has consistently adopted all applicable new or revised HKFRSs effective for the accounting periods commencing from 1 January 2020 throughout the Relevant Periods, including HKFRS 9, Financial instruments, HKFRS 15, Revenue from contracts with customers and HKFRS 16, Lease, together with the relevant transitional provisions in the preparation of the Historical Financial Information throughout the Relevant Periods.

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 Golden Element’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.

The Stub Period Comparative Historical Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The Historical Financial Information of Golden Element has been prepared solely for inclusion in the Circular of the Company in connection with the Property Acquisition.

(b) Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis except for the investment properties, which are measured at fair value as explained in the accounting policies in Note 4 below.

The Historical Financial Information have been prepared on a going concern basis although Golden Element incurred a net loss of HK\$5,217,000 for the six months ended 30 June 2020 and had net current liabilities of HK\$18,566,000 as at 30 June 2020. The going concern basis has been adopted on the basis of the beneficial owner of Golden Element, Dr. Yeung to provide continuous financial support to enable Golden Element to meet its liabilities and obligations as and when they fall due and to continue its operations upon the completion of the Proposed Acquisition. In addition, the Company has undertaken, from the date that the Company becomes the controlling shareholder of Golden Element, to provide continuous financial support to Golden Element to enable Golden Element to meet its liabilities and obligations as and when they fall due and to continue its operations with effective from the completion of the Proposed Acquisition up to twelve months after the completion of the Proposed Acquisition. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to reduce the values of the assets to their realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

(c) Functional and presentation currency

The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of Golden Element and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

3. NEW OR REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued and have not been early adopted by Golden Element. Golden Element’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 16	COVID-19 Related Rent Concessions ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle ²

¹ Effective for annual periods beginning on or after 1 June 2020

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

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

The directors anticipate that the application of the new and revised HKFRSs that had been issued but not yet effective will have no material impact on the results and the financial position of Golden Element.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

4.1 Property, plant and equipment

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Depreciation on property, plant and equipment is provided to write off the cost of an item of property, plant and equipment to its residual value, if any, over their estimated useful lives, using straight-line method. The depreciation rate per annum is as follow:

Motor vehicle	25%
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If there is an indication that there has been a significant change in the depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations. The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. When asset is sold or retire, their cost and accumulated depreciation are removed from the accounts and any gain or loss arising on retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

4.2 Investment properties

Investment properties are land and/or buildings which are owned or held with an intention to earn rental income and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value using the fair value model. Gain or loss arising from changes in the fair value of investment properties are included in profit or loss for the period in which their arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 profit or loss in the period in which the property is derecognised.

4.3 Leasing

As a lessor

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 recognised as an expense on the straight-line basis over the lease term.

4.4 Financial Instruments

(i) *Financial assets*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and Golden Element's business model for managing them. Golden Element initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Golden Element’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

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

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

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

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

(ii) *Impairment of financial assets*

Golden Element recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Golden Element expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, Golden Element assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, Golden Element 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Golden Element considers a financial asset in default when contractual payments are 60 to 180 days past due. However, in certain cases, Golden Element may also consider a financial asset to be in default when internal or external information indicates that Golden Element is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by Golden Element. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

(iii) Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

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

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

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

(iv) Effective interest method

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

4.5 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.

4.6 Revenue recognition

Rental income from investment properties under operating leases is recognised on a straight-line basis over the term of the lease.

4.7 Income tax

Income tax comprise current tax and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which Golden Element operates.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases using 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 against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the related tax benefit to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Golden Element expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. However, the measurement of deferred tax liabilities associated with an investment property measured at fair value does not exceed the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the reporting date. Deferred tax is recognised in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4.8 Share capital

Ordinary shares are classified as equity.

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

4.9 Impairment of non-financial assets

At the end of each Relevant Periods, assets that are subject to depreciation and amortisation are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the recoverable amount (i.e. the higher of the fair value less costs of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.10 Provisions

Provisions are recognised for liabilities of uncertain timing or amount when Golden Element has a present legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.11 Related parties

- (a) A person or a close member of that person's family is related to Golden Element if that person:
 - (i) has control or joint control of Golden Element;
 - (ii) has significant influence over Golden Element; or
 - (iii) is a member of the key management personnel of Golden Element or of Golden Element's parent.

- (b) An entity is related to Golden Element if any of the following conditions applies:
- (i) the entity and Golden Element are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of Golden Element of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either Golden Element or an entity related to Golden Element.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, of any member of Golden Element of which it is a part, provides key management personnel services to Golden Element or to Golden Element's parent.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependants of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Impairment of non-financial assets

The carrying values of Golden Element's property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. The directors consider all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amounts of Golden Element's non-financial assets may exceed their recoverable amount (i.e. impaired).

(b) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimate residual value. The determination of the useful lives and residual values involve management's estimation. Golden Element assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

(c) Fair values of investment properties

The fair values of Golden Element's investment properties are assessed by the directors based on property valuation assessment carried out by an independent qualified valuer. The assumptions adopted in the property valuation assessment is based on information of market sales rate that are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment properties and the corresponding adjustments to the amount of gain or loss in the statements of profit or loss and other comprehensive income. Further details of the fair value estimation of the investment properties, including the key assumptions used for fair value measurement and sensitivity analysis, are set out in Note 13.

(d) Fair value measurement

Investment properties included in the Golden Element's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Golden Element's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Golden Element measures investment properties at fair value. For more detailed information in relation to the fair value measurement of the items above, please refer to Note 13.

(e) Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties using the fair value model, the directors had concluded that the investment properties situated in Hong Kong was not held under a business model whose objective was to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Therefore, the presumption that the carrying amount of the investment properties was recovered entirely through sale is not rebutted for property situated in Hong Kong. As a result, Golden Element has not recognised any deferred taxes on changes in fair value of the investment properties as Golden Element is not subject to any income tax on disposal of the investment properties.

6. REVENUE

Revenue recognised during the Relevant Periods is as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Rental income	1,363	1,302	1,277	651	600

7. OTHER INCOME

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Gain on disposal of investment property	545	-	-	-	-

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest on bank borrowings	225	377	504	213	207

9. PROFIT/(LOSS) BEFORE INCOME TAX

Golden Element's profit/(loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June	
	HK\$'000	HK\$'000	HK\$'000	2019	2020
				(Unaudited)	
Auditor's remuneration	7	7	7	-	-
Depreciation of property, plant and equipment	225	259	237	119	109
Gain on disposal of investment property	(545)	-	-	-	-
Loss on disposal of property, plant and equipment	-	275	-	-	-

10. DIRECTOR'S EMOLUMENTS

Director's emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance, Cap. 622 and the Companies (Disclosure of Information about Benefits of Directors) Regulation, Cap. 622G is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000
Director					
Li Sze Tang					
Fees	-	-	-	-	-
Salaries and allowances	-	-	-	-	-
Pension scheme contributions	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There was no arrangement under which the director waived or agreed to waive any remuneration during the Relevant Periods. During the Relevant Periods, no remuneration was paid by Golden Element to the director as an inducement to join or upon joining Golden Element or as compensation for loss of office.

11. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% of the estimated assessable profits during the Relevant Periods.

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2017 as Golden Element's estimated assessable profits is wholly absorbed by unrelieved tax losses brought forward from previous years.

No provision for Hong Kong Profits Tax for the years ended 31 December 2018 and 2019 and six months periods ended 30 June 2019 and 2020 has been made as Golden Element did not derive any assessable profits.

Reconciliation between income tax expense and profit/(loss) before income tax at applicable tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (Unaudited)	2020 HK\$'000
Profit/(loss) before income tax	<u>6,524</u>	<u>3,541</u>	<u>(398)</u>	<u>(132)</u>	<u>(5,217)</u>
Tax calculated at the applicable rate	1,077	584	(66)	(21)	(861)
Tax effect of non-deductible expenses	-	-	148	74	907
Tax effect of non-taxable income	(948)	(545)	-	-	-
Tax effect of temporary difference not recognised	48	(99)	(65)	(33)	(32)
Tax losses utilised from previous year	(177)	-	(17)	(20)	(14)
Tax losses not recognised	<u>-</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, Golden Element has unrecognised tax losses arising in Hong Kong of HK\$2,164,000, HK\$2,528,000, HK\$2,423,000 and HK\$2,326,000, respectively. No deferred tax asset has been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams.

12. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicle <i>HK\$'000</i>
Cost	
At 1 January 2017	–
Additions	1,080
	<hr/>
At 31 December 2017	1,080
Additions	948
Disposal	(1,080)
	<hr/>
At 31 December 2018 and 31 December 2019	948
Disposal	(948)
	<hr/>
At 30 June 2020	–
	<hr/> <hr/>
Accumulated depreciation	
At 1 January 2017	–
Charge for the year	225
	<hr/>
At 31 December 2017	225
Charge for the year	259
Disposal	(405)
	<hr/>
At 31 December 2018	79
Charge for the year	237
	<hr/>
At 31 December 2019	316
Charge for the period	109
Disposal	(425)
	<hr/>
At 30 June 2020	–
	<hr/> <hr/>
Net carrying amount	
At 31 December 2017	855
	<hr/> <hr/>
At 31 December 2018	869
	<hr/> <hr/>
At 31 December 2019	632
	<hr/> <hr/>
At 30 June 2020	–
	<hr/> <hr/>

13. INVESTMENT PROPERTIES

	Leasehold land and building <i>HK\$'000</i>
Fair value	
At 1 January 2017 (level 3 recurring fair value)	80,900
Disposal	(23,000)
Changes in fair value	<u>5,200</u>
At 31 December 2017 and 1 January 2018 (level 3 recurring fair value)	63,100
Changes in fair value	<u>3,300</u>
At 31 December 2018 and 1 January 2019 (level 3 recurring fair value)	66,400
Changes in fair value	<u>(900)</u>
At 31 December 2019 and 1 January 2020 (level 3 recurring fair value)	65,500
Changes in fair value	<u>(5,500)</u>
At 30 June 2020 (level 3 recurring fair value)	<u><u>60,000</u></u>

Investment properties held during the Relevant Periods are situated in Hong Kong and held under medium-term leases.

The fair values of the investment properties as at 31 December 2017, 2018 and 2019 and 30 June 2020 have been arrived on the basis of valuation carried by the directors with reference to the valuation assessment carried out by an independent valuer and based on recent transaction prices for similar properties.

The fair value of investment properties is a level 3 recurring fair value measurement.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The same valuation techniques were used when carrying out the valuations on respective date during the Relevant Periods.

The fair value of the Golden Element's investment properties measured at the end of each reporting periods on a recurring basis, are categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as set out below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Information about level 3 fair value measurements as at end of each Relevant Periods:

	Valuation techniques	Key unobservable input(s)	Range of unobservable inputs				Relationship of unobservable inputs to fair value
			31 December		30 June		
			2017	2018	2019	2020	
Leasehold land and buildings in the Hong Kong	Direct comparison method	Market Sale Rate	HK\$33,200 per square feet	HK\$34,900 per square feet	HK\$34,450 per square feet	HK\$31,550 per square feet	An increase in the unit sale rate used would result in an increase in the fair value measurement of the properties by the same percentage increase, and vice versa.

There were no changes to the valuation techniques during the Relevant Periods.

During the Relevant Periods, there were no transfers into or out of Level 3 or any other Level.

14. DEPOSITS AND PREPAYMENT

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Current assets:				
Deposits	25	25	25	24
Prepayment	13	7	–	–
	<u>38</u>	<u>32</u>	<u>25</u>	<u>24</u>

The maximum exposure to credit risk at the reporting dates is the carrying amounts. Golden Element does not hold any collateral as security for the above assets in their Relevant Periods.

15. CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Cash at bank	834	244	206	7
	<u>834</u>	<u>244</u>	<u>206</u>	<u>7</u>

16. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Current liabilities				
Rental deposits received	377	377	377	377
Accruals	16	17	9	–
	<u>393</u>	<u>394</u>	<u>386</u>	<u>377</u>

17. AMOUNTS DUE FROM/(TO) A DIRECTOR

Particulars of amounts due from a director disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Director) Regulation, are as follows:

	At	As at 31 December			As at
	1 January	2017	2018	2019	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due (to)/from a director	(10,253)	(1,797)	(596)	686	(18,220)

Maximum amounts outstanding due from a director during the respective year/period disclosed are as follows:

	31 December			30 June
	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a director	–	–	686	–

The balances with a director were unsecured, interest-free and repayable on demand. Subsequent to the Relevant Periods, the amounts due to the director/then director of approximately HK\$18,220,000 were assigned to Y&Y pursuant to the deed of assignment as agreed and entered into by Dr. Yeung and the director on 18 September 2020. The maximum exposure to credit risk at the reporting dates is the carrying amounts of the assets. Golden Element does not hold any collateral as security.

18. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Current liabilities				
Revolving term loans from a bank which repayment on demand clause	19,129	19,506	20,012	–

As at end of each reporting periods, the bank borrowings bear variable interest rates ranging from 1.00% to 1.55%, 1.23% to 2.89%, 1.65% to 3.61% and 1.19% to 3.63% per annum, for the years ended 31 December 2017, 2018 and 2019 and the six months period ended 30 June 2020, respectively. The bank loans are denominated in Hong Kong dollars.

As at 31 December 2017, 2018 and 2019, the above bank loans were guaranteed by standby letters of credit and unlimited personal guarantee given by the director of Golden Element during the Relevant Periods. Golden Element has pledged certain bank deposits to a bank for the banking facility granted to Golden Element as at 31 December 2017, 2018 and 2019. This aforesaid legal charge was released in June 2020.

19. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary share, issued and fully paid		
At 1 January 2017, 31 December 2017, 31 December 2018, December 2019 and 30 June 2020	1	–*

* Represents amount less than HK\$1,000

20. COMMITMENTS

As lessor

At 31 December 2017, 2018, 2019 and 30 June 2020, Golden Element's total future minimum lease receivables under non-cancellable operating leases with its tenants due were as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Less than one year	977	977	900	300

Golden Element had no significant capital commitments at the end of each of the Relevant Periods.

21. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of Golden Element's financial assets and liabilities as recognised at the Relevant Periods are analysed as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Financial assets				
<i>At amortised costs:</i>				
– Deposits	25	25	25	24
– Amount due from a director	–	–	686	–
– Cash and cash equivalents	834	244	206	7
	<u>859</u>	<u>269</u>	<u>917</u>	<u>31</u>
Financial liabilities				
<i>At amortised cost:</i>				
– Other payables and accruals	393	394	386	377
– Amount due to a director	1,797	596	–	18,220
– Bank borrowings	19,129	19,506	20,012	–
	<u>21,319</u>	<u>20,496</u>	<u>20,398</u>	<u>18,597</u>

The fair values of Golden Element's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

22. FINANCIAL RISK MANAGEMENT

Golden Element is exposed to a variety of financial risks, as detailed below, which are managed by the director of Golden Element.

(a) Credit risk

Credit risk mainly arises from financial assets at amortised cost. Golden Element trades only with recognised and creditworthy third parties. It is Golden Element's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, credit risk on cash and cash equivalents is mitigated as cash is deposited in bank of high credit rating. Deposits and the balances with a director are monitored on an ongoing basis and the exposure to bad debts based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information, in the opinion of the director, is not significant.

Golden Element does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Golden Element defines counterparties as having similar characteristics if they are related entities. Golden Element has no significant concentration of credit risk.

(b) Liquidity risk

The maturity profile of Golden Element's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted cash flows is as follows:

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	On demand or within 1 year <i>HK\$'000</i>
As at 31 December 2017			
Other payables and accruals	393	393	393
Amount due to a director	1,797	1,797	1,797
Bank borrowings	19,129	19,129	19,129
	<u>21,319</u>	<u>21,319</u>	<u>21,319</u>
As at 31 December 2018			
Other payables and accruals	394	394	394
Amount due to a director	596	596	596
Bank borrowings	19,506	19,506	19,506
	<u>20,496</u>	<u>20,496</u>	<u>20,496</u>
As at 31 December 2019			
Other payables and accruals	386	386	386
Bank borrowings	20,012	20,012	20,012
	<u>20,398</u>	<u>20,398</u>	<u>20,398</u>
As at 30 June 2020			
Other payables and accruals	377	377	377
Amount due to a director	18,220	18,220	18,220
	<u>18,597</u>	<u>18,597</u>	<u>18,597</u>

(c) Interest rate risk

Golden Element's exposure to the risk of changes in market interest rates relates primarily from interest-bearing bank borrowings with a floating interest rate. Bank borrowings issued at variable rates expose Golden Element to cash flow interest rate risk. The management periodically reviews the market interest rates and manages the risk on an ongoing basis.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of Golden Element's profit/(loss) before income tax (through the impact on floating rate of bank borrowings). 100 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of bank borrowings.

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Increase/(decrease) in profit/(loss) for the year/period				
– as a result of increase in interest rate	(191)	(195)	(200)	–
– as a result of decrease in interest rate	191	195	200	–

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

(d) Fair value

Financial instruments not measured at fair value include deposits, amount due from/to a director, cash and cash equivalents, other payables and accruals and bank borrowings.

The fair values of Golden Element's financial assets and liabilities were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

23. CAPITAL MANAGEMENT

The primary objectives of Golden Element's capital management are to safeguard Golden Element's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

Golden Element manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Golden Element may adjust the dividend payment to the shareholder, return capital to the shareholders or issue new shares. Golden Element is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods. No dividends have been declared or paid by Golden Element during the Relevant Periods.

Capital of Golden Element comprises all components of the shareholder's equity.

24. NOTES TO THE STATEMENTS OF CASH FLOWS**(a) Major non-cash transactions**

During the period ended 30 June 2020, Golden Element had early repaid the bank loans of approximately HK\$20,219,000, which was settled by offsetting against the current account balance with a director.

