THIS CIRCULAR IS IMPORTANT AND REQUESTS YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Affluent Partners Holdings Limited** (the "**Company**"), you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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

AFFLUENT PARTNERS HOLDINGS LIMITED
錢 唐 控 股 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1466)

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TONNETT JULIS HOLDINGS LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BOND UNDER SPECIFIC MANDATE; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

金利豐財務顧問
KINGSTON CORPORATE FINANCE

Capitalised terms used in this cover have the same meanings as defined in this circular unless otherwise specified.

A letter from the Board is set out on pages 7 to 113 of this circular.

A notice convening the extraordinary general meeting of the Company (the "**EGM**") to be held at Units 5906–12, 59/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Thursday, 8 February 2024 at 11:00 a.m., or any adjournment thereof, is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM (i.e. not later than 11:00 a.m. on Tuesday, 6 February 2024) or any adjournment thereof. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish. If you attend and vote at the EGM in person, the form of proxy shall be deemed to be revoked.

* *for identification purpose only*

25 January 2024

CONTENTS

Unless the context defined otherwise, terms used in this circular shall have the following meanings.

"Accumulated Actual Profit"	the Audited Consolidated Net Profit for the two years ending 31 December 2024 as set out in the Accumulated Guarantee Certificate
"Accumulated Guarantee Certificate"	a certificate to be issued by the auditors of the Company by 28 February 2025 to certify the amount of the Audited Consolidated Net Profit (or actual loss (if applicable)) of the Target Group for the two financial years ending 31 December 2024
"Accumulated Profit Guarantee"	the Audited Consolidated Net Profit in the amount of HK$21.05 million for the two years ending 31 December 2024 as guaranteed by the Vendor and the Guarantors pursuant to the terms of the Sale and Purchase Agreement
"Acquisition"	the acquisition of the Sale Share by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
"Announcements"	the announcements of the Company dated 29 June 2023, 30 November 2023 and 29 December 2023 in respect of the Acquisition and the Sale and Purchase Agreement
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audited Consolidated Net Profit"	the audited consolidated net profit after tax and any extraordinary items and exceptional items of the Target Group to be determined under HKFRS issued by the Hong Kong Institute of Certified Public Accountants and the related interpretation of those standards
"Baijin Cloud Platform (佰金優品)"	a WeChat based mini programme and a social media and business platform to execute a membership system and DTC Business Plan
"Baijin Hong Kong"	Baijin Hong Kong Limited (香港佰金有限公司), a company incorporated in Hong Kong with limited liability on 16 December 2022, being a direct wholly-owned subsidiary of the Target Company and the holding company of Beijing Baijin and its subsidiaries
"Baijin Life Science"	Baijin (Hangzhou) Life Science Co., Ltd.* (佰金(杭州)生命科學有限公司), a company established in the PRC with limited liability on 10 April 2023, being an indirectly 51%-owned subsidiary of the Target Company

"Beijing Baijin"	Beijing Baijin Biotechnology Company Limited* (北京佰金生物科技有限公司), a company established in the PRC with limited liability on 13 March 2019, being an indirectly wholly-owned subsidiary of the Target Company
"Board"	the board of Directors
"Business Day"	day (other than a Saturday and Sunday) on which licensed banks in Hong Kong are open for general business
"Company"	Affluent Partners Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1466)
"Compensation Confirmation"	the confirmation to be issued by the Purchaser pursuant to the terms of the Sale and Purchase Agreement, confirming the cash receipt and/or the Company's redemption or repurchase of the Convertible Bond in relation to the Compensation Amount
"Completion"	the completion of the Acquisition
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration Share(s)"	39,954,338 new Shares to be allotted and issued by the Company to the Vendor to satisfy part payment of the consideration upon Completion under the Sale and Purchase Agreement
"Conversion Commencement Date"	(i) (where the Accumulated Actual Profit is equivalent to or exceeds the Accumulated Profit Guarantee) the date of the Accumulated Guarantee Certificate; or (ii) (where the Accumulated Actual Profit is less than the Accumulated Profit Guarantee) the date of the Compensation Confirmation
"Conversion Period"	the period commencing from the Conversion Commencement Date and ending on the Maturity Date
"Conversion Price"	HK$0.2628, being the initial conversion price per Share at which the Convertible Bond may be converted into Conversion Shares
"Conversion Share(s)"	Share(s) to be issued upon exercise of the conversion rights attaching to the Convertible Bond

"Convertible Bond"	the non-listed convertible bond in the principal amount of HK$31.5 million to be issued by the Company to the Vendor to satisfy part payment of the consideration upon Completion under the Sale and Purchase Agreement
"Directors"	the directors of the Company
"DTC Business Plan"	a business plan to implement direct-to-consumer sales channel, which is an online sales channel executed through the Baijin Cloud Platform
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder, including the issue of the Consideration Shares and the Convertible Bond (including Conversion Shares)
"Enlarged Group"	the Group upon Completion
"Group"	the Company and its subsidiaries
"Guarantor(s)"	certain shareholders of the Vendor, being Dr. Su Yaoyao (蘇耀耀), Ms. Pan Yidan (潘弈旦), Mr. Shang Xiaonan (賞效楠), Mr. Xu Xiaping (徐夏平), Ms. Hu Dongbing (胡冬冰), Ms. Zhang Meng (張萌), Mr. Ding Tianjiao (丁天驕), Mr. Li Song (李松), Dr. Li Yijia (李一佳), Ms. Yu Wenying (余文赢), Ms. Chen Jia (陳加), Ms. Zhang Ying (張穎), Ms. Xie Chunchen (謝春辰), Mr. Yin Guoliang (尹國亮), Mr. Sun Jingrui (孫景瑞), Mr. Shi Lei (石磊), Ms. Lei Qiuju (雷秋菊), Mr. Liang Ziyan (梁子彥), Mr. Wang Yubao (汪玉寶), Mr. Yao Zhiquan (姚智泉), Mr. Jiang Tao (姜濤), Ms. Chen Yu (陳雨), Mr. Cao Lei (曹磊), Mr. Song Hongqiang (宋宏強), Mr. Shen Jie (沈劼) and Mr. Zhang Wenjin (張文錦)
"Hangzhou Fantianou Health Management"	Hangzhou Fantianou Health Management Co., Ltd.* (杭州梵天歐健康管理有限公司), a company established in the PRC with limited liability on 2 March 2021, being an indirectly wholly-owned subsidiary of the Target Company
"Hangzhou Jiyun Health Management"	Hangzhou Jiyun Health Management Co., Ltd.* (杭州濟雲健康管理有限公司), a company established in the PRC with limited liability on 18 November 2020, being an indirectly wholly-owned subsidiary of the Target Company

"Hangzhou Qingda Kerui"	Hangzhou Qingda Kerui Biological Technology Co., Ltd* (杭州清大科瑞生物科技有限公司), a company established in the PRC with limited liability on 7 August 2018, being an indirectly non-wholly owned subsidiary of the Target Company
"Hangzhou Qingda Kerui LP"	Hangzhou Qingda Kerui Corporate Management Partnership (Limited Partnership)* (杭州清大科瑞企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on 16 December 2019 with Beijing Baijin as its general partner, a shareholder of Hangzhou Qingda Kerui
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Group and its connected persons
"Latest Practicable Date"	17 January 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lock-up Period"	the period commencing from the Completion Date and ending on the Conversion Commencement Date
"Long Stop Date"	29 February 2024 or such other dates as may be agreed by the Purchaser in writing
"Maturity Date"	the second anniversary of the Conversion Commencement Date
"Memorandum"	the non-legally binding memorandum of understanding dated 11 August 2022 and the supplemental memorandum of understanding dated 10 November 2022, setting out the preliminary understanding in relation to the possible acquisition of equity interest in the Target Group
"PRC"	The People's Republic of China

"Purchaser"	Eminent Affluent Limited, a company incorporated in the British Virgin Islands with limited liability, being a wholly-owned subsidiary of the Company
"R&D"	research and development
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 29 June 2023 and the supplemental agreements dated 30 November 2023 and 29 December 2023 entered into among the Purchaser, the Vendor, the Ultimate Beneficial Owners and the Guarantors in respect of the Acquisition
"Sale Share"	one issued share of the Target Company, representing the entire issued share capital of the Target Company
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.02 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Share(s)
"Shijiazhuang Baijin"	Shijiazhuang Baijin Warehouse Services Co., Ltd.* (石家莊佰金倉儲服務有限公司), a company established in the PRC with limited liability on 17 September 2020, being an indirectly wholly-owned subsidiary of the Target Company
"Specific Mandate"	the specific mandate to be obtained by the Board from the Shareholders at the EGM for the issue and allotment of the Consideration Shares and the Convertible Bond (including the Conversion Shares)
"Takeovers Code"	the Code on Takeovers and Mergers in Hong Kong
"Target Company"	Tonnett Julis Holdings Limited, a company incorporated in British Virgin Islands with limited liability
"Target Group"	the Target Company and its subsidiaries

"Ultimate Beneficial Owners"	the ultimate beneficial owners of the Vendor, being Dr. Su Yaoyao (蘇耀耀), Ms. Pan Yidan (潘弈旦), Mr. Shang Xiaonan (賞效楠), Mr. Xu Xiaping (徐夏平), Ms. Zhang Ying (張穎), Mr. Yin Guoliang (尹國亮), Ms. Xie Chunchen (謝春辰), Mr. Sun Jingrui (孫景瑞), Dr. Li Yijia (李一佳), Mr. Shi Lei (石磊), Ms. Lei Qiuju (雷秋菊), Ms. Liang Ying (梁英), Ms. Zhu Lin (朱琳), Mr. Liang Ziyan (梁子彥), Ms. Liu Jing (劉靜), Ms. Qian Yaping (錢亞萍), Ms. Xiao Liang (肖靚), Mr. Wang Yubao (汪玉寶), Mr. Yao Zhiquan (姚智泉), Ms. Hu Dongbing (胡冬冰), Mr. Guo Xu (郭旭), Ms. Zhang Meng (張萌), Ms. Yu Wenying (余文嬴), Ms. Ding Rui (丁瑞), Ms. Zhang Shuiping (張水萍), Mr. Wang Cheng (王成), Mr. Zhang Guoliang (張國良), Ms. Guo Yun (郭韵), Mr. Jiang Tao (姜濤), Ms. Chen Yu (陳雨), Mr. Cao Lei (曹磊), Mr. Song Hongqiang (宋宏強), Mr. Shen Jie (沈劼), Mr. Zhang Wenjin (張文錦), Ms. Wang Ling (王玲), Ms. Feng Ying (馮穎), Mr. Ding Tianjiao (丁天驕), Mr. Li Song (李松), Mr. Chen Bokang (陳伯康), Ms. Chen Jia (陳加) and Ms. Jia Yinyin (賈銀銀)
"Vendor(s)"	Ketto Inform Limited, a company incorporated in Hong Kong with limited liability
"Xi'an Fanke"	Xi'an Fanke Biological Technology Co., Ltd.* (西安梵科生物技術有限公司), a company established in the PRC with limited liability on 9 March 2021, being an indirectly wholly-owned subsidiary of the Target Company
"%"	per cent

For the purpose of illustration only and unless otherwise stated, conversion of RMB to HK$ in this circular is based on the exchange rate of RMB1 to HK$1.1. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be exchanged at this or any other rate or at all.

AFFLUENT PARTNERS HOLDINGS LIMITED
錢唐控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1466)

Executive Directors:
Mr. Cheng Chi Kin *(Chairman)*
Mr. Cheung Sze Ming
Mr. Dong Peng

Non-executive Director:
Mr. Zhu Yongjun

Independent non-executive Directors:
Mr. Wong Siu Keung Joe
Mr. Chang Chunyu
Mr. Lee Ka Leung Daniel

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Room 906, 9/F, Wings Building
110-116 Queen's Road Central
Central, Hong Kong

25 January 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TONNETT JULIS HOLDINGS LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BOND UNDER SPECIFIC MANDATE; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the Announcements.

* *for identification purpose only*

The Purchaser, the Vendor, the Ultimate Beneficial Owners and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company, at the consideration of HK$42.0 million, which shall be satisfied as to (i) HK$10.5 million by the allotment and issue of the Consideration Shares by the Company; and (ii) HK$31.5 million by the issue of the Convertible Bond by the Company.

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

The purpose of this circular is (i) to provide the Shareholders with further information on the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) to give the Shareholders a notice of the EGM and other information in accordance with the requirements of the Listing Rules.

II. THE SALE AND PURCHASE AGREEMENT

Date

29 June 2023 (after trading hours) and as supplemented by the supplemental agreements dated 30 November 2023 and 29 December 2023

Parties

Vendor	:	the Vendor, being Ketto Inform Limited
Purchaser	:	the Purchaser, being Eminent Affluent Limited, a wholly-owned subsidiary of the Company
Ultimate Beneficial Owners	:	the Ultimate Beneficial Owners
Guarantors	:	the Guarantors

The Vendor is ultimately owned by 41 individual shareholders, being the Ultimate Beneficial Owners (they are parties to the Sale and Purchase Agreement to grant their consent as regards to the transactions contemplated under the Sale and Purchase Agreement). The identities of the Ultimate Beneficial Owners are set out as follows:

	Name	Identity	Approximate shareholding in the Vendor
1	Dr. Su Yaoyao (蘇耀耀)	— a Guarantor; — a director of Beijing Baijin; and — a director and the general manager of Hangzhou Qingda Kerui	18.00%

	Name	Identity	Approximate shareholding in the Vendor
2	Ms. Pan Yidan (潘弈旦)	— a Guarantor; and — an independent private investor	18.00%
3	Mr. Shang Xiaonan (賞效楠)	— a Guarantor; — the general manager of Beijing Baijin; and — a director and the general manager of Xi'an Fanke — a director and the general manager of Shijiazhuang Baijin	17.99%
4	Mr. Xu Xiaping (徐夏平)	— a Guarantor; and — an independent private investor	4.50%
5	Ms. Zhang Ying (張穎)	— a Guarantor; and — an independent private investor	3.50%
6	Mr. Yin Guoliang (尹國亮)	— a Guarantor; — a supervisor of Beijing Baijin, Xi'an Fanke and Shijiazhuang Baijin; and — the director of the manufacturing and logistic department of Beijing Baijin	3.31%
7	Ms. Xie Chunchen (謝春辰)	— a Guarantor; and — an independent private investor	3.30%
8	Mr. Sun Jingrui (孫景瑞)	— a Guarantor; and — an independent private investor	3.00%
9	Dr. Li Yijia (李一佳)	— a Guarantor; — a substantial shareholder of Hangzhou Qingda Kerui; and — the vice director of the R&D service department of Hangzhou Qingda Kerui	2.85%
10	Mr. Shi Lei (石磊)	— a Guarantor; and — an independent private investor	2.50%
11	Ms. Lei Qiuju (雷秋菊)	— a Guarantor; and — an independent private investor	1.80%
12	Ms. Liang Ying (梁英)	— an independent private investor	1.50%

	Name	Identity	Approximate shareholding in the Vendor
13	Ms. Zhu Lin (朱琳)	— an independent private investor	1.50%
14	Mr. Liang Ziyan (梁子彥)	— a Guarantor; and — an independent private investor	1.50%
15	Ms. Liu Jing (劉靜)	— an independent private investor	1.50%
16	Ms. Qian Yaping (錢亞萍)	— an independent private investor	1.50%
17	Ms. Xiao Liang (肖靚)	— an independent private investor	1.50%
18	Mr. Wang Yubao (汪玉寶)	— a Guarantor; and — an independent private investor	1.50%
19	Mr. Yao Zhiquan (姚智泉)	— a Guarantor; and — an independent private investor	1.00%
20	Ms. Hu Dongbing (胡冬冰)	— a Guarantor; — a director of Hangzhou Qingda Kerui; and — the director of the R&D service department of Hangzhou Qingda Kerui	1.00%
21	Mr. Guo Xu (郭旭)	— an independent private investor	1.00%
22	Ms. Zhang Meng (張萌)	— a Guarantor; — a director of the Target Company; — a director and the general manager of Hangzhou Fantianou Health Management; — a supervisor and the director of the human resources and administrative department of Hangzhou Qingda Kerui; and — a supervisor of Baijin Life Science	1.00%

	Name	Identity	Approximate shareholding in the Vendor
23	Ms. Yu Wenying (余文赢)	— a Guarantor; — a limited partner holding 16.6666% interest in Hangzhou Qingda Kerui LP; and — an independent private investor	1.00%
24	Ms. Ding Rui (丁瑞)	— an independent private investor	1.00%
25	Ms. Zhang Shuiping (張水萍)	— an independent private investor	0.50%
26	Mr. Wang Cheng (王成)	— a limited partner holding 20% interest in Hangzhou Qingda Kerui LP; and — an independent private investor	0.50%
27	Mr. Zhang Guoliang (張國良)	— a supervisor of Hangzhou Jiyun Health Management	0.50%
28	Ms. Guo Yun (郭韵)	— an independent private investor	0.30%
29	Mr. Jiang Tao (姜濤)	— a Guarantor; and — the director of the sales department of Beijing Baijin	0.30%
30	Ms. Chen Yu (陳雨)	— a Guarantor; and — an independent private investor	0.30%
31	Mr. Cao Lei (曹磊)	— a Guarantor; and — an independent private investor	0.30%
32	Mr. Song Hongqiang (宋宏強)	— a Guarantor; and — the director of the product department of Beijing Baijin	0.30%
33	Mr. Shen Jie (沈劼)	— a Guarantor; and — the director of the brand marketing department of Beijing Baijin	0.30%

	Name	Identity	Approximate shareholding in the Vendor
34	Mr. Zhang Wenjin (張文錦)	— a Guarantor; and — an independent private investor	0.20%
35	Ms. Wang Ling (王玲)	— an independent private investor	0.20%
36	Ms. Feng Ying (馮穎)	— an independent private investor	0.20%
37	Mr. Ding Tianjiao (丁天驕)	— a Guarantor; — a director of Hangzhou Qingda Kerui; — a director and the general manager of Hangzhou Jiyun Health Management; — a supervisor of Hangzhou Fantianou Health Management; and — the vice director of the social media and e-commerce department of Baijin Life Science	0.20%
38	Mr. Li Song (李松)	— a Guarantor; — a director and the general manager of Baijin Life Science; and — the director of the R&D marketing department of Hangzhou Qingda Kerui	0.20%
39	Mr. Chen Bokang (陳伯康)	— an independent private investor	0.20%
40	Ms. Chen Jia (陳加)	— a Guarantor; — a limited partner holding 6.6667% interest in Hangzhou Qingda Kerui LP; and — the director of the marketing and operation department of Hangzhou Fantianou Health Management	0.15%
41	Ms. Jia Yinyin (賈銀銀)	— a limited partner holding 6.6667% interest in Hangzhou Qingda Kerui LP; and — an independent private investor	0.10%
	Total		100%

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor, the Guarantors and the Ultimate Beneficial Owners are Independent Third Parties as at the Latest Practicable Date.

Personal Guarantees

Each of the Guarantors has jointly and severally guaranteed to the Purchaser the due and punctual performance and obligations by the Vendor under the Acquisition pursuant to the Sale and Purchase Agreement (including the Accumulated Profit Guarantee). The Guarantors comprise 26 Ultimate Beneficial Owners, half of which are also the core team and/or management personnel of the Target Group and the remaining are independent private investors.

Assets to be Acquired

Pursuant to the Sale and Purchase Agreement, subject to the fulfillment of the conditions precedent, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company.

Consideration

Subject to adjustment as detailed in the paragraph headed "Profit Guarantee and Adjustments to the Consideration of the Acquisition" below, the consideration for the Acquisition shall be HK$42.0 million, which is to be satisfied in the following manner upon Completion:

(i) HK$10.5 million (i.e. 25% of the consideration) shall be settled by allotting and issuing the Consideration Shares; and

(ii) HK$31.5 million (i.e. 75% of the consideration) shall be settled by issuing the Convertible Bond.

Basis of the Consideration

The consideration for the Acquisition has been determined after arm's length negotiations among the parties to the Sale and Purchase Agreement with reference to, among other things, the following factors:

(a) the Accumulated Profit Guarantee provided by the Vendor as set out in the paragraph headed "Profit Guarantee and Adjustments to the Consideration of the Acquisition" below;

(b) the prospects of the Skincare Solutions Business in which the Target Group operates, and details of which are stated in the paragraphs headed "VIII. Information on the Target Group — 4. Business Overview" and "X. Reasons for and Benefits of the Acquisition" below;

(c) the business development and financial performance of the Target Group, including (i) the audited revenue of the Target Group prepared under the general accepted accounting principles of the PRC ("**PRC GAAP**") for the year ended 31 December 2022 of approximately RMB18.4 million; (ii) the unaudited net assets of Beijing Baijin and Hangzhou Qingda Kerui prepared under PRC GAAP for the four months ended 30 April 2022 of approximately RMB4.3 million and RMB26.7 million, respectively (before the reorganisation of the Target Group); (iii) the unaudited total assets and net assets of the Target Group prepared under PRC GAAP for the four months ended 30 April 2023 of approximately RMB37.9 million and RMB23.9 million, respectively; (iv) the confirmed sales orders and contracts of RMB16.5 million as at 29 June 2023 (being the date of the Sale and Purchase Agreement) and the cash flow to be generated upon delivery of such sales orders and contracts; (v) the financial performance of the Target Group has recorded positive profit since 2022, which it had finely positioned itself to capture the recovery trend in China's beauty and cosmetic industry post pandemic (i.e. on a period-to-period basis, the unaudited revenue of the Target Group increased by 5 times for the four months ended 30 April 2023 as compared to the same period in 2022); (vi) the laboratory the Target Group is currently operating and the advanced technologies and the intellectual properties of the Target Group developed and technological progress; and (vii) the growth potential in the scale and profitability of the Target Group, particularly the opportunity to diversify and expand its product and service mix and sales channel for all business segments. Details of the above are stated in the paragraph headed "VIII. Information on the Target Group — 4. Business Overview" below; and

(d) the synergy effect that benefits the Group and the strategic value of the Target Group to the Group's development, allowing the Group to build a diverse, multi-segment and counter-cyclical business model to further penetrate the enormous female consumer market, diversifying the Group's revenue structure and generating future economic benefits for the Group's sustainable development. Details of which are stated in the paragraph headed "IX. Financial and Trading Prospects of Enlarged Group" below.