(b) Reconciliation of liabilities arising from financial activities during the Relevant Periods are as follows:

	Year ended 31 December			Six months
	2017	2018	2019	ended
	HK\$'000	HK\$'000	HK\$'000	30 June 2020
				HK\$'000
Amount due to/(from) a director				
At beginning of the year/period	10,253	1,797	596	(686)
Changes from cash flows:				
Advance (to)/from a director	<u>(8,456)</u>	<u>(1,201)</u>	<u>(1,282)</u>	<u>18,906</u>
At end of year/period	<u>1,797</u>	<u>596</u>	<u>(686)</u>	<u>18,220</u>

	Year ended 31 December			Six months
	2017	2018	2019	ended
	HK\$'000	HK\$'000	HK\$'000	30 June 2020
				HK\$'000
Bank borrowings				
At beginning of the year/period	26,894	19,129	19,506	20,012
Other changes:				
Decrease in interest payable	–	–	2	–
Interest expenses	225	377	504	207
	27,119	19,506	20,012	20,219
Changes from cash flows:				
Repayment of bank borrowings	(7,990)	–	–	(20,219)
At end of year/period	19,129	19,506	20,012	–

25. RELATED PARTY TRANSACTIONS

(a) Balance with related parties

Apart from the related party balances disclosed elsewhere in these Historical Financial Information, Golden Element has no other related party balance as at the end of each Relevant Periods.

During the period ended 30 June 2020, Golden Element disposed a motor vehicle at a selling price of HK\$523,000 to a related company. No gain or loss was recorded for this disposal.

(b) Key management compensation

There is no remuneration paid for the director and other members of key management personnel during each of the Relevant Periods.

26. EVENT AFTER THE REPORTING PERIOD

Pursuant to the Agreement dated 5 October 2020, entered into by TDMall and Dr. Yeung, TDMall agreed to acquire, and Dr. Yeung agreed to dispose of, the 50.1% equity interests in Y&Y at a total consideration of HK\$25,000,000. Prior to the signing of the Agreement, Dr. Yeung and a property owner entered into a property acquisition agreement, pursuant to which the property owner transferred the entire issued shares of Golden Element to Y&Y as nominee of Dr. Yeung. Accordingly, Golden Element becomes a subsidiary of Y&Y.

Subsequent to the Relevant Periods, the amount due to the director/then director of approximately HK\$18,220,000 were assigned to Y&Y pursuant to the deed of assignment as agreed and entered into by Dr. Yeung and the then director on 18 September 2020.

Except as disclosed as above, there is no other significant event undertaken by Golden Element subsequent to the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Golden Element in respect of any period subsequent to 30 June 2020.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**Introduction**

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the “Unaudited Pro Forma Financial Information”), which has been prepared by the directors of the Company (the “Directors”) in accordance with paragraph 4.29 of The Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of the Target Company (the “Proposed Acquisition”) on the Group, as if it had taken place on 31 March 2020. The Proposed Acquisition will be executed, following with the terms of the Share Transfer and Cooperation Agreement as agreed and entered into by the Purchaser and Vendor on 5 October 2020.

The Unaudited Pro Forma Financial Information has been prepared based on: (a) the audited consolidated statement of financial position of the Group for the year ended 31 March 2020 as set out in the Company’s published annual report 2019/2020 dated 24 June 2020; (b) the audited consolidated statement of financial position of the Y&Y Group as at 30 June 2020; and (c) the audited statement of financial position of the Property Company as at 30 June 2020 as extracted from the financial information set out in Appendices IIA and IIB to this Circular as if the Proposed Acquisition had taken place on 31 March 2020.

The unaudited pro forma statement of assets and liabilities is based on the aforesaid historical data giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the completion of the Proposed Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) factually supportable is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in the published annual report 2019/2020 of the Company for the year ended 31 March 2020 and other financial information included elsewhere in the Circular.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 31 March 2020, where applicable, or any future date. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed as at 31 March 2020, nor purport to predict the Enlarged Group’s future financial position.

THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited Pro Forma Adjustments									Unaudited pro forma statement of assets and liabilities of the Enlarged Group	
	The Group as at 31 March 2020	The Y&Y Group as at 30 June 2020	The Property Company as at 30 June 2020	Other unaudited pro forma adjustments							
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	HK\$'000 (Note 7)	HK\$'000 (Note 8)	HK\$'000 (Note 9)		HK\$'000
Non-current assets											
Investment properties	–		60,000		346	(60,346)				–	
Property, plant and equipment	169,904	119				60,346				230,369	
Right-of-use assets	40,689									40,689	
Goodwill	95,015			18,388						113,403	
Other intangible assets	30,507			9,304						39,811	
Deposit and prepayments	1,883	404					14,000			16,287	
Equity investments designated at fair value through other comprehensive income	1,306									1,306	
Deferred tax assets	–	46								46	
Total non-current assets	339,304									441,911	
Current assets											
Inventories	48,374	89								48,463	
Trade and bills receivables	91,365	60								91,425	
Prepayments, deposits and other receivables	14,054	1	24				1,000			15,079	
Amount due from a director	–	8,667						(8,667)		–	
Structured deposits	3,905									3,905	
Cash and cash equivalents	302,018	1,782	7	(25,000)	(60,000)		(15,000)		(586)	203,221	
	459,716									362,093	
Assets of a disposal group classified as held for sale	134,102									134,102	
Total current assets	593,818									496,195	
Total assets	<u>933,122</u>									<u>938,106</u>	

Unaudited Pro Forma Adjustments										Unaudited pro forma statement of assets and liabilities of the Enlarged Group
The Group as at 31 March 2020	The Y&Y Group as at 30 June 2020	The Property Company as at 30 June 2020	Other unaudited pro forma adjustments						HK\$'000	
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
			(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)		
Current liabilities										
Trade payables	28,797	69								28,866
Other payables and accruals	90,710	4,239	377		29,940			(8,667)		116,599
Amount due to a director	–		18,220		(18,220)					–
Amounts due to a fellow subsidiary	589									589
Amounts due to related company	–	466								466
Interest-bearing bank borrowings	608									608
Lease liabilities	4,332									4,332
Tax payables	6,370	965								7,335
	<u>131,406</u>									<u>158,795</u>
Liabilities directly associated with the assets classified as held for sale	<u>13,592</u>									<u>13,592</u>
Total current liabilities	<u>144,998</u>									<u>172,387</u>
Net current assets	<u>448,820</u>									<u>323,808</u>
Total assets less current liabilities	<u>788,124</u>									<u>765,719</u>
Non-current liabilities										
Interest-bearing bank borrowings	19,609									19,609
Lease liabilities	685									685
Deferred income	389									389
Deferred tax liabilities	7,678			1,535						9,213
	<u>28,361</u>									<u>29,896</u>
Total liabilities	<u>173,359</u>									<u>202,283</u>
Net assets	<u>759,763</u>									<u>735,823</u>

Notes:

1. The balances were extracted from the audited consolidated statement of financial position of the Group as at 31 March 2020 as set out in the published annual report of the Company for the year ended 31 March 2020 dated 24 June 2020.
2. The audited consolidated statement of assets and liabilities of the Y&Y Group as at 30 June 2020 has been extracted from the accountants' report as set out in Appendix IIA to this Circular.
3. The audited statement of assets and liabilities of the Property Company as at 30 June 2020 has been extracted from the accountants' report as set out in Appendix IIB to this Circular.
4. Upon completion of the Proposed Acquisition, the Target Company will become an indirect non-wholly-owned subsidiary of the Company. The identifiable assets and liabilities of the Y&Y Group will be measured at fair value under the purchase method of accounting in accordance with HKFRS 3 (Revised) "Business Combinations" ("HKFRS 3 (Revised)").

For the purpose of the preparation of this Unaudited Pro Forma Financial Information, the Directors have carried out an illustrative purchase price allocation in accordance with HKFRS 3 (Revised) and the recognition of goodwill arising from the Proposed Acquisition is analysed as follows as if the Proposed Acquisition had taken place on 31 March 2020:

	<i>HK\$'000</i>
Consideration transferred:	
Cash consideration (<i>note a</i>)	25,000
Less:	
Carrying amount of identifiable net assets of the Y&Y Group as at 30 June 2020 (excluding intangible assets) (<i>note b</i>)	5,429
Intangible asset identified (<i>note c</i>)	9,304
Deferred tax liabilities arising from pro forma fair value adjustment to intangible assets (<i>note d</i>)	(1,535)
Total identifiable net assets at fair value	13,198
Non-controlling interests	(6,586)
	6,612
Goodwill (<i>note e</i>)	18,388

a. Consideration

The amount represents the total consideration of the Proposed Acquisition. Pursuant to the Share Transfer and Cooperation Agreement dated 5 October 2020, the Group conditionally agreed to purchase and the Vendor conditionally agreed to sell the 50.1% issued share capital of the Target Company at a consideration of HK\$25,000,000, which will be settled by cash.

- b.** For the purpose of the preparation of the unaudited pro forma statement of assets and liabilities, the Directors estimated the identifiable assets and liabilities of the Y&Y Group as at 30 June 2020 (excluding intangible assets) was approximately HK\$5,429,000, which is extracted from the financial information as set out in the Accountants' Report in Appendix IIA to this Circular, and assumed to be approximate to their fair values.

c. *Identified intangible asset – customer relationship*

For the purpose of the preparation of the unaudited pro forma statement of assets and liabilities, the Directors, with reference to the valuation assessment issued by the valuer, had assessed whether there is material fair value adjustment of the assets and liabilities being acquired based on their knowledge of the business of Target Company and Qi's Living as at 31 March 2020. Based on the currently available information, the Directors had identified intangible assets representing customer relationship, of pro forma fair values of approximately HK\$9,304,000 which was based on the directors of the Company's estimation of their fair values with reference to a valuation assessment issued by CHFT Advisory and Appraisal Ltd., resulting in a fair value adjustments on intangible assets of approximately HK\$9,304,000.