In determining the consideration for the Acquisition, the Company has considered three generally adopted valuation approaches: income approach, market approach and cost approach (asset-based approach) for evaluating the Target Group after consulting an independent valuer.

The Target Group possesses verifiable track records and is expected to sustain its existing business operations in the foreseeable future. Additionally, there are sufficient public listed comparable companies available that can be relied upon to establish benchmarks for the valuation of the Target Group. Therefore, the Company decided to adopt the use of the guideline publicly-traded comparable method under the market approach as the most appropriate approach for valuing the Target Group.

The price-to-sales ("**P/S**") ratio is considered appropriate and adopted 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 sales and business scale. It relates the market value of a company's equity to its sales, an important driver of shareholder value. This trailing P/S multiple is derived by dividing the market capitalisation of the underlying company with its sales as at the valuation date.

The cost approach is not considered applicable as it fails to capture future earnings potential of the Target Company. The income approach is also not adopted as various projected inputs, including but not limited to product pricing, the contract terms and operating costs, have to be made, which cannot be easily justified or ascertained.

The Target Group is primarily engaged in skincare products selling business, the P/S ratio reflects its business scale, which is the key value driver of the company. Based on the audited financial statements of the Target Group for the year ended 31 December 2022 under the PRC GAAP, it was profitable with a total revenue of approximately RMB18.4 million. The revenue comprised (i) the sales of skincare products of approximately RMB11.2 million (representing approximately 60.9% of the total revenue); (ii) the R&D services of approximately RMB3.3 million (representing approximately 17.9%), and (iii) other businesses of approximately RMB3.9 million (21.2%). The Company considered that over 60% of the principal business of the Target Group was the sales of skincare products, which are major principal activities of the Target Group, among other sectors. In addition, the Target Group sells its skincare and personal care products through online platforms such as Taobao, Jingdong, etc., and through offline beauty salons. The revenue of the Target Group is generated from both online and offline sales channels. Despite the Target Group's limited track record of online sales, the Company recognised the official online platforms through which the Target Group sells its products as proper channels that should take into account.

Taking into account of the above factors, the Company selected the comparable companies (the "**Comparable Companies**") listed on the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Taipei Exchange based on the following criteria: (i) the company is engaged businesses in and is generating majority operating revenues (over 60%) from the beauty industry (i.e. the income sources of these Comparable Companies are similar to that of the Target Group with revenue mainly derived from sales of skincare-related products and services with similar cost structure); (ii) the company has adopted the online sales channel; (iii) the company's share trading prices and financial information are publicly available; and (iv) the operating profit for the latest 12 months financial reporting period is positive.

Based on the above selection criteria, there were eight Comparable Companies. The following table set out details of the Comparable Companies and their P/S ratio:

Company name	Stock exchange on which the company is listed	Stock code	Business nature	Principal activities	Location	Currency	Revenue *(Note 1)* *(in million)*	Cost-to-revenue ratio *(Notes 1, 2)* *(approximately)*	Operating expenses-to-revenue ratio *(Notes 1, 3)* *(approximately)*	Net profit *(Note 1)* *(in million)*	Net assets value *(Note 1)* *(in million)*	Market capitalisation *(in million)*	P/S ratio *(Note 4)* *(approximately)*
Yunnan Botanee Bio-Technology Group Co., Ltd. (雲南貝泰妮生物科技集團股份有限公司)	Shenzhen Stock Exchange	300957	Healthcare company	Research and development, manufacture, and sales of skin care products and applying natural plant active ingredients to provide gentle and professional skin care products, and services	PRC	RMB	5,014	24.8	47.7	1,051	5,552	38,001	7.58
SYoung Group Co., Ltd. (水羊集團股份有限公司)	Shenzhen Stock Exchange	300740	Cosmetic company	Research and development, and manufacture and sales of skin care products	PRC	RMB	4,722	46.9	47.2	125	1,744	6,091	1.29
Bloomage Biotechnology Corporation Limited (華熙生物科技股份有限公司)	Shanghai Stock Exchange	688363	Biotechnology and biomaterial company	Production of hyaluronic acid, sodium hyaluronate bulk drugs, and medical supplements through fermentation. Its products include hyaluronic acid raw materials, medical terminal products, and functional skin care products	PRC	RMB	6,359	23.0	54.1	971	6,634	42,556	6.69
Proya Cosmetics Co., Ltd. (珀萊雅化妝品股份有限公司)	Shanghai Stock Exchange	603605	Cosmetic company	Research, development, production and sale of cosmetic products	PRC	RMB	6,385	30.3	48.8	817	3,524	44,337	6.94
Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司)	Hong Kong Stock Exchange	2145	Cosmetic company	Manufactures and sells skin care products	PRC	RMB	2,675	36.5	55.4	147	1,707	9,378	3.51
L'Occitane International S.A.	Hong Kong Stock Exchange	973	Cosmetic company	Design, manufacture, and market of natural and organic ingredient-based cosmetics and well-being products	France	EUR	2,135	19.5	26.7	118	2,816	3,315	1.55
Dr. Wu Skincare Co., Ltd. (達爾膚生醫科技股份有限公司)	Taipei Exchange	6523	Cosmetic company	Research, development, and sale of medical beauty care products	Taiwan	TWD	927	29.0	30.3	340	1,529	5,744	6.20
Mikobeaute International Co., Ltd. (霈方國際股份有限公司)	Taipei Exchange	6574	Cosmetic company	Research, development, retail and wholesale of cosmetic products	Taiwan	TWD	681	22.8	69.4	69	925	1,339	1.97
Average								29.1	47.4				4.47
Minimum								19.5	26.7				1.29
Maximum								46.9	69.4				7.58
Target Group						**RMB**	**18.4271** *(Note 5)*	**25.7** *(Note 4)*	**54.0** *(Note 4)*	**1.3770** *(Note 5)*	**20.7465** *(Note 5)*	**38.6631** *(Note 6)*	**2.10**

Notes:

1. The financial data of the Comparable Companies was extracted from their respective latest annual reports for the year ended 31 December 2022, obtained from Bloomberg Inc. Except for L'Occitane International S.A., whose the latest financial information publicly available is for the year ended 31 March 2023 given its financial year end is 31 March.

2. The cost-to-revenue ratio is calculated with reference to the revenue and the cost of revenue of the Comparable Companies extracted from their respective latest annual reports.

3. The operating expenses-to-revenue ratio is calculated with reference to the revenue and the operating expenses, which included selling expenses and administrative expenses, of the Comparable Companies extracted from their respective latest annual reports.

4. The P/S ratio is calculated with reference to the revenue of the Comparable Companies for the latest financial year and their market value as at 28 June 2023.

5. The financial data of the Target Group was extracted from the audited financial statements for the year ended 31 December 2022, prepared in accordance with PRC GAAP.

6. It represents the consideration of the Target Group, being HK$42 million, in accordance with the Sale and Purchase Agreement.

The consideration of the Acquisition implies a P/S ratio of approximately 2.10x with reference to (i) total consideration of the Acquisition (i.e. HK$42.0 million) and (ii) the audited revenue of the Target Group prepared under PRC GAAP for the year ended 31 December 2022 (i.e. approximately RMB18.4 million (equivalent to approximately HK$20.0 million)). The above ratio is within the range of the P/S ratio of the Comparable Companies in the year 2022, which is ranging from approximately 1.29x to approximately 7.58x, with an average of 4.47x.

The Company noted that the Comparable Companies are listed companies on the stock exchanges exhibiting differences in terms of market capitalisation, annual revenue, business scale, products, profit margin, and prospects compared to the Target Group. Finding direct comparables in the public domain is challenging, and the selection of the Comparable Companies has been conducted exhaustively on a best effort basis. It is not unusual to observe differences in size and marketability between the Comparable Companies. The Company adopted the recommendation from the independent valuer by taking into account a size premium and a discount for lack of marketability (the "**DLOM**") for the differences in size and marketability between the Comparable Companies in evaluating the Target Group.

As advised by the independent valuer, the size premium reflects the additional risk premium required by investors for relatively smaller companies. Smaller companies are perceived as risker in terms of their business operations and financial performance, which leads to lower valuation multiples. On the other hand, the DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. Based on the advice of the independent valuer and reference to the research and guideline commonly used by professional valuers, a size premium of 16.55% and a DLOM of 42.9% were recommended.

The DLOM refers to discount rates stated in the *Stout Restricted Stock Study Companion Guide (2022 edition)* published by *Stout Risius Ross, LLC*, a global investment bank and advisory firm (the "**Guide**"), which was a data study on 772 private placement transactions of unregistered common stock (with and without registration rights) issued by publicly traded companies from July 1980 to March 2022. As stipulated in the Guide, the above transaction sample is divided into five quintiles based on the distribution of the restricted stock discount, and medians are computed for each quintile group across all parameters. The Target Group's characteristics fall under the 5th quintile with a median discount rate of 42.9%, which was characterised by lower market value, revenues, total assets and book values, and higher market-to-book ratios and stock price volatility that were correlated with higher discounts compared to other quintiles.

The adopted size premium of 16.55% was calculated with reference to the size premium research published by *Duff & Phelps SBBI Yearbook* ("**Duff & Phelps**"), which indicates an adjustment by adding the difference in size premium between each of the Comparable Companies and the Target Group, to the reciprocal of the multiple. The adjusted result's reciprocal would represent the Comparable Companies' multiple as if it were the same size as the Target Group. The adjustment was made based on the following formula:

$$\textit{Adjusted P/S Ratio} = \frac{1}{\dfrac{1}{\textit{P/S Ratio}} + \textit{Adopted Size Premium}}$$

The following formula derives the adopted size premium of each of the Comparable Companies:

Adopted Size Premium = the Target Group's Size Premium (i.e. 5.60%) — Size Premium for each of the Comparable Companies (with the Size Premium of the Target Group and the Comparable Companies obtained with reference to Duff & Phelps)

The following formula derives the adopted size premium of the Target Group:

$$\textit{Adopted Size Premium} = \frac{\textit{Adjusted average P/S ratio (i.e. 3.73) — average P/S ratio}}{\textit{Average P/S ratio}}$$

According to the representations made by Duff & Phelps, the CRSP Deciles Size Premia include 10 portfolios (i.e. deciles) sorted from largest to smallest by market capitalisation for which size premia are calculated. Decile 1 comprises the largest companies, and Decile 10 comprises the smallest companies. The CRSP Deciles Size Study provides a single way to match the subject company's market capitalisation with the appropriate size premium. The CRSP Deciles Size Study provides the traditional "risk premia over CAPM", commonly referred to as "size premia". Size premia represents the difference between historical (observed) excess return and the excess return predicted by the Capital Asset Pricing Model (CAPM).

Size premia can be added to the cost of capital estimation models as an adjustment for the additional risk of smaller companies relative to large companies. The size premium of 5.60% was referenced to the smallest decile, with the market capitalisation ranging between US$1.963 million and US$209.406 million. This size premium applied to the Target Group was considered to be within the generally accepted and commonly adopted range for business enterprise valuations of private companies. The consideration of HK$42 million for the Acquisition was being treated as the market capitalisation of the Target Group falling within the range indicated by the smallest decile upon which the size premium was based. As advised by the independent valuer, the formula mentioned above is a common practice valuers consider in determining adjusted P/S multiples.

Considering the Comparable Companies are sizeable and publicly listed, while the Target Group is a group of small privately held companies with no listing on stock exchanges or marketability in over-the-counter markets, and a lower market value, the Board therefore concurred with the independent valuer.

Furthermore, the Company noted that the Comparable Companies may be located in different geographical locations than the Target Group (where the primary market is in the PRC). Therefore, it is considered that principal business of the Comparable Companies also have a focus in the PRC market, the Greater China region, or the Asia-Pacific region, where shares similar cultural and economic ties with the Chinese people. Based on the respective annual reports of the Comparable Companies, all of these Comparable Companies have a major market presence in either the PRC, Taiwan or the Asia-Pacific region.

When determining the appropriateness of the comparables, it is normal to consider all aspects and attributes of the comparables on a collective, comprehensive and balanced basis. The Company has also considered the similarities in the structure of the Target Group which include (i) the Comparable Companies primarily engage in providing skincare products and have developed their own brand, similar to the Target Group; (ii) the target customers of the Comparable Companies are predominantly retail customers with daily skincare needs, which aligns with the Target Group; (iii) the major cost components of the Comparable Companies include product cost, marketing expenses, selling expense, and payroll costs, which are similar to the Target Group; and (iv) the income sources of the Comparable Companies stem from selling skincare products, typically through online/offline retail sales, mirroring the operations of the Target Group.

Regarding the major cost components of the Comparable Companies, the Company has taken into consideration that selling skincare products with its own brand may result in lower cost to revenue, such as production cost. However, the Company acknowledged that operating expenses, such as marketing expenses, selling expenses and payroll costs, are significant in the retailing operation. Based on the analysis conducted, both the Target Group and the Comparable Companies exhibited relatively low cost to revenue and relatively high operating expenses to revenue. The cost-to-revenue ratio for the Target Group was approximately 25.7%, while the operating expenses-to-revenue ratio was approximately 54.0%. These ratios fell within the range observed in the Comparable Companies, which had a cost-to-revenue ratio ranged from approximately 19.5% to

46.9%, with an average of approximately 29.1%, and the operating expenses-to revenue ratio for the Comparable Companies ranged from approximately 26.7% to 69.4%, with an average of approximately 47.4%.

Based on the breakdown of the expenses of the Comparable Companies that are publicly available (except for one Comparable Company which does not provide for such detailed breakdown of its expenses), the Company noted that marketing and promotion expenses constituted a major expense item for such Comparable Companies. Such an expense item was the largest expense item for five Comparable Companies and the second largest expense item for the remaining two Comparable Companies. Meanwhile, the Target Group's marketing and promotion expenses also represented its second largest expense item for the year ended 31 December 2022, based on the audited financial statement prepared under PRC GAAP. The Company noted that the Target Group's leverage on marketing and promotional activities to further expand the sales of skincare products is similar to that of the Comparable Companies and aligns with the nature of its operations.

The Comparable Companies are sizable, listed companies with a relatively longer operational track record, whereas the Target Company has a comparatively shorter operating history. However, throughout the Track Record Period, the Target Group has demonstrated a proven revenue stream and turned to a profit-making position since 2022. Taking into account that the Target Group had been profitable since 2022 and operates under a similar business model as the Comparable Companies, the Company concurred with the view of the independent valuer that the use of the Comparable Companies is justifiable and reasonable for evaluating the Target Group.

Taking into account the above elements, and considering (i) the similar industry or industry with similar characteristics of the Comparable Companies; (ii) that the Comparable Companies are publicly listed and provide objective publicly available information for assessing the fair value of the equity interest in the Target Group; (iii) the higher growth potential in Chinese skincare market; (iv) that there exists a sufficient number of Comparable Companies for analysis; and (v) that the valuation methodologies with reference to comparable companies are commonly used and consistent with industry practice, the Board is of the view that the selection of the Comparable Companies is appropriate and provides objective benchmarks for valuing the fair value of entire equity interest of the Target Group.

The Company is of the view that the consideration of the Acquisition is, on balance, fair and reasonable as far as the Company and the Shareholders are concerned when considered alongside the qualitative determination factors mentioned above.

Profit Guarantee and Adjustments to the Consideration of the Acquisition

Accumulated Profit Guarantee

Pursuant to the Sale and Purchase Agreement, the Vendor and the Guarantors jointly and severally, irrevocably guarantee to the Purchaser that the aggregate Audited Consolidated Net Profit for the two years ending 31 December 2024 shall not be less than HK$21.05 million (i.e. the Accumulated Profit Guarantee).

In the event the Target Group fails to achieve the Accumulated Profit Guarantee, the Vendor shall pay the Purchaser the Compensation Amount (as defined below) in accordance with the formula below:

$$C = (G - A) \times 2$$

Where:

C	:	*means the amount to be paid by the Vendor (the "**Compensation Amount**")*
G	:	*means HK$21.05 million (i.e. the Accumulated Profit Guarantee)*
A	:	*means the Accumulated Actual Profit. If the Accumulated Actual Profit is a loss or if it is expressed as a negative figure, the amount of Accumulated Actual Profit shall be equivalent to zero.*

If the Accumulated Profit Guarantee is not satisfied, the Purchaser shall inform the Vendor in writing within three (3) Business Days after the issuance of the Accumulated Guarantee Certificate regarding the mode of payment in relation to the Compensation Amount in either or in combination of the following manner:

Mode 1: by payment in cash within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate; or

Mode 2: by the Company redeeming or repurchasing the Convertible Bond, whereupon the principal amount to be redeemed or repurchased shall be equivalent to the Compensation Amount, at HK$1 within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate. In case the principal amount to be redeemed or repurchased shall exceed the outstanding principal amount of the Convertible Bond, the Vendor shall pay the Purchaser the remaining part of the Compensation Amount by cash.

The Board has absolute discretion to decide the mode of payment to be made by the Vendor. The Board will prioritise mode 2 if the Accumulated Profit Guarantee is not satisfied, taking into consideration the potential dilution effect on the shareholding of the existing Shareholders associated with the Convertible Bond and the financial burden of redeeming the Convertible Bond if the Vendor does not convert the Convertible Bond upon maturity.

The Board will observe the share price at the time of deciding the mode of payment by referencing the benchmarked price of the Shares (the "**Benchmarked Price**") as follows:

The "Benchmarked Price" means the higher of:

(i) the closing price on the date of the determination of mode of payment; and

(ii) the average closing price in the five trading days immediately prior to the date of the determination of mode of payment.

If the Benchmarked Price of Shares is higher than the Conversion Price, which indicates that the Shares at that time are more valuable than the Conversion Shares, redemption or repurchase of the Convertible Bond will eliminate the potential dilution impact that would occur if the Convertible Bond were to convert. In such case, the Board shall prioritise mode 2.

Details of the logistic arrangement regarding the redemption or repurchase of the Convertible Bond are set out in paragraph headed "IV. Arrangement during the Lock-up Period".

However, when determining the payment mode, the Board will also consider the Group's financial performance and requirement, the movement in share price, and the Company's cash flows to safeguard the interest of the Company and the Shareholders. If the Company requires funding for business development and/or working capital but faces obstacles in obtaining meaningful external financing, the Board will prioritise mode 1. Selecting mode 1 as the mode of payment by the Vendor for the Compensation Amount will help the Company secure an alternative source of finance to improve its financial position. The Board believed that although the relative shareholding in the Company of the existing Shareholders may be diluted due to the conversion of the Convertible Bonds into Shares, it would be in the interest of the Company and the Shareholders as a whole to significantly reduce the Group's capital deficiency.

For the avoidance of doubt, in the event the Accumulated Actual Profit is higher than the Accumulated Profit Guarantee, the consideration of the Acquisition will not be adjusted upward.

Basis for the Accumulated Profit Guarantee

The Accumulated Profit Guarantee of HK$21.05 million for the two years ending 31 December 2024 was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement having regard to:

(a) the audited net profit of the Target Group of RMB1.4 million for the year ended 31 December 2022 and the unaudited net profit of RMB2.5 million for the four months ended 30 April 2023, prepared under PRC GAAP;

(b) the sales volume of RMB11.0 million as at 31 May 2023 and the sales forecast based on the sales orders and contracts on hand between the Target Group and its customers as at 29 June 2023 (being the date of the Sale and Purchase Agreement), which are expected to generate a total revenue of approximately RMB16.5 million (equivalent to approximately HK$18.2 million) for the two years ending 31 December 2024, bringing improvement in the business of the Target Group as compared to that in the previous three financial years;

(c) the latest business performance of the Target Group in the year ended 31 December 2022 and the first half of 2023, indicating a rapid growth in revenue as a result of expansion of the Target Group and an increase in revenue from the Brand Marketing and Consulting Services segment, which is in line with the expectations of the management of the Target Group. The improvement in the financial performance of the Target Group is expected to continue for the coming two years ending 31 December 2024 by the management of the Target Group.

The Target Group recorded net losses for the years ended 31 December 2020 and 2021 due to (i) a depressed market sentiment caused by the global outbreak of the pandemic; (ii) the initial investment in R&D at the early stage of the technology development; and (iii) the investment in purchasing advanced laboratory equipment for the R&D projects at the early stage.

Considering (i) the improvement of market sentiment, the growth in the skincare market and the new business opportunities; (ii) the increasing number of sales orders and contracts; and (iii) the benefits to be driven by the initial investment in R&D and advanced laboratory equipment, the Directors believe that the financial performance of the Target Group for the four months ended 30 April 2023 is a better measure of the profitability of the Target Group following Completion;

(d) the development and business strategies of the Target Group, which have been implemented and are expected to continue to facilitate the growth of the Target Group, including (i) driving sales volume by offering innovative and suitable products for the consumers of the target markets; (ii) targeted sales and marketing activities to increase the customer base of the Target Group and actively exploring new business opportunities; and (iii) diversifying new business opportunities and sales channels to further broaden the revenue base of the Target Group; and

(e) the economic recovery from the pandemic boosts beauty consumption and beauty habits in China, which have been reshaped after the pandemic. According to the *White Paper on China's Beauty Industry* published in March 2023 (the "**White Paper**") by *Daxue Consulting*, a market research and strategy consulting firm focusing on the Chinese market, one major change in beauty consumption after the pandemic was that people began to consume more skincare products. Due to the damage from wearing face masks for a long time, products with "skin repair", "basic skincare" and "first-aid care" functions gained popularity. Generation Z accounted for the largest beauty consumer group as at September 2022 and showed a greater interest in skincare products such as eye essence, eye cream, and face masks compared to other age groups. As such, it is expected the market demand and consumption will continue to improve.