The valuation of customer relationship is established using a form of the income approach, known as the multi-period excess earnings method which is widely adopted when market participants consider current customer relationship of a company to be one of core or central importance. The multi-period excess earnings method is based on estimated sales from existing customers, discount rate of 13.7%, and customer attrition rate of 28%.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortisation. This adjustment has a continuing effect on the consolidated financial statements of the Enlarged Group in subsequent reporting periods.

d. *Deferred tax liabilities*

The deferred tax liabilities relating to the pro forma fair value of intangible assets are calculated at the Hong Kong Profits tax rate of 16.5%.

e. *Recognition of Goodwill in relation to the Proposed Acquisition*

For the purpose of the preparation of the unaudited pro forma statement of assets and liabilities, the Directors have assessed the impairment of the intangible assets and goodwill in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). The estimated goodwill arising from the Proposed Acquisition is recognised and no impairment charge concerning the above estimated goodwill is considered necessary under the requirements of HKAS 36.

The Directors confirm that the Company will adopt consistent accounting policies, valuation methods and principal assumptions as used in the Unaudited Pro Forma Financial Information to assess the impairment of the Enlarged Group's goodwill and intangible assets in subsequent reporting periods.

- f.** Since the fair values of the identifiable assets and liabilities of the Y&Y Group used in the preparation of the unaudited pro forma statement of assets and liabilities may be different from their fair values on the date when the Target Company became a subsidiary of the Group, the final amounts of goodwill and the identifiable assets and liabilities to be recognised in connection with the Proposed Acquisition may be materially different from the estimated amounts stated herein and is subject to change upon the finalisation of the completion date valuation.

5. Pursuant to the Property Acquisition Agreement, the Target Company (the nominee of Dr. Yeung Ming Ha ("Dr. Yeung")) has acquired the entire issued shares of the Property Company from an independent third party (the "Vendor of Property Company") at the consideration of HK\$60,000,000 (the "Property Consideration"). The Property Consideration was settled by the payment in cash, comprise of HK\$30,060,000 paid by a wholly-owned subsidiary of the Company and HK\$29,940,000 (the "Advanced Payment") paid by Dr. Yeung, the vendor of the Proposed Acquisition, on behalf of the Target Company.

In the opinion of the Directors, the above-mentioned property acquisition did not constitute an acquisition of business within the scope of HKFRS 3 (Revised) in substance but an acquisition of assets and liabilities. In accordance with HKFRS 3 (Revised), the Property Consideration shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of completion of the property acquisition and such a transaction does not give rise to goodwill.

The adjustment of HK\$29,940,000 represents the Advanced Payment made by Dr. Yeung in respect of the acquisition of the Property Company.

Decrease of amount due to a director of HK\$18,220,000 represents the elimination of the debts owing by the Target Company to Vendor of the Property Company (the "Debts") pursuant to the deed of assignment as agreed and entered into by the Target Company and the Vendor of Property Company on 18 September 2020.

The increase of the investment properties held by the Property Company (the "Property") of HK\$346,000 represents the excess of the Property Consideration of HK\$60,000,000 over the net identifiable assets acquired and liabilities assumed of the Property Company (other than the Debts), as if the acquisition of the Property Company had taken place on 31 March 2020.

6. The adjustment represents the reclassification of the Property of HK\$60,346,000 from investment properties to property, plant and equipment in accordance with Hong Kong Accounting Standard 16 Property, Plant and Equipment ("HKAS 16") as the Property will be held for administrative purposes.
7. Pursuant to the Share Transfer and Cooperation Agreement, the Company will pay a service fee of HK\$25,000,000 to Dr. Yeung who will serve as the Chief Operating Officer (the "COO") of the Purchaser, a wholly-owned subsidiary of the Company, for a period of not less than 15 years upon completion of the Proposed Acquisition (the "Service Period").

The COO professional consultant service fee shall be paid by bank transfer in the following manner:

- A. HK\$15,000,000 shall be paid on the date of completion of the Proposed Acquisition; and
- B. HK\$10,000,000 shall be paid within 7 business days upon fulfillment of the profit guarantee and related terms (the "Guaranteed Profit") as illustrated in the Share Transfer and Cooperation Agreement.

For the purpose of preparation of the unaudited pro forma statement of assets and liabilities, the COO professional consultant service fee of HK\$15,000,000 shall be paid on the date of the completion of the Proposed Acquisition is recognised as a prepayment (the "Service Prepayment"), in which the Directors assumed that Dr. Yeung did not cease to act as COO in the Service Period, as such the Service Prepayment is paid serving as an advanced service fee to Dr. Yeung, whom committing herself serving as the COO in the above-mentioned Service Period. In addition, based on the financial budget prepared by and currently available to the Company, and taking into account the industry sentiment and environment, among others, the Directors considered that the fulfillment of the Guaranteed Profits is remote and it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation of the Guaranteed Profit, as if the Service Period commenced on 31 March 2020. Accordingly, the Guaranteed Profits would not be materialised. Upon completion of the Proposed Acquisition, the fulfillment of the Guaranteed Profits will be reassessed based on the upcoming conditions at the date of the completion of the Proposed Acquisition.

8. The adjustment reflects the reclassification of the amount due from Dr. Yeung before the Proposed Acquisition, to other payables in offsetting the Advanced Payment made by Dr. Yeung. The amounts are unsecured, interest-free and repayable on demand.
9. The adjustment represents the estimated legal and professional fees and other direct expenses of approximately HK\$586,000, which are directly attributable to the Proposed Acquisition. This adjustment will have no continuing effect on the Enlarged Group in the subsequent years.
10. Save as aforesaid, no other adjustment have been made to reflect any trading results or other transactions of the Group subsequent to 31 March 2020, and the Target Company and Qi's Living and the Property Company subsequent to 30 June 2020, respectively.

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III.



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To the directors of Tianda Pharmaceuticals Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Tianda Pharmaceuticals Limited (the "Company") and its subsidiaries (collectively the "Group"), together with Yeung & Young Medicare Centre Limited (the "Target Company") and Qi's Living Company Limited ("Qi's Living"), which acquired 100% equity interest in Golden Element Limited by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 March 2020 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-6 of Appendix III of the Company's circular dated 24 November 2020 (the "Circular") in connection with the proposed acquisition of 50.1% equity interests in the Target Company (the "Proposed Acquisition"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page III-1 of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Company's consolidated assets and liabilities as at 31 March 2020 as if the Proposed Acquisition had taken place at 31 March 2020. As part of this process, information about the Company's consolidated assets and liabilities has been extracted by the Directors from the Company's audited consolidated financial statements for the year ended 31 March 2020, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants’ Responsibilities

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

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

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

The purpose of Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 31 March 2020 would have been as presented.

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

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors 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.

BDO Limited

Certified Public Accountants

Hong Kong

24 November 2020

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis on the consolidated results of the Y&Y Group for each of the financial years ended 31 March 2018, 2019 and 2020 and each of the three-month periods ended 30 June 2019 and 2020. (the “**Relevant Periods 1**”), and on the financial information of the Property Company for each of the financial years ended 31 December 2017, 2018 and 2019 and each of the six-month periods ended 30 June 2019 and 2020 (the “**Relevant Periods 2**”).

The Property Company was acquired by the Target Company after the Relevant Periods 2 and its business nature was completely different from the Y&Y Group. The management discussion and analysis of the Property Company is separately disclosed for reference purpose only.

A. CONSOLIDATED RESULTS OF THE Y&Y GROUP

BUSINESS REVIEW

The Target Company is a company incorporated in Hong Kong. It is a Chinese medical institution in Hong Kong, which is principally engaged in the provision of high-end and modern Chinese medical services, including Chinese medical consultation, acupuncture, cupping therapy, “Tui Na” therapeutic massage, skin and body check and other health management services, based on TCM theories and evidence-based science and equipped with state-of-the-art medical technology and equipment.

Qi’s Living is a company incorporated in Hong Kong. It is principally engaged in the sales of TCM health products in Hong Kong.

FINANCIAL ANALYSIS

The following table sets forth the consolidated financial information of the Y&Y Group for each of the financial years ended 31 March 2018 (“**FY2018**”), 31 March 2019 (“**FY2019**”) and 31 March 2020 (“**FY2020**”), three months period ended 30 June 2019 (“**1QFY2020**”) and 30 June 2020 (“**1QFY2021**”), which are extracted from, and should be read together with, the financial information prepared in accordance with the basis of preparation and presentation as set out in the audited financial information of the Y&Y Group in Appendix IIA to this circular.