As confirmed by the Vendor and to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, all customers of the Target Group are third parties independent from the Company and its connected persons and the Vendor, including the Ultimate Beneficial Owners, other than one customer of Brand Marketing and Consulting Services, who is a minority shareholder of certain members of the Target Group (please refer to the paragraph headed "VIII. Information on the Target Group — 7. Brand Marketing and Consulting Services"). In addition to the new market opportunities, the Target Group operates a laboratory for conducting scientific researches for basic drug development and fundamental biomedical researches, comprising cell, animal and molecular experiments. The Target Group's R&D capability in animal testing and cell extraction technology is proven by its patents registered and patent applications. For further details, please refer to the paragraph headed "VIII. Information on the Target Group — Intellectual Properties". Such R&D capability of the Target Group represents a strong competitive advantage to drive its future growth through the provision of R&D service and introduction of a wide spectrum of bioactive ingredients applied products. Although the Target Group has a short operating history, it took less than three years to become a profit-making business. Taking into account the above factors, the Directors are of the view that the increase in profit is recurring in nature and that the Target Group is expected to continue to grow with the increasing market demand for its products and services. In this regard, the Company has also conducted the following key due diligence work:

(a) discussed with the management of the Target Group to understand the business development strategies of the Target Group;

(b) obtained and reviewed the major existing customer contracts and purchase orders received by the Target Group;

(c) reviewed the financial information of the Target Group for the three years ended 31 December 2022 and the four months ended 30 April 2023, and sales records of the Target Group for the five months ended 31 May 2023, and discussed with the management of the Target Group to understand the reasons for the significant improvement in the financial performance of the Target Group;

(d) reviewed qualifications and competence of the management of the Target Group to ensure they have strong expertise and rich experience in managing the businesses and operations of the Target Group;

(e) carried out physical site visits to the laboratory of the Target Group located in Hangzhou, the PRC and interviewed the R&D team members to understand the R&D capabilities of the Target Group, in particular, the new products development progress;

(f) engaged PRC legal advisers to conduct legal due diligence on the compliance-related matters of the Target Group in carrying out its businesses, and gained the understanding of the regulatory environment where the Target Group is operating; and

(g) conducted market analysis to examine the skincare market environment given the Skincare Solutions Business segment accounted for around 70% of the revenue for the three years ended 31 December 2022. According to the White Paper, China's beauty market has grown fast since 2015, becoming the world's second-largest beauty market by 2019 at a market size of RMB425.6 billion. In 2021, sales of beauty and personal care products reached around RMB550.0 billion to RMB600.0 billion, a 10% more than the previous year. Meanwhile, consumer interest in skincare products has grown fast between 2020 and 2022 in China and China's skincare market was worth about RMB9.2 billion in 2021, recording a 17% year-over-year increase, and it is expected to reach RMB24.0 billion by 2027. It is also commented by *Sheer Analytics and Insights*, an international consulting firm, China's skincare market is a dynamic and rapidly evolving industry with a bright future driving by the combination of a growing middle class, a focus on health and wellness, e-commerce and digitalisation, and innovative products which has created a unique and thriving market. Domestic beauty brands have risen strongly in recent years by leveraging social media marketing and e-commerce. For more details, please refer to the paragraph headed "X. Reasons for and Benefits of the Acquisition".

According to the White Paper, China's beauty market has experienced rapid growth and has become the world's second-largest beauty market by 2019, and the skincare market in China is expected to maintain a positive outlook, with its size projected to reach RMB24.0 billion by 2027. Despite the challenges posed by COVID-19, the prospects for engaging in the skincare business in China remain optimistic. Among the eight Comparable Companies analysed by the Company, it was observed that their sales performance has generally improved since 2019, except for one Comparable Company that lacked publicly available financial information for the years 2019 to 2020. Among the remaining Comparable Companies with available revenue data, five of them achieved revenue growth between 2019 and 2022, ranging from approximately 24.8% to 237.3%. The compound annual growth rates varied from approximately 7.7% to 50.0%, averaging approximately 29.4%. Moreover, a correlation was observed between the marketing and promotion expenses of these Comparable Companies and their revenue, indicating that an increase in marketing and promotion expenses corresponded to an increase in revenue.

The Company also made reference to several data reports published by social media platform data service providers in the PRC. According to an analytics report regarding the beauty brand social media marketing and e-commerce on TikTok, among the top 10 skincare brands in accordance to the sales index in July 2023, three domestic skincare brands originating in South China collectively achieved an aggregate sales index of over 35% of total sales index of the top 10 skincare brands. These three brands also experienced a respective increase in sales, two of which were over 70% in July 2023. Based on the public information, these three domestic skincare brands launched social media marketing and e-commerce in 2023 and such sales were achieved through various strategies, such as creating sales outbreak of popular products to drive the brand sales outbreak, selecting celebrities and key opinion leaders ("**KOL**") who align with the target customers' age group for brand endorsement to enhance customer confidence, or stimulating consumption through strong promotions and after-sales services.

The Target Group has been able to demonstrate a strong momentum growth in its business since the curb of pandemic measures at the end of 2022. Since the establishment of the Baijin Cloud Platform and up to the Latest Practicable Date, the number of Baijin Members has increased significantly from approximately 150 in May 2023 to over 900 as at the Latest Practicable Date. Furthermore, the revenue for the nine months ended 30 September 2023 increased by approximately 79.9% compared to the same period in 2022. The Target Group achieved an audited net profit of approximately HK$3.4 million for the nine months ended 30 September 2023, exceeding the audited net profit of approximately HK$2.3 million for the full financial year ended 31 December 2022. In addition, based on the unaudited combined management accounts for the Target Group provided by its management, the unaudited revenue reached approximately RMB24.9 million (equivalent to approximately HK$27.4 million) for the 11 months ended 30 November 2023, which is about 1.27 times of its audited revenue of HK$21.6 million for the full financial year ended 31 December 2022.

Based on the current contracts provided by the Target Group, the total value of the contract sum is approximately HK$36.0 million, of which approximately RMB3.1 million will be recognised in the year ended 31 December 2023, subject to the review by the auditors of the Company, and approximately RMB30.7 million is expected to be recognised in the year ending 31 December 2024. Taking into account the existing contracts and anticipated contracts, it is estimated that approximately RMB49.3 million in revenue will be recognised in 2024.

In assessing the feasibility of the Target Group achieving the Accumulated Profit Guarantee, based on the sales volume for the year ended 31 December 2023 provided by the Target Group and the total sum of contracts of the Target Group signed and/or under negotiation. The Target Group currently has three business segments, namely the R&D Services, the Skincare Solutions Business and the Brand Marketing and Consulting Business, and the revenue generated from these three business segments accounted for 18.5%, 26.1% and 55.4% of the total revenue for the nine months ended 30 September 2023, respectively. Based on the financial information of the Target Group for such period, the gross profit margins of the Skincare Solutions Business and the Brand Marketing and Consulting Business were relatively higher than the R&D Services, with the gross profit margin of the Brand Marketing and Consulting Business reaching over 45%. The Target Group expects that the revenue from the Skincare Solutions Business will continue to grow and the revenue from the Brand Marketing and Consulting Business will maintain a certain proportion of the total revenue, which reckons the Target Group's profitability will enhance when its revenue increases.

Having taken into account the factors mentioned above and (i) the existing contracts are expected to contribute approximately RMB30.7 million in revenue (representing more than 50% of the budgeted revenue) for the year ending 31 December 2024; and (ii) the contracts of the Target Group under negotiation have accounted for more than 30% of the budgeted revenue for the year ending 31 December 2024, the Board believes that if the overall recovery of China's economy and the roaring back of the consumer spending steadily continue to pre-pandemic levels, and along with the effectiveness of the business strategies of the Target Group in raising its product brand awareness and recognition as well as strengthening its consumer loyalty (such as through social media marketing and promotion), the Accumulated Profit Guarantee is considered achievable for the Target Group.

The Board has noted that there may be a case where the Target Group fails to achieve the Accumulated Profit Guarantee. Therefore, the Board has set up a compensation mechanism for failing to achieve the Accumulated Profit Guarantee, as mentioned above, to safeguard the interests of the Company and the Shareholders as a whole.

Should the Target Group be unable to meet the Accumulated Profit Guarantee, the consideration will be adjusted by the Compensation Amount. The Company will appoint an auditor to conduct an annual review of the financial statements of the Target Group during each of the two financial years ending 31 December 2024. The Directors will regularly monitor the actual performance of the Target Group. Regarding the risk factors relating to the Target Group's business, please refer to the paragraph headed "VIII. Information on the Target Group — 11. Major Risks Relating to the Business of the Target Group".

For the avoidance of doubt, the Accumulated Profit Guarantee does not constitute any profit forecast of the Target Group under Rule 14.61 of the Listing Rules and should not be regarded in any way as an indication of the projected profit of the Target Group for the relevant financial years. While the Company has assessed the sales condition of the Target Group in determining whether the improvement in the financial performance of the Target Group can be sustained, the guaranteed profits of the Accumulated Profit Guarantee above are merely thresholds for calculating the Compensation Amount and are only commercial terms arrived at after arm's length commercial negotiation among the parties to the Sale and Purchase Agreement.

Assessment on the Compensation Capacity in the event of any Shortfall under the Accumulated Profit Guarantee

In order to support the Accumulated Profit Guarantee, the Guarantors, being 26 Ultimate Beneficial Owners have agreed to provide personal guarantee to the Purchaser in connection with the Accumulated Profit Guarantee under the Sale and Purchase Agreement as guarantors.

According to the representation of the Vendor, each of the Guarantors, who is willing to provide such personal guarantee, holds certain assets available for sale and can be disposed of at any time for the purpose of satisfying the Compensation Amount. The Company reviewed the identification details, financial status and proof of the assets available for sale which included real estate properties, tradable stocks and vehicles of each of the Guarantors to assess their capabilities to perform their obligations under the Sale and Purchase Agreement (the "**Financial Proof**"). The Company also took into account the value of such assets and whether they are pledged. In particular, the Company reviewed a list of properties (the "**Properties**") (together with their respective property certificates) owned by six Guarantors and conducted research on the market price of the Properties through public domain. According to the property certificates provided and confirmation from the PRC legal advisers, (a) such Guarantors own the legal title of their respective Properties; and (b) the Properties are not pledged or the pledged Properties have been discharged and released as at the date of Sale and Purchase Agreement. In addition, according to the market research conducted, as at the Latest Practicable Date, the total value of the Properties was approximately RMB129.2 million (equivalent to approximately HK$142.2 million) which exceeds the maximum Compensation Amount of HK$42.1 million to be settled by cash under the Sale and Purchase Agreement.

The Company has been closely communicating with the Vendor to understand the latest financial status of the Guarantors since the date of the Sale and Purchase Agreement. The Guarantors have to provide their Financial Proof periodically as per the Company's request for every three months from the Completion Date up to the date of the Accumulated Guarantee Certificate, and confirm those assets stated in such Financial Proof are not under pledge during the same period. The Company has reviewed the updated Financial Proof provided by the Guarantors in December 2023, which indicates that the total value of the assets held by the Guarantors exceeded the maximum Compensation Amount. In addition, half of the Guarantors are the core team and/or management personnel of the Target Group, which will be under close supervision of the Company upon Completion. Since then, the Company, as the actual controller of the Target Group, will be able to review the work performance of those Guarantors and access their income source (i.e. their remuneration received from the Target Group) to better monitor their financial status. As confirmed by the Vendor, there is no change in the financial status of the Guarantors as at the Latest Practicable Date.

Based on the information provided by the Vendor and due diligence review conducted by the Company, the Board is satisfied that the Vendor and the Guarantors are capable of performing their guarantee obligations under the Sale and Purchase Agreement. Therefore, the Board accepted the Vendor's offer of the Accumulated Profit Guarantee as a safeguard for the transaction. Suppose the Vendor and the Guarantors cannot fulfil the guarantee obligation, in that case, the Purchaser shall take appropriate legal action to safeguard its interests.

Completion Adjustment

The Vendor and each of the Guarantors represent and warrant that as at the date of the Sale and Purchase Agreement and at Completion, there is and will be nil amount due to the Vendor or the Ultimate Beneficial Owners by the Target Group. In the event that there is any amount due to the Vendor or the Ultimate Beneficial Owners by the Target Group at Completion, the Vendor shall and shall procure to transfer the right to such debts (the "**Sale Loan**") to the Purchaser and sign and procure to sign the relevant documents in relation to the Sale Loan transfer at Completion. In such case, the consideration of the Acquisition of HK$42.0 million will comprise (i) the consideration for the transfer of the Sale Loan (the "**Sale Loan Consideration**") which shall be equivalent to the face value of the Sale Loan; and (ii) the consideration for the transfer of the Sale Share shall be the remaining balance of the consideration after deducting the Sale Loan Consideration.

At Completion, if the registered capital of any company of the Target Group has yet been paid up on the part of the Target Group, the consideration of the Acquisition shall be adjusted downward. The adjustment amount shall be equivalent to the amount of registered capital that has yet been paid up on the part of the Target Group. In such case, the adjusted consideration of the Acquisition shall be settled whereby 25% of the consideration shall be settled by allotting and issuing the Consideration Shares by the Company and the remaining 75% of the consideration shall be settled by issuing the Convertible Bond by the Company. As at the Latest Practicable Date, the registered capital of the members of the Target Group has been fully paid up.

Conditions Precedent to the Acquisition

The Completion is conditional upon fulfillment of the following conditions precedent:

(i) the PRC legal opinion (in form and substance satisfactory to the Purchaser) to be issued by the PRC legal advisers designated by the Purchaser or the Company in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained;

(ii) the passing by the Shareholders at the EGM to be convened and held of resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bond;

(iii) the Hong Kong Stock Exchange having approved the issue of the Convertible Bond (if applicable) and having granted the listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(iv) the warranties given by the Vendor and the Guarantors not having been breached in any material respect and such warranties remaining true, accurate and not misleading in all material respects;

(v) the Purchaser having been satisfied with the results of the due diligence review on assets, liabilities and operations of the Target Group (including but not limited to legal, financial and commercial aspects);

(vi) the Company having obtained the relevant approval(s), consent(s), waiver(s) and permit(s) (the "**Approval**") from the relevant regulators in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder and such Approval having remained valid and not having been revoked; and

(vii) the listing status of the Company on the Hong Kong Stock Exchange not having been revoked and the Company not having received any written notice from the Hong Kong Stock Exchange or SFC in connection with the revocation of its listing status.

No conditions can be waived. If the Purchaser has issued a notice notifying it is not satisfied with the results of the due diligence review, or any conditions precedent has not been satisfied at or before 5:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall cease and determine. Neither party shall have any obligations and liabilities towards each other under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, none of the above conditions precedent had been satisfied.

Completion

Completion shall take place on the fifth (5th) Business Day after the fulfillment of the conditions precedent (save for conditions (iv), (vi) and (vii) as stated in the paragraph headed "Conditions precedent to the Sale and Purchase Agreement" under the section headed "The Sales and Purchase Agreement" above, which shall have remained in full force and effect upon Completion) of the Acquisition (or such other date as the Purchaser may agree).

III. THE CONVERTIBLE BOND

The principal terms of the Convertible Bond are summarised below:

Issuer	:	the Company.
Principal amount of the Convertible Bond	:	HK$31.5 million
Conversion Price	:	HK$0.2628 per Conversion Share, subject to adjustments as set out below
Adjustment to the Conversion Price	:	The Conversion Price shall from time to time be adjusted in accordance with the following upon occurrence of an event giving rise to any such adjustment: (i) if and whenever the Shares by reason of any consolidation or sub-division or re-classification or otherwise become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective;

(ii) if and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the day next following the record date for such issue;

(iii) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be reduced by multiplying it by the following fraction:

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

where:

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

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by any approved merchant bank or a firm of professional accountants of the portion of the capital distribution or of such rights which is attributable to one Share, provided that:

(aa) if, in the opinion of any approved merchant bank or a firm of professional accountants, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and

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

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

(iv) if and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 70%. of the market price at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants (such adjustment to become effective (if appropriate, retroactively) from the commencement of the day next following the record date for the offer or grant). Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the bondholder (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if it had exercised the conversion rights under the Convertible Bond registered in its name in full on the day immediately preceding the record date for such offer or grant.

(v) (aa) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration (as defined below) per Share initially receivable for such securities is less than 70% of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total effective consideration receivable for the securities issued would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate, retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange price or subscription price.

(bb) if and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (v) are modified so that the total effective consideration per Share initially receivable for such securities shall be less than 70% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange price or subscription price. Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

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

(vi) if and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 70%. of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.

The Board considers that each of the above adjustment events is fair and reasonable as:

(i) the adjustment events cover various circumstances currently unforeseen, which are corporate actions that would have an effect on the position of the holder of the Convertible Bond as a class compared with the position of the holders of all the Shares, and provides a mechanism to ensure there is no unfair treatment to the holder of the Convertible Bond;

(ii) the adjustment events (iv), (v), (vi) serve to account for the dilution effect of issue of any Shares by way of rights issue, issue of securities wholly for cash, alteration of conversion or exchange price of convertible or exchangeable securities at a price less than 70% of the market price of the Shares, this protects the interests of the holder of the Convertible Bond and so that the equity financing activity in the future would not lead to material dilution to the stake of the holder of the Convertible Bond;

(iii) where an occurrence of an adjustment event may result in an increase or reduction of the Conversion Price, such adjustment shall only be made if determined by an approved merchant bank or a firm of professional accountants, and such third party will balance the interests of the Shareholders and the holder of the Convertible Bond;

(iv) each of the adjustment events does not confer any additional benefit or provide any additional favourable term to the holder of the Convertible Bond which are not available under the existing terms of the Convertible Bond; and

(v) each of the adjustment events is a market norm.

Conversion Shares fall to be issued upon full exercise of the conversion rights attaching to the Convertible Bond	:	119,863,013 Shares, which represent approximately 18.75% of the issued share capital of the Company as at the Latest Practicable Date and approximately 15.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon full exercise of the conversion rights attaching to the Convertible Bond.

		No fractional Conversion Shares will be allotted and issued on the conversion of the Convertible Bond and the amount representing such fraction will be retained by the Company and no payment will be made to the holders of the Convertible Bond in respect of such fraction.
Interest rate	:	Nil.
Maturity Date	:	The date falling on the second anniversary of the Conversion Commencement Date. Unless previously redeemed or converted or purchased and cancelled as provided in the instrument of the Convertible Bond, any Convertible Bond remaining outstanding after 4:00 p.m. on the Maturity Date shall automatically be converted into Conversion Shares at the then prevailing Conversion Price.
Redemption price	:	During the Conversion Period, the Company shall be entitled to redeem any outstanding principal amount of the Convertible Bond at 100% of such principal amount in the integral multiple of HK$5,000,000.
Early redemption/ repurchase	:	Upon receipt of the Accumulated Guarantee Certificate where the Accumulated Actual Profit is shown to be less than the Accumulated Profit Guarantee, the Company may at its option pursuant to the terms of the Sale and Purchase Agreement, within 10 Business Days from the date of the Accumulated Guarantee Certificate, early redeem or repurchase at a nominal consideration of HK$1.00 the Convertible Bond in such principal amount as is equivalent to the Compensation Amount up to HK$31.5 million.

Transferability	: The holders of the Convertible Bond shall not at any time prior to the commencement of the Conversion Period directly or indirectly offer for sale, sell, transfer, contract to sell or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, results in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Convertible Bond. During the Conversion Period, the holders of the Convertible Bond may assign or transfer the Convertible Bond to any transferee. The Convertible Bond may be assigned or transferred in whole or in part (in whole multiples of HK$5,000,000) of its outstanding principal amount. No transfer shall be made to any connected persons (as defined in the Listing Rules) of the Group or parties acting in concert (as defined in Takeovers Code) unless compliance of the Listing Rules and the Takeovers Code has been met (by the transferor, the transferee and the Group).
Conversion period	: The period commencing from the Conversion Commencement Date to the Maturity Date. The Convertible Bond is not convertible during the Lock-up Period. After the expiration of the Lock-up Period, the holders of the Convertible Bond shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bond into Conversion Shares in amounts of not less than a whole multiple of HK$5,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bond is less than HK$5,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bond may be converted.

Conversion restrictions	:	The conversion rights under the Convertible Bond shall only be exercisable so long as (i) each of the holders of the Convertible Bond and its respective parties acting in concert (as defined in the Takeovers Code) will not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the holders of the Convertible Bond and its parties acting in concert; and (ii) the holders of the Convertible Bond and its associates (as defined in the Listing Rules) will not render Shares held in public hands being less than the minimum public float of the Shares required under the Listing Rules.
Voting	:	The holders of the Convertible Bond will not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Bond.
Listing	:	No application will be made for the listing of the Convertible Bond on the Hong Kong Stock Exchange or any other stock exchange. An application will be made by the Company to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued as a result of the exercise of the conversion rights attaching to the Convertible Bond.
Ranking	:	The Conversion Shares to be allotted and issued as a result of the exercise of the conversion rights attaching to the Convertible Bond will in all respects rank pari passu with the Shares in issue on the relevant conversion date (the "**Conversion Date**") as if the Conversion Shares issued had been issued on such date and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the relevant Conversion Date. A holder of Conversion Shares shall not be entitled to any rights the record date for which precedes the relevant Conversion Date.

IV. ARRANGEMENT DURING THE LOCK-UP PERIOD

On the Completion Date, the Consideration Shares will be registered under the name of the Vendor and the Convertible Bond will be issued to the Vendor. However, the share certificate(s) of Consideration Shares (the "**Consideration Shares Certificate**") and certificate(s) of the Convertible Bonds (the "**Convertible Bond Certificate**") will be escrowed by an independent law firm (the "**Escrow Agent**") engaged by the Purchaser and the Vendor during the Lock-up Period.

If the Accumulated Profit Guarantee is satisfied, the Purchaser shall inform the Escrow Agent in writing within five (5) Business Days after the issuance of the Accumulated Guarantee Certificate to facilitate the release of the Consideration Shares Certificate and the Convertible Bond Certificate by the Escrow Agent to the Vendor.

If the Accumulated Profit Guarantee is not satisfied:

(i) in the event that the Board decides to receive the Compensation Amount by cash:

The Vendor shall pay the Purchaser in cash within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate. Within five (5) Business Days upon confirmation of cash receipt, the Purchaser shall issue a confirmation letter for the receipt of the Compensation Amount and instruct the Escrow Agent to release the Consideration Shares Certificate and the Convertible Bond Certificate to the Vendor;

(ii) in the event that the Board decides to receive the Compensation Amount by redeeming or repurchasing the Convertible Bond:

In accordance with the Sale and Purchase Agreement, in the case that the amount of the Accumulated Actual Profit is a loss or if it is expressed as a negative figure, the maximum Compensation Amount shall be HK$42.1 million. Under such circumstance, the Company may redeem or repurchase the Convertible Bond up to HK$31.5 million. For the remaining balance of the Compensation Amount (for illustrative purpose, up to HK$10.6 million), the Company shall request the Vendor to settle by cash. For the details of the formula of the Compensation Amount, please refer to the paragraph headed "II. The Sale and Purchase Agreement — Profit Guarantee and Adjustments to the Consideration of the Acquisition".