	FY2018	FY2019	FY2020	1QFY2020	1QFY2021
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	Audited	Audited	Audited	Unaudited	Audited
Revenue	14,936	14,022	13,354	3,617	2,924
Cost of sales	(1,190)	(1,020)	(1,016)	(245)	(175)
Gross profit	13,746	13,002	12,338	3,372	2,749
Other income	95	131	106	24	0
Administrative expenses	(7,742)	(7,479)	(6,294)	(1,289)	(743)
Finance costs	(30)	(78)	(31)	(13)	0
Profit before tax	6,069	5,576	6,119	2,094	2,006
Income tax expenses	(1,000)	(716)	(790)	(136)	(145)
Profit for the year/period	<u>5,069</u>	<u>4,860</u>	<u>5,329</u>	<u>1,958</u>	<u>1,861</u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Revenue

The following table sets forth the breakdown of the revenue:

	FY2018	FY2019	FY2020	1QFY2020	1QFY2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited	Audited	Unaudited	Audited
Medical consultation and treatment services	8,377	8,381	8,346	2,235	1,942
Sales of Chinese medicine, skincare and healthcare products	<u>6,559</u>	<u>5,641</u>	<u>5,008</u>	<u>1,382</u>	<u>982</u>
Total	<u><u>14,936</u></u>	<u><u>14,022</u></u>	<u><u>13,354</u></u>	<u><u>3,617</u></u>	<u><u>2,924</u></u>

The revenue mainly comprises medical consultation and treatment services and sales of Chinese medicine, skincare and healthcare products. The revenue for FY2018, FY2019, FY2020, 1QFY2020 and 1QFY2021 was approximately HK\$14.9 million, HK\$14.0 million, HK\$13.4 million, HK\$3.6 million and HK\$2.9 million respectively. The decrease in revenue from FY2018 to FY2019 was primarily due to the Vendor's maternity leave in FY2019, and the decrease in revenue from FY2019 to FY2020 was mainly due to the occurrence of social movements in Hong Kong as well as the outbreak of COVID-19 pandemic in FY2020. The decrease in revenues between 1QFY2020 and 1QFY2021 was mainly due to the outbreak of COVID-19 pandemic during 1QFY2021.

Other income

The other income mainly includes bank interest income and sundry income. The other income during the Relevant Periods 1 are relatively stable.

Administrative expenses

The administrative expenses mainly include director's remuneration, staff cost and depreciation of right-of-use assets. The administrative expenses for FY2018 and FY2019 are relatively stable, while it decreased by 15.8% in FY2020 compared to FY2019 mainly due to decrease in director's remuneration and staff cost amid the negative impact of social movements in Hong Kong as well as the outbreak of COVID-19 pandemic in FY2020. The decrease in administrative expenses between 1QFY2020 and 1QFY2021 was primarily due to the outbreak of COVID-19 pandemic in 1QFY2021.

Finance costs

The finance costs comprise interest on lease liability which was recognized under HKFRS 16.

Income tax expenses

The income tax expenses for FY2018, FY2019, FY2020, 1QFY2020 and 1QFY2021 was approximately HK\$1.0 million, HK\$0.72 million, HK\$0.79 million, HK\$136,000 and HK\$145,000 respectively. The amount of income tax expenses was mainly attributable to the profit before taxation.

Profit for the year or period

Profit for the years/periods for FY2018, FY2019, FY2020, 1QFY2020 and 1QFY2021 was approximately HK\$5.1 million, HK\$4.9 million, HK\$5.3 million, HK\$2.0 million and HK\$1.9 million respectively.

Capital commitments

As at the end of all Relevant Periods 1, the Y&Y Group did not have any capital commitments authorised but not contracted for.

Liquidity, financial resources and capital structure

The Y&Y Group mainly financed its operations and capital expenditure by the internally generated funds from operations.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020, the consolidated bank balances and cash amounted to approximately HK\$7.5 million, HK\$4.7 million, HK\$0.6 million and HK\$1.8 million respectively. The consolidated bank balances and cash are denominated in Hong Kong dollar. The decrease in consolidated bank balances and cash from FY2018 to FY2019 and from FY2019 to FY2020 was mainly due to the distribution of dividends to the Vendor.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020, the Y&Y Group did not have any bank borrowings. As such, the Y&Y Group does not have any material exposure to currency risk, but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

Amount due from/to a director

Amount due from/to a director mainly arise from advances from/to the Vendor in the Relevant Periods 1.

Contingent liabilities

As at the end of all Relevant Periods 1, the Y&Y Group did not have any material contingent liabilities, guarantees, litigations or claims pending or threatened against the Y&Y Group.

Material investment, acquisition and disposal

During the Relevant Periods 1, the Y&Y Group did not conduct any significant investments, material acquisitions and disposals.

Employee and remuneration policy

The Y&Y Group recruits, employs and promotes its employees and makes remuneration payments to them in accordance with the employees' qualifications, experience, skills, performance and contributions. In order to nurture motivated and skilled working teams, the Y&Y Group provide employees with on-the-job training and market competitive remuneration, including salaries and bonus.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020, the Y&Y Group had 10, 16, 7 and 8 employees, respectively.

Gearing ratio

As at 31 March 2018, 31 March 2019, 31 March 2020, and 30 June 2020, the Y&Y Group did not have any outstanding debt (including bank borrowings and notes payable) and accordingly the Y&Y Group did not have any gearing ratio for the corresponding period.

Charge on assets

Save as disclosed above, as at the end of all Relevant Periods, the Y&Y Group did not have any other charge on its assets.

Future plans for material acquisition and disposals of subsidiaries and associated companies, investments or capital assets

Save as disclosed in the section headed "Reorganisation" in this circular, as at the Latest Practicable Date, the Y&Y Group has no plan for material acquisition and disposals of subsidiaries and associated companies, investments or capital assets.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

B. FINANCIAL RESULTS OF THE PROPERTY COMPANY

BUSINESS REVIEW

The Property Company is a company incorporated in Hong Kong which is owned by the Target Company as at the Latest Practicable Date. The Property Company was a property investment company during the Relevant Periods 2.

FINANCIAL ANALYSIS

The following table sets forth the financial results of the Property Company for each of the financial years ended 31 December 2017 (“YE2017”), 31 December 2018 (“YE2018”) and 31 December 2019 (“YE2019”), six months period ended 30 June 2019 (“6M2019”) and 30 June 2020 (“6M2020”), which are extracted from, and should be read together with, the financial information prepared in accordance with the basis of preparation and presentation as set out in the audited financial information of the Property Company in Appendix IIB to this circular.

	YE2017 HK\$'000 Audited	YE2018 HK\$'000 Audited	YE2019 HK\$'000 Audited	6M2019 HK\$'000 Unaudited	6M2020 HK\$'000 Audited
Revenue	1,363	1,302	1,277	651	600
Other income	545	0	0	0	0
Change in fair value of investment property	5,200	3,300	(900)	(450)	(5,500)
Administrative expenses	(359)	(684)	(271)	(120)	(110)
Finance costs	(225)	(377)	(504)	(213)	(207)
Profit/(loss) before income tax	6,524	3,541	(398)	(132)	(5,217)
Income tax expenses	0	0	0	0	0
Profit/(loss) and total comprehensive income/ (loss) for the year/period	<u>6,524</u>	<u>3,541</u>	<u>(398)</u>	<u>(132)</u>	<u>(5,217)</u>

Revenue

The following table sets forth the breakdown of the revenue:

	YE2017 HK\$'000 Audited	YE2018 HK\$'000 Audited	YE2019 HK\$'000 Audited	6M2019 HK\$'000 Unaudited	6M2020 HK\$'000 Audited
Rental income	<u>1,363</u>	<u>1,302</u>	<u>1,277</u>	<u>651</u>	<u>600</u>
Total	<u>1,363</u>	<u>1,302</u>	<u>1,277</u>	<u>651</u>	<u>600</u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

The revenue for YE2017, YE2018, YE2019, 6M2019 and 6M2020 was approximately HK\$1.36 million, HK\$1.30 million, HK\$1.28 million, HK\$0.65 million and HK\$0.60 million respectively, comprising rental income derived from its investment properties.

Other income

For YE2017, the Property Company disposed an office unit at 2210A, Wu Chung House, Wan Chai, Hong Kong and recorded gain on disposal of property, plant and equipment of approximately HK\$545,000. Other than YE2017, there was no other income recorded for YE2018, YE2019, 6M2019 and 6M2020.

Changes in fair value of investment property

The changes in fair value of investment property represent the fair value gain or loss on the investment property due to increase or decrease in the fair value of the investment property with reference to the valuation assessment carried out by the Independent Valuer and based on recent transaction prices for similar properties.

Administrative expenses

The administrative expenses mainly comprise depreciation expenses of the property, plant and equipment. For YE2017, YE2018, YE2019, 6M2019 and 6M2020, the total administrative expenses amounted to approximately HK\$359,000, HK\$684,000, HK\$271,000, HK\$120,000 and HK\$110,000 respectively.

Finance costs

The finance costs include interest on revolving bank loans. For YE2017, YE2018, YE2019, 6M2019 and 6M2020, the total finance costs amounted to approximately HK\$225,000, HK\$377,000, HK\$504,000, HK\$213,000 and HK\$207,000 respectively.

Profit or loss for the year or period

For YE2017, the Property Company recorded profit for the year of approximately HK\$6.5 million due to gain on disposal of an office unit and increase in the fair value of an investment property. For YE2018, the Property Company recorded profit for the year of approximately HK\$3.5 million due to increase in the fair value of an investment property. For YE2019, 6M2019 and 6M2020, the Property Company recorded loss for the year/period of approximately HK\$398,000, HK\$132,000 and HK\$5.2 million respectively due to decrease in the fair value of an investment property.