(a) when the Compensation Amount is fully covered by the redemption or repurchase of the Convertible Bond:

The Convertible Bond Certificate will be released to the Purchaser. The Company shall redeem or repurchase the Convertible Bond, whereupon the principal amount to be redeemed or repurchased shall be equivalent to the Compensation Amount, at HK$1 and issue a new Convertible Bond Certificate whereupon the principal amount to be HK$31.5 million deducting the Compensation Amount within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate. Within five (5) Business Days upon confirmation of the redemption or repurchase of the Convertible Bond, the Purchaser shall issue a confirmation letter for the receipt of the Compensation Amount and instruct the Escrow Agent to release the Consideration Shares Certificate to the Vendor; or

(b) *when the Compensation Amount cannot be fully covered by the redemption or repurchase of the Convertible Bond, the Vendor shall pay the Purchaser the remaining balance in cash:*

The Convertible Bond Certificate will be released to the Purchaser. The Company shall redeem or repurchase the Convertible Bond, whereupon the principal amount to be HK$31.5 million, at HK$1 within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate. For the remaining outstanding balance of the Compensation Amount, the Vendor shall pay the Vendor in cash within ten (10) Business Days after the issue of the Accumulated Guarantee Certificate. Within five (5) Business Days upon confirmation of the redemption or repurchase of the Convertible Bond and receipt of cash, the Purchase shall issue a confirmation letter for the receipt of the Compensation Amount and instruct the Escrow Agent to release the Consideration Shares Certificate to the Vendor.

The Consideration Shares Certificate and the Convertible Bond Certificate will be held by the Escrow Agent, the Vendor shall not offer, sell, transfer, contract for sale or otherwise disposed of the Consideration Shares and/or the Convertible Bond during the Lock-up Period, and the Convertible Bond could not be convertible during the Lock-up Period.

V. THE CONSIDERATION SHARES AND CONVERSION SHARES

The issue price of HK$0.2628 per Consideration Share and Conversion Share represents:

(i) a premium of approximately 1.08% to the average closing price of HK$0.2600 per Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including the date of the Memorandum;

(ii) a discount of approximately 23.83% to the closing price of the Shares of HK$0.3450 per Share as quoted on the Hong Kong Stock Exchange on the date of the Sale and Purchase Agreement;

(iii) a discount of approximately 24.70% to the average closing price of HK$0.3490 per Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including the date of the Sale and Purchase Agreement;

(iv) a discount of approximately 26.28% to the average closing price of approximately HK$0.3565 per Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including the date of the Sale and Purchase Agreement;

(v) a discount of approximately 57.61% to the closing price of the Shares of HK$0.6200 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 114.46% to the audited net asset value of HK$0.1177 per Share as at 31 March 2023 as disclosed in the annual report of the Company for the year ended 31 March 2023.

Based on the closing price of HK$0.3450 per Share as quoted on the Hong Kong Stock Exchange on the date of the Sale and Purchase Agreement, the total value of the Consideration Shares and the Conversion Shares was approximately HK$13.78 million and HK$41.35 million, respectively.

The Consideration Shares comprising 39,954,338 Shares, represent (i) approximately 6.25% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 5.88% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and (iii) approximately 5.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon full exercise of the conversion rights attaching to the Convertible Bond.

During the Lock-up Period, the Consideration Shares shall not be offered, sold, transferred, contracted for sale or otherwise disposed of. For the avoidance of doubt, there will be no restriction on the subsequent sale of the Consideration Shares after the Lock-up Period.

The allotment and issue of the Consideration Shares and/or the Conversion Shares will not result in a change in control of the Company. All necessary arrangements will be made for the Consideration Shares and the Conversion Shares to be admitted into Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

The Board's view on the issue price of the Consideration Share and Conversion Share

The consideration for the Acquisition has been determined after arm's length negotiations among the parties to the Sale and Purchase Agreement. The issue price of HK$0.2628 per Consideration Share and Conversion Share (the "**Issue Price**") was determined at the time of entering into the Memorandum. The parties to the Sale and Purchase Agreement have mainly considered the average trading price of the Shares across different timeframes over the past year when deciding the Issue Price. In determining the fairness and reasonableness of the Issue Price, the Board considered that it is appropriate to reference the trading price of the Shares for a relatively substantive period of time in order to normalise the short-term material fluctuations in the trading price of the Shares in the past year prior to the date of the Memorandum, given the highest and lowest closing price of the Shares were HK$0.33 and HK$0.106, respectively throughout the year. As such, the Board picked the period covering the last 30 and 50 consecutive trading days, including the date of Memorandum for reference. The Issue Price represents a premium of approximately 1.08% to the average closing price of HK$0.2600 per Share for the last five consecutive trading days up to and including the date of the Memorandum as quoted on the Stock Exchange. The Board also notes that the Issue Price also represents (i) a premium of 15.63% to the average closing price of HK$0.22172 per Share for the last 50 consecutive trading days and (ii) a premium of 2.92% to the average closing price of HK$0.2551 per Share for the last 30 consecutive trading days, as quoted on the Hong Kong Stock Exchange, up to and including the date of the Memorandum.

The parties to the Sale and Purchase Agreement determined the consideration for the Acquisition and the Issue Price remained the same at HK$42 million and HK$0.2628 per Share, respectively, on the date of the Sale and Purchase Agreement, after taking into account the factors stated under the paragraph headed "II. Sale and Purchase Agreement — Consideration — Basis of Consideration". The share price of the Company was driven up after the Company announced the Acquisition and the Sale and Purchase Agreement, which led to such Issue Price represents a discount of approximately 23.83% to the closing price of the Shares of HK$0.3450 per Share as quoted on the Hong Kong Stock Exchange on the date of the Sale and Purchase Agreement.

When assessing the fairness and reasonableness of the Issue Price, the Company has considered the factors stated above, in particular, the Accumulated Profit Guarantee and the accompanying lock-up arrangement in respect of the Consideration Shares and the Convertible Bonds the Vendor has given under the Sale and Purchase Agreement. The Lock-up Period commences from the Completion Date and ends on the Conversion Commencement Date, which was about 18 months, assuming the Acquisition could be completed within two months after signing the Sale and Purchase Agreement. The lock-up arrangement would expose the Vendor to the risk of a price drop after the expiration of the Lock-up Period. The Company also understands that discounts may be applied to prices quoted in an active market (such as stock exchanges) if there is some contractual, governmental, or other legally enforceable restriction attributable to the security, not the holder, resulting in diminished liquidity of the instrument that would impact the price. Nonetheless, the Company also notes that the Issue Price still represents a premium of approximately 114.46% to the audited net asset value of HK$0.1177 per Share as at 31 March 2023. Based on the foregoing, the Board is of the view that the Issue Price determined on the date of the Memorandum and the Sale and Purchase Agreement is fair and reasonable.

VI. SPECIFIC MANDATE

The Directors will allot and issue the Consideration Shares and the Conversion Shares under the Specific Mandates.

VII. INFORMATION ON THE PARTIES

1. The Company

The Company is an investment holding company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1466). The Group is mainly engaged in purchasing, processing, designing, production and wholesale distribution of pearls and jewellery products and operation of strategic investment and financial services. The Group has from time to time been looking for opportunities to leverage its management expertise to expand its existing business to further uncover the potential market of its ultimate female consumers.

2. The Purchaser

The Purchaser is a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company. The Purchaser is an investment holding company of the Group.

3. The Vendor

The Vendor is a company incorporated in Hong Kong with limited liability. The Vendor is the sole shareholder of the Target Company. The Target Company is a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. The Target Company is the sole beneficial owner of the entire issued share capital of Baijin Hong Kong, which in turn is interested in the entire registered and paid up capital of Beijing Baijin. Details of the business operation of the Target Group is set out under the paragraph headed ''VIII. Information on the Target Group'' below.

4. The Vendor's Guarantors

Pursuant to the Sale and Purchase Agreement, 26 Ultimate Beneficial Owners, being Dr. Su Yaoyao, Ms. Pan Yidan, Mr. Shang Xiaonan, Mr. Xu Xiaping, Ms. Hu Dongbing, Ms. Zhang Meng, Mr. Ding Tianjiao, Mr. Li Song, Dr. Li Yijia, Ms. Yu Wenying, Ms. Chen Jia, Ms. Zhang Ying, Ms. Xie Chunchen, Mr. Yin Guoliang, Mr. Sun Jingrui, Mr. Shi Lei, Ms. Lei Qiuju, Mr. Liang Ziyan, Mr. Wang Yubao, Mr. Yao Zhiquan, Mr. Jiang Tao, Ms. Chen Yu, Mr. Cao Lei, Mr. Song Hongqiang, Mr. Shen Jie and Mr. Zhang Wenjin, were joined as parties to the Sale and Purchase Agreement to guarantee to the Purchaser the performance of obligations under the Sale and Purchase Agreement, including the achievement of the Accumulated Profit Guarantee as shown in the audited consolidated accounts of the Target Company for the two years ending 31 December 2024 prepared in accordance with HKFRS.

VIII. INFORMATION ON THE TARGET GROUP

1. The Target Company

The Target Company was incorporated in the British Virgin Islands with limited liability on 29 November 2022, which is an investment holding company. The Target Group is an integrated R&D service provider, a skincare solutions provider operating under the trade name ''Fantastic Zero'' (''**FO**'') and a brand marketing and consulting services provider. The Target Group operates a comprehensive biotechnology laboratory (the ''**Laboratory**'') in Hangzhou, the PRC, to provide R&D services to third parties and for internal application. Leveraging its R&D capabilities, the Target Group also distributes bioactive ingredients-based skincare products and provides other skincare solutions. The history of the Target Group can be traced back to 2018 when Hangzhou Qingda Kerui Biological Technology was incorporated for the studies in cells and tissues. In early 2019, the Target Group established the Laboratory in Hangzhou, the PRC, to provide scientific R&D-related services. The Target Group then launched skincare products with bioactive ingredients under the brand of FO (the "**FO Brand**") in late 2019.

With its product knowhow and market experience in the skincare solutions industry, in 2022, the Target Group expanded its business scope to provide skincare solutions related marketing and consulting services to product distributors, retailers, beauty salons and clinics. For beauty salons which prefer operating under the FO Brand, the Target Group further offers brand authorisation services which allow these beauty salons to benefit from the publicity of the FO Brand.

As at the Latest Practicable Date, the Target Company is directly wholly-owned by the Vendor and ultimately controlled by the Ultimate Beneficial Owners.