Investment properties

Investment properties included two commercial properties situated in Hong Kong and held under medium-term leases during the Relevant Periods 2. The Property Company sold the commercial property unit at 2210A, Wu Chung House, Wan Chai, Hong Kong in YE2017 and held the Property throughout the Relevant Periods 2. The Property Company had investment properties amounting to approximately HK\$63.1 million, HK\$66.4 million, HK\$65.5 million and HK\$60.0 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020 respectively. The changes in value of investment properties was primarily due to increase or decrease in the fair value of investment properties with reference to the valuation assessment carried out by the Independent Valuer and based on recent transaction prices for similar properties.

Capital commitments

As at the end of all Relevant Periods 2, the Property Company did not have any capital commitments authorised but not contracted for.

Liquidity, financial resources and capital structure

The Property Company mainly financed its operations and capital expenditure by the internally generated funds from operations and bank loans.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the Property Company's bank balances and cash amounted to approximately HK\$834,000, HK\$244,000, HK\$206,000 and HK\$7,000 respectively. The bank balances and cash are denominated in Hong Kong dollar and exclude restricted bank deposits.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the Property Company's bank loans were approximately HK\$19.1 million, HK\$19.5 million, HK\$20.0 million and nil. The bank loans were denominated in Hong Kong dollar, which is the functional currency of the Property Company. As such, the Property Company does not have any material exposure to currency risk, but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

Gearing ratio

Gearing ratio is computed as total bank loans divided by total equity. The overall gearing ratio of the Property Company was approximately 44.0%, 41.5%, 42.9% and nil as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020 respectively. The outstanding bank loans including principal and accrued interest were fully settled as at 30 June 2020.

Charge on assets

The Property Company has pledged certain bank deposits to a bank for a revolving loan facility as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

The Property Company did not have any other charge on its assets as at 30 June 2020 as all the outstanding bank loans including principal and accrued interest were fully settled.

Contingent liabilities

As at the end of all Relevant Periods 2, the Property Company did not have any material contingent liabilities, guarantees, litigations or claims pending or threatened against the Property Company.

Material investment, acquisition and disposal

Save as disclosed above, as at the end of all Relevant Periods 2, the Property Company did not have any significant investments, material acquisitions and disposals.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Employee and remuneration policy

The Property Company did not employ any staff during the Relevant Periods 2.

Future plans for material acquisition and disposals of subsidiaries and associated companies, investments or capital assets

Save as disclosed in the section headed "Reorganisation" in this circular, as at the Latest Practicable Date, the Property Company has no plan for material acquisition and disposals of subsidiaries and associated companies, investments or capital assets.

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from CHFT Advisory and Appraisal Ltd., an independent valuer appointed by the Company, in connection with its valuation as at 30 September 2020 of the Property.



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Date of Report: 24 November 2020

The Board of Directors

Tianda Pharmaceuticals Limited

Suites 2405-2410, 24th Floor, CITIC Tower,
No.1 Tim Mei Avenue, Central,
Hong Kong

Dear Sir/Madam,

Re: Valuation of Offices 1, 2 and 3 on 21st Floor, Fortune Centre, No. 48 Yun Ping Road, Causeway Bay, Hong Kong (the "Property") for Tianda Pharmaceuticals Limited

In accordance with an instruction for us to value the Property in Hong Kong for **Tianda Pharmaceuticals Limited** (the "**Company**"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the Property as at **30 September 2020** (the "**Date of Valuation**") for the purpose of **Public Circular in relation to a major transaction** only.

Valuation Basis

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

This valuation complies with "The HKIS Valuation Standards (2017 Edition)" published by The Hong Kong Institute of Surveyors ("**HKIS**"), "RICS Valuation – Global Standards" published by the Royal Institution of Chartered Surveyors ("**RICS**"), and the "International Valuation Standards" published by the International Valuation Standards Council as well as the requirements set out in Chapter 5 and Practice Note 12 of Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

Valuation Assumptions

Our valuation has been made on the assumption that the owner sells the Property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the Property.

No allowance has been made in our valuations neither for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of onerous nature which could affect its value.

Valuation Methodology

We have considered both direct comparison and income capitalization methods in the valuation. We primarily relied on direct comparison method, which involves an analysis on transactions of comparable properties. Comparable property sales of similar characteristics are analyzed and the evidences were adjusted for various factors to reflect differences in date of transaction, location, building age/conditions, size, view, floor level, etc.

For cross-checking purpose, we have also considered income capitalization method. Income capitalization method takes into account the current passing rent of a property, if any, and its reversionary potential, and we capitalize such rental income by an appropriate yield reflecting the market conditions as well as the nature of that Property.

Source of Information

We have caused searches at the Land Registry in Hong Kong. We have not, however, searched the original documents to verify ownership or any amendment which did not appear on the copies handed to us. All documents have been used for reference only. We assume no responsibility for matters legal in nature nor do we render any opinion as to the titles to the Property.

Site inspection of the Property was carried on 7 October 2020 by Mr. Carlos Lee, who has over two-year experience in property market in Hong Kong. We have inspected the exteriors and certain common areas of the subject development. We have not inspected those parts of the Property which are covered, unexposed or inaccessible and such parts have been assumed to be in reasonable conditions. We have not carried out any on-site measurements but have based on floor plan available to us. As saleable area is commonly used by local agents and investors for transaction reference purpose, no re-measurement of the floor area by International Property Measurement Standards as advocated by RICS has been made. All documents have been used as reference only and all dimensions, measurements and areas are approximations.

In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey or any tests on the building services. Therefore, we are not able to report whether the Property is free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions, the services, etc. for redevelopment. We have not carried out any investigation into past or present uses, either of the Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Property from these uses or sites, and have therefore assumed that none exists.

We have relied to a considerable extent on the information and advice given or made available to us by the Company and relevant government authorities on the existence of such matters as planning approvals, statutory notices, easements, and all other relevant matters.

Limitation of Liabilities

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The responsible valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation assignment. Our findings or conclusion of value of the Property in this report are valid only for the stated purpose and at the Date of Valuation, and for the sole use of the Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Company contractual undertakings in respect of their services and shall be deemed to have paid to the Company such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding ten (10) times of the amount of our agreed fee for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

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

We have valued the Property in Hong Kong Dollars (HK\$). We enclose herewith the valuation report.

Yours faithfully,
For and on behalf of
CHFT Advisory and Appraisal Ltd.
Alex PW Leung MHKIS MRICS
Senior Director

Note: Mr. Alex PW Leung is a member of The Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors. He has over 20 years' post-qualified property valuation experience in Hong Kong.

VALUATION REPORT

Property	Description and Tenure	Occupancy Details	Market Value as at the Date of Valuation
Offices 1, 2 and 3 on 21st Floor, Fortune Centre, No. 48 Yun Ping Road, Causeway Bay, Hong Kong	The Property comprises all the units on a high floor in a 24-storey commercial building completed in 1994. LG/F, G/F, 1/F and 2/F of the building are occupied by retail shops.	Upon our inspection, the subject floor was under renovation.	HK\$60,700,000 (HONG KONG DOLLARS SIXTY MILLION AND SEVEN HUNDRED THOUSAND)
21/678 equal and undivided shares of and in Sub-sections 3 and 4 of Section I of Inland Lot No. 457; and Sub-section 2 and Section B of Sub-section 3 of Section O of Inland Lot No. 29	Based on our measurement from a registered floor plan, the saleable area of the Property is approximately 1,901 square feet excluding areas of lift lobbies and lavatories on the subject floor.		
	Saleable area of a property comprises the floor area exclusively allocated to that property but excluding common areas such as staircases and lift shafts. It is the area contained within the enclosing walls of the property measured up to the exterior faces of external walls. Enclosing walls separating the property from a lightwell, a lift shaft, or a common area, are deemed an external wall and its full thickness shall be included. All internal partitions and columns within the unit are included.		
	The Property is held under two Government Leases for a term of 999 years from 24 December 1865 for Inland Lot No. 457, and a term of 982 years from 25 June 1860 for Inland Lot No. 29. The annual Government Rent payable is HK\$25.2 for the whole lot.		

Notes:

- a) The registered owner of the Property is Golden Element Limited vide Memorial No. 11081903100039 dated 1 August 2011.
- b) The Property is subject to the following:
 - (i) Occupation Permit No. H57/94 vide Memorial No. UB6050626 dated 8 June 1994; and
 - (ii) Deed of Mutual Covenant vide Memorial No. UB6050627 dated 21 June 1994.
- c) The Property lies within "Commercial" zone under Approved Causeway Bay Outline Zoning Plan No. S/H6/17 dated 18 January 2019.

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from CHFT Advisory and Appraisal Ltd., an independent valuer appointed by the Company, in connection with its valuation as at 30 June 2020 of the Target Group.



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Date of Report: 24 November 2020

The Board of Directors

Tianda Pharmaceuticals Limited

Suites 2405-2410, 24th Floor, CITIC Tower,
No.1 Tim Mei Avenue, Central,
Hong Kong

Dear Sirs/Madams,

RE: Valuation of 50.1% Equity Interest of Yeung & Young Medicare Centre Limited and Qi's Living Company Limited

In accordance with an instruction from Tianda Pharmaceuticals Limited (the "**Instructing Party**"), we hereby provide a valuation on the market value of 50.1% equity interest (the "**Equity Interest**") of Yeung & Young Medicare Centre Limited (the "**Y&Y Centre**") and Qi's Living Company Limited (the "**Qi's Living**") (together as the "**Target Group**") as at 30 June 2020 (the "**Valuation Date**").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of 50.1% Equity Interest of the Target Group.

This valuation is complied with the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

1 Purpose of Valuation

The purpose of this report is to express an independent opinion on the market value of 50.1% Equity Interest of the Target Group as at the Valuation Date. This report outlines our latest findings and valuation conclusion and is prepared for the Instructing Party's Hong Kong Exchange Listing Rules and Guidance – Chapter 14 Reference purpose only.

2 Scope of Work

In conducting this valuation exercise, our scope of work includes:

- Co-ordinated with the representatives of the Instructing Party to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target Group, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Instructing Party to understand the history, business model, operations, business development plan, etc. of the Target Group 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 market value of the 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 Instructing Party, the Target Group and its authorized representatives.

3 Background Information of Target Group

Yeung & Young Medicare Centre Limited is a company incorporated in Hong Kong. It is a Chinese medical institution in Hong Kong, which is principally engaged in the provision of high-end and modern Chinese medical services, including Chinese medical consultation, acupuncture, cupping therapy, "Tui Na" therapeutic massage, skin and body check and other health management services, based on traditional Chinese medicine ("TCM") theories and evidence-based science and equipped with state-of-the-art medical technology and equipment.

Qi's Living Company Limited is a company incorporated in Hong Kong. It is principally engaged in the sales of TCM health products in Hong Kong.

Y&Y Centre and Qi's Living are both operated by the Chinese medical practitioner Yeung Ming Ha who is a well-known and experienced expert in this industry.

4 Valuation Methodology

There are three generally accepted valuation approaches in this valuation. The valuation approaches are sourced from International Valuation Standard 105 – Valuation Approaches and Methods.

4.1 Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;
- the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible; and
- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

4.2 Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value;
- the asset or substantially similar assets are actively publicly traded; and
- there are frequent or recent observable transactions in substantially similar assets.

4.3 Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and
- reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

4.4 Selection of Assessment Methodology

In this valuation, cost approach is not considered applicable as it fails to capture future earnings potential of the Target Group. Income approach is also not adopted as various projected inputs, including but not limited to service pricing, medical products consumption and operating costs, have to be made, which cannot be easily justified or ascertained.

Given the unique characteristics of the business nature of the Target Group, there are substantial limitations for the cost approach and income approach. As advised by the management, the Target Group is expected to sustain its existing business operations in the foreseeable future and has sufficient track records. Therefore, we considered that market approach is the most appropriate approach for valuing the Target Group, particularly, the guideline publicly-traded method is adopted in this valuation.

4.5 Guideline Publicly-traded Method

The guideline publicly-traded method utilizes information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value.

The key steps in the guideline publicly-traded comparable method are to:

- identify the valuation metrics/comparable evidence that are used by participants in the relevant market;
- identify the relevant guideline publicly-traded comparables and calculate the key valuation metrics for those comparables;
- perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the publicly-traded comparables and the subject asset;
- make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the publicly-traded comparables;

- apply the adjusted valuation metrics to the subject asset; and
- if multiple valuation metrics were used, weight the indications of value.

We consider that the use of the guideline publicly-traded comparable method is appropriate for the valuation of the Target Group, since the method reflects the going concern of the Target Group and provides direct market reference on the value from a group of comparable companies in the market.

Next, we considered the appropriate pricing multiples to be adopted in this valuation. After studied the financial statements and the operating status of the Target Group, we noticed the following findings:

- The Target Group has engaged in this business for many years. The profit and loss performance of the Target Group is relatively stable from 2017 to 2020.
- Y&Y Centre has recorded revenue of HK\$11.06 million and net profit of HK\$3.63 million from 1 April 2019 to 31 March 2020. The net asset value of Y&Y Centre as at the Valuation Date is HK\$2.04 million.
- Qi's Living has recorded revenue of HK\$2.30 million and net profit of HK\$1.69 million from 1 April 2019 to 31 March 2020. The net asset value of Qi's Living as at the Valuation Date is HK\$3.40 million.
- The Target Group has recorded revenue of HK\$2.92 million and net profit of HK\$1.86 million for the 3 months ended 30 June 2020.
- As at the Valuation Date, most of the comparable companies of the Target Group are mature companies that have already recorded positive profits.

Considering about the above factors, we are of the opinion that earning related ratios are applicable in this valuation since the Target Group has recorded a positive profit as at the Valuation Date. Especially, the P/E Ratio is adopted in this valuation.

P/E Ratio

P/E Ratio is considered appropriate and adopted in this valuation as it is a widely adopted pricing multiple in valuation. It is a ratio for valuing a company that measures its current market value relative to its earnings & business scale. It relates the market value of a company's equity to its earnings, an important driver of shareholder value. This trailing price/earnings multiple is derived by dividing the market capitalization of the underlying company with its earning as of the Valuation Date. The formula is as below:

$$P/E \text{ Ratio} = \text{Market Value per Share} / \text{Earnings per Share}$$

We have also considered P/B and P/S ratios. In view of the nature of the business operation of the Target Group, P/B Ratio is considered not appropriate as book value captures only the tangible assets of the Target Group. P/S Ratio is also not adopted for this valuation, since revenues may not consider the cost structure and profitability.

5 Market Approach and Other Adjustment

5.1 Selection of Comparable Companies

By adopting market approach, we have selected the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector.

Therefore, we focus on identifying listed companies who are engaged in the same business of the Target Group, which is providing medical consultation service and selling TCM related products. As a result, a set of potential comparable companies with business exposure in relation to providing medical consultation service was comprised. Then, more comprehensive researches have been carried out to confine the selection of comparable companies.

The comparable public companies are selected with mainly reference to the following selection criteria:

- Primarily be engaged in medical consultation service, especially in the Chinese medical consultation service;
- Has its primary operations in Hong Kong;
- The operating profit for the latest 12 months financial reporting period is positive;
- Should be listed on Hong Kong Stock Exchange; and
- Information on the comparable companies must be extracted from a reliable source.

As our searches for eligible guideline public-traded comparable companies are exhaustive and only the involving companies that meet all of the above-mentioned criteria which are critical to the operations of the Target Group, are considered. We believe that the adopted companies are representative, fair and reasonable comparisons to the Target Group. Based on the methodology described, the following comparable companies with their financial information as at 30 June 2020 within the exhaustive search list are adopted after the final screening:

Ticker	Company Name	Price	Earnings	
			Per Share	P/E
3613-HK	Beijing Tong Ren Tang Chinese Medicine Co., Ltd.	10.44	0.51	20.47
570-HK	China Traditional Chinese Medicine Holdings Co., Ltd.	3.74	0.32	11.69
2138-HK	Union Medical Healthcare Ltd.	3.96	0.29	13.61
897-HK	Wai Yuen Tong Medicine Holdings Limited	0.27	0.08	3.41
Average				12.30

Source: FactSet
Currency: HK\$

5.2 Description of Comparable Companies

Beijing Tong Ren Tang Chinese Medicine Co., Ltd.

Beijing Tong Ren Tang Chinese Medicine Co., Ltd. engages in the manufacture, retail, and wholesale of Chinese medicine and healthcare products. It operates through the following geographical segments: Hong Kong, The People's Republic of China (PRC), and Overseas. The Hong Kong segment sells Chinese medicine and healthcare products and provides medical consultation and treatments through retail outlets, as well as wholesale in Hong Kong. The PRC segment involves in the wholesale of healthcare products and the sole distribution of Tong Ren Tang branded products of Tong Ren Tang Technologies and Tong Ren Tang Ltd. to customers outside the PRC. The Overseas segment sells Chinese medicine and healthcare products and provides Chinese medical consultation services in overseas countries, including Macao. The company was founded in 1669 and is headquartered in Hong Kong.

China Traditional Chinese Medicine Holdings Co., Ltd.

China Traditional Chinese Medicine Holdings Co., Ltd. operates as an investment holding company, which engages in the research and development, production and sale of Chinese medicine and pharmaceutical products. It operates through the following segments: Finished Drugs, Concentrated TCM Granules, TCM Decoction Pieces, and TCM Healthcare Complex. The company was founded on June 16, 1905 and is headquartered in Hong Kong.

Union Medical Healthcare Ltd.

Union Medical Healthcare Ltd. is an investment holding company, which engages in the provision of one-stop medical and healthcare services. It operates through the Medical; Aesthetics Medical, Beauty and Wellness and Sale of Skincare, Healthcare and Beauty Products; and Performance Marketing segments. The company was founded by Chi Fai Tang on November 23, 2005 and is headquartered in Hong Kong.

Wai Yuen Tong Medicine Holdings Ltd.

Wai Yuen Tong Medicine Holdings Ltd. is an investment holding company, which engages in the production and sale of pharmaceutical products. It operates through the following business segments: Production and Sale of Chinese Pharmaceutical and Health Food Products; Production and Sale of Western Pharmaceutical and Health Food Products; and Property Investment. The Production and Sale of Chinese Pharmaceutical and Health Food Products segment is responsible for the manufacture, process, and retail of traditional Chinese medicine which includes Chinese medicinal products sold under the Wai Yuen Tong brand, and products manufactured by selected medicinal materials with traditional prescription, mainly in China and Hong Kong. The company was founded on August 12, 1994 and is headquartered in Hong Kong.

The above comparable companies are similarly subject to fluctuations in the economy and performance of the industry that the Target Group is engaged in, among other factors. Thus, we consider they are faced with similar industry risks and returns.

5.3 Lack of Marketability Discount

We have adopted a lack of marketability discount of 20.6% in the valuation of the Equity Interest to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The lack of marketability discount is sourced from the study “2020 edition of the Stout Restricted Stock Study Companion Guide” issued by Stout Risius Ross, a global advisory firm, the overall average lack of marketability discount is 20.6%.

The study is a database of private placements of unregistered common stock issued by public companies in the United States since 1991. As of March 2020, the study includes 759 transactions from 1980 to 2019. The discount was calculated by dividing the difference between the private placement price and the market reference price by the market reference price. The study represents the widely used and accepted database available to valuers for the lack of marketability discount determination in a mature capital market. We are of the view that such research involved a number of transaction covering a sufficient time period, is a reliable guide in the mature capital market and is applicable to the Hong Kong market.

5.4 Result Analysis

The detailed calculation is shown in table below:

Subject	Amount	Formula
Net profit from July 2019 to June 2020	5,232,618	A
Market price multiple observed	12.30	B
Lack of marketability discount	20.6%	C
100% Equity Interest	51,082,020	D=A*B*(1-C)
Percentage to be acquired	50.1%	E
50.1% Equity Interest (rounded)	25,590,000	F=D*E

Currency: HK\$

6 Premise of Valuation and Basis of Valuation

Our valuation is based on market value basis and market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. Such definition is in line with the requirements of International Valuation Standards.

6.1 Source of Information

Our investigation covers the discussion with Target Group and Instructing Party’s representatives, the collection of information including the details of Target Group.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by Instructing Party were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by Instructing Party. We have also sought confirmation from Instructing Party that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

6.2 Factors Considered

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of Chinese medical consultation industry in the region;
- Operation and financial risks of the Target Group;
- Environmental policies set by the government that pertains to the Target Group;
- Average operational parameters of comparable companies in the region;
- Operation experience of the management of the Target Group; and
- The economic conditions of in Hong Kong.

7 Disclaimer and Limitation

Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding three (3) times of the amount of our agreed fee(s) for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

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

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

8 Conclusion

The conclusion of value is based on the 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.

While the assumptions and consideration of such matters are considered 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 Instructing Party and/or CHFT Advisory and Appraisal Ltd (the "CHFT").

Based on the valuation methodology adopted, we are of the opinion that:

The market value of 50.1% Equity Interest of **Yeung & Young Medicare Centre Limited and Qi's Living Company Limited**, as at 30 June 2020, was in the sum of **HK\$25,590,000 (HONG KONG DOLLARS TWENTY-FIVE MILLION FIVE HUNDRED AND NINETY THOUSAND)**.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Yours faithfully,
For and on behalf of
CHFT Advisory and Appraisal Ltd.
Ross Wang CFA
Director

Note: Mr. Ross Wang is a Chartered Financial Analyst (CFA) and has over 10 years' experience in providing business valuation services to companies ranging from multinationals, public listed companies and government institutions.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares, underlying shares and debentures of the Company

Name of Director	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest
Mr. Fang Wen Quan ("Mr. Fang")	Interest in controlled corporation	1,194,971,370 (Note)	55.58%

Note: All the above shares are beneficially owned by Tianda Group. Mr. Fang has 100% equity interests in Tianda Group and, accordingly, is deemed to be interested in the above Shares owned by Tianda Group.

Long position in the Shares, underlying shares and debentures of the associated corporations

Name of the associated corporation	Name of Director	Capacity/ Nature of interest	Number of shares held in the associated corporation	Approximate percentage of interest in the associated corporation
Tianda Group (Note)	Mr. Fang	Beneficial owner	217,000,000	100%

Note: Tianda Group is legally and beneficially wholly-owned by Mr. Fang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long position in the Shares, underlying Shares and debentures of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest
Tianda Group	Beneficial owner	1,194,971,370 (Note 1)	55.58%
SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司) ("SMST")	Beneficial owner	280,517,724 (Note 2)	13.05%
Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司) ("SPHL")	Interest in controlled corporation	280,517,724 (Note 2)	13.05%
Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) ("SIIC")	Interest in controlled corporation	280,517,724 (Note 2)	13.05%
Hongta Tobacco (Group) Co., Ltd. (紅塔煙草(集團)有限責任公司) ("Hongta")	Beneficial owner	207,616,264	9.66%

Notes:

1. These 1,194,971,370 Shares are beneficially owned by Tianda Group. Mr. Fang has 100% equity interests in Tianda Group and, accordingly, is deemed to be interested in the said 1,194,971,370 Shares owned by Tianda Group.
2. These 280,517,724 Shares are beneficially owned by SMST. SMST is beneficially owned as to 100% by SPHL and SIIC is the controlling shareholder of SPHL. Accordingly, SIIC and SPHL are deemed to be interested in the said 280,517,724 Shares owned by SMST.

Save as disclosed above, as at the Latest Practicable Date, no person (other than the Directors or chief executives of the Company) had the interests or short positions in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his respective close associates had any interests in any business apart from the Enlarged Group's businesses which competed or might compete, either directly or indirectly, with the businesses of the Enlarged Group.

5. EXPERTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
BDO Limited	Certified Public Accountants
CHFT Advisory and Appraisals Ltd	Independent valuer

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice and opinion (as the case maybe) and/or references to its name in the form and context in which they respectively appear.

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

As at the Latest Practicable Date, each of the above experts did not have any interest, either directly or indirectly, in any assets which have been since 31 March 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware of, no member of the Enlarged Group was involved in any litigation or claim of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

7. MATERIAL CONTRACTS OF THE GROUP

During the two years immediately preceding the Latest Practicable Date, the following contracts (not being contracts in the ordinary course of business) have been entered into by the Group and are or may be material:

- (1) the conditional disposal right agreement dated 22 February 2019 entered into between Tianda Pharmaceuticals (Hong Kong) Limited (“**TPHK**”) (an indirect wholly-owned subsidiary of the Company) and Tianda Group (the “**Conditional Disposal Right Agreement**”), pursuant to which, among other things, Tianda Group granted a conditional disposal right to TPHK which allowed TPHK to, upon fulfillment of the conditions therein, require Tianda Group (or through its wholly-owned subsidiary) to acquire the entire equity interests in Zhuhai Tianda Realty Ltd.* (珠海天大置業有限公司) at a consideration of RMB125 million plus its cash at bank (which the aggregated consideration shall not be more than RMB145 million in any event);
- (2) the main contract for the provision of the construction works dated 13 June 2019 entered into between Tianda Pharmaceuticals (Zhuhai) Limited* (天大藥業(珠海)有限公司) (a wholly owned subsidiary of the Company) and Guangdong Jinhuihua Group Co., Ltd.* (廣東金惠華集團有限公司) (the “**Main Contractor**”), pursuant to which the Main Contractor undertook the construction works relating to the construction of the new R&D and pharmaceutical production base of the Group in Jinwan District, Zhuhai, the PRC at the contract sum of approximately RMB106.6 million;
- (3) the Property Acquisition Agreement;
- (4) the two agreements entered into between TDMall Group, the Target Company and the Vendor, pursuant to which the prepayments of HK\$30,060,000 and HK\$29,940,000 were made by TDMall Group to the Target Company respectively, in relation to the acquisition of the Property Company by the Target Company;
- (5) the deed of assignment entered into by the Vendor and the Property Owner on 18 September 2020, in relation to the assignment of the amount due to the director/then director of approximately HK\$18,220,000 from the Property Owner to the Target Company; and
- (6) the Share Transfer and Cooperation Agreement.

8. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Conditional Disposal Right Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Enlarged Group.

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

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Lo Tai On, who is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The head office and principal place of business of the Company in Hong Kong is at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong.
- (d) The Hong Kong share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The circular has been prepared in both English and Chinese. In the case of any discrepancy, the English language text of this circular shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:30 p.m., Mondays to Fridays (except public holidays), for a period of 14 days from the date of this circular:

- (a) the memorandum of association and articles of association of the Company;
- (b) each of the material contracts referred to in the paragraph headed "Material contracts of the Group" in this appendix;
- (c) the annual reports of the Company for each of the three financial years ended 31 March 2018, 2019 and 2020;
- (d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

- (e) the accountants' report on the financial information of the Y&Y Group prepared by BDO Limited, the text of which is set out in Appendix IIA to this circular;
- (f) the accountants' report on the financial information of the Property Company prepared by BDO Limited, the text of which is set out in Appendix IIB to this circular;
- (g) the report issued by BDO Limited on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (h) the valuation certificate and valuation report of the Property from CHFT Advisory and Appraisals Ltd, the text of which is set out in Appendix V to this circular;
- (i) the valuation report on the Y&Y Group from CHFT Advisory and Appraisals Ltd, the text of which is set out in Appendix VI to this circular;
- (j) the written consents referred to in the paragraph headed "Experts" in this appendix; and
- (k) this circular.