2. Financial Information of the Target Company

Set out below is a summary of certain key audited financial information of the Target Group for the two years ended 31 December 2022 and the nine months ended 30 September 2023, prepared in accordance with HKFRS:

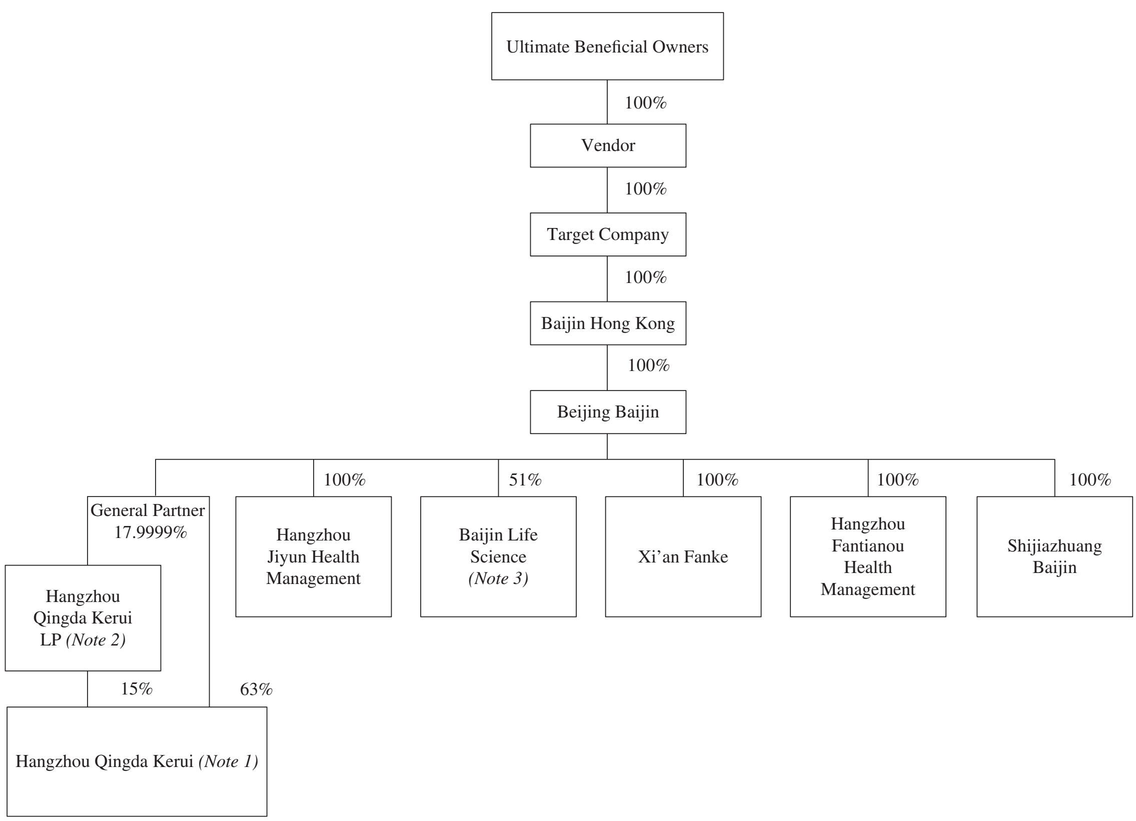
	For the years ended 31 December		**For the nine months ended 30 September**
	2021	**2022**	**2023**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Revenue	12,869	21,590	19,474
Profit/(loss) before income tax	(5,921)	2,405	3,717
Profit/(loss) for the period/year	(5,681)	2,256	3,375

The total assets and net assets of the Target Group were approximately HK$43.1 million and HK$24.4 million as at 31 December 2022, and approximately HK$43.3 million and HK$30.8 million as at 30 September 2023, respectively. The Target Group recorded revenue of approximately HK$12.9 million, HK$21.6 million and HK$19.5 million for the two years ended 31 December 2022 and the nine months ended 30 September 2023, respectively. Attributed to the pandemic's impact, in particular, the beauty salon services industry, as well as the R&D development and operation expansion investment in the early stage of the Target Group's business, the Target Group recorded a net loss of approximately HK$5.7 million for the year ended 31 December 2021. The business performance of the Target Group subsequently recovered in 2022, and the Target Group recorded a profit of approximately HK$2.3 million and HK$3.4 million for the year ended 31 December 2022 and the nine months ended 30 September 2023, respectively. For further details, please refer to the section headed "Management Discussion and Analysis of the Target Group" in Appendix III to this circular.

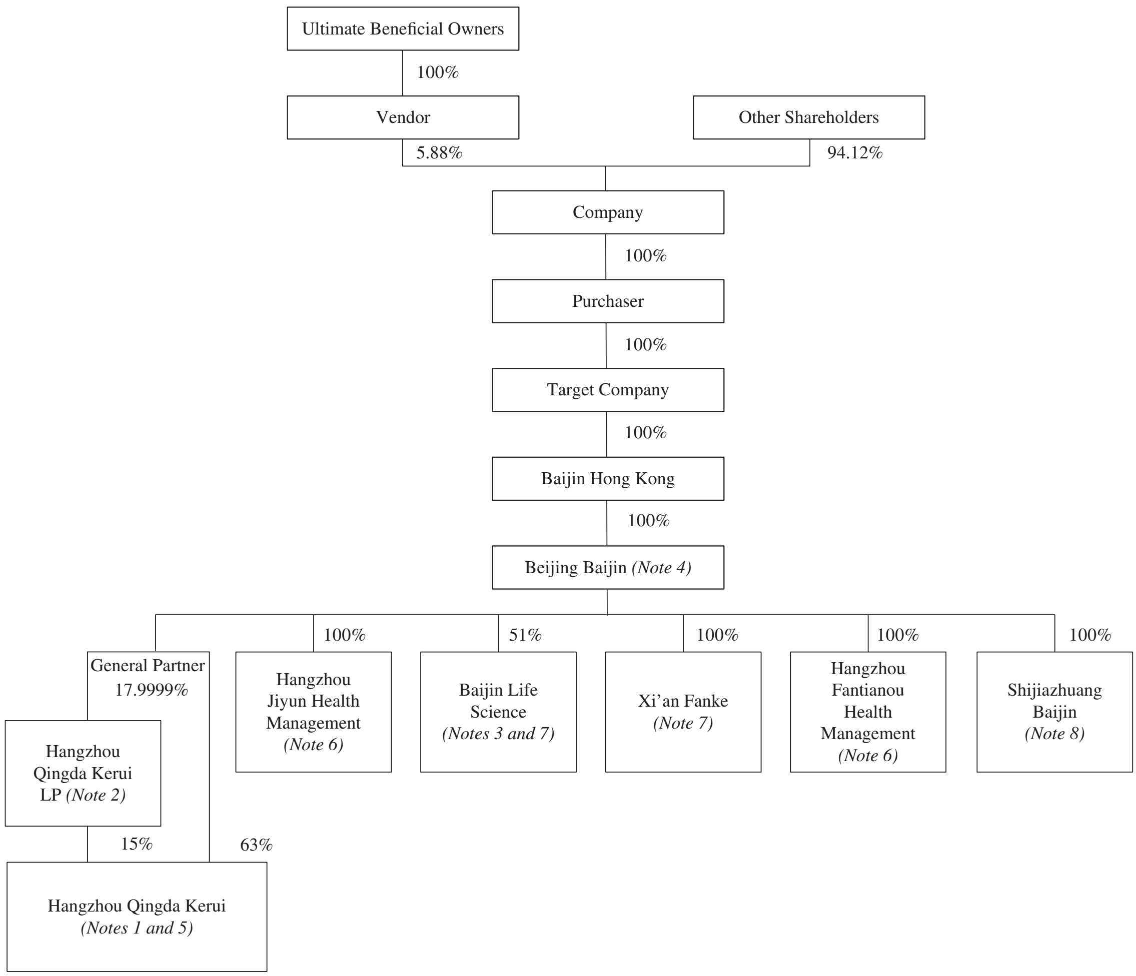
3. Target Group Structure

The Target Group gradually expanded its group structure by establishing subsidiaries for various business developments within the PRC in the past years. For the purposes of the Acquisition, the Target Group completed the series of reorganisation steps in April 2023, where all of the Ultimate Beneficial Owners have been shareholders of the Target Group prior to the reorganisation. The Target Company became the holding company of the Target Group and the shareholding interests of the Ultimate Beneficial Owners were reflected in the holding company of the Target Company. The Ultimate Beneficial Owners are acting in concert in terms of exercise of their rights. The Target Company is the sole beneficial owner of the entire issued share capital of Baijin Hong Kong, which in turn is interested in the entire registered and paid up capital of Beijing Baijin. Set forth below is the shareholding structure of the Target Group before and after Completion.

(a) Shareholding Structure of the Target Group as at the Latest Practicable Date and Immediately Prior to Completion



(b) Shareholding Structure of the Target Group Immediately after Completion (Assuming no Shares are Issued Pursuant to the Conversion of the Convertible Bonds)



Notes:

1. Hangzhou Qingda Kerui is owned as to 63% by Beijing Baijin, 15% by Hangzhou Qingda Kerui LP, 13.5% by Li Yijia (李一佳) and the remaining 8.5% is directly and indirectly held by Hangzhou Shuimu Fenghua Venture Capital Partnership (Limited Partnership) * (杭州水木豐華創業投資合夥企業(有限合夥)) and its subsidiary, namely Zhejiang Yangtze River Delta Biomedical Technology Management Co., Ltd.* (浙江長三角生物醫藥科技管理有限公司). All of the abovementioned parties and their ultimate beneficial owners are Independent Third Parties as at the Latest Practicable Date.

2. The general partner of Hangzhou Qingda Kerui LP is Beijing Baijin, which holds a 17.9999% interest. The limited partners of Hangzhou Qingda Kerui LP are Zhejiang Hailan Investment Management Co., Ltd* (杭州海藍投資管理有限公司), holding 20% interest; Wang Cheng (王成), holding 20% interest; Yu Wenying (余文嬴), holding 16.6667% interest; Chen Jia (陳加), holding 6.6667% interest; and four individuals, collectively holding 18.6667% interest and none of them holds more than 10%. All of the abovementioned parties and their ultimate beneficial owners are Independent Third Parties as at the Latest Practicable Date.

3. Baijin Life Science is owned as to 51% by Beijing Baijin and as to 49% by Hangzhou Fantianou Enterprise Management Partnership (Limited Partnership)* (杭州梵天歐企業管理合夥企業(有限合夥)), with Li Song (李松) acts as its general partner, holding 36.7347% interest, and 17 limited partners, collectively holding 63.2653% interest and none of them holds more than 20%. All of the abovementioned parties and their ultimate beneficial owners are Independent Third Parties as at the Latest Practicable Date.

4. Beijing Baijin is the intermediate holding company of the other subsidiaries of the Target Company in the PRC and is the main operation entity on third-party e-commerce channels, such as JD.com and Tmall.

5. Hangzhou Qingda Kerui is the subsidiary responsible for all R&D Services and the sales of raw material for Skincare Solutions Business.

6. For Brand Marketing and Consulting Services, Hangzhou Fantianou Health Management is responsible for brand authorisation services and certain part of the consulting services; whereas Hangzhou Jiyun Health Management also undertakes certain part of the consulting services and conduct road shows and seminars to expand the Brand Marketing and Consulting Services of the Target Group.

7. Baijin Life Science and Xi'an Fanke are responsible for the online and offline sales of skincare products, where Xi'an Fanke mainly focuses on Western China and Northern China and Baijin Life Science operates also the Baijin Cloud Platform.

8. Shijiazhuang Baijin handles the logistics and storage of the Target Group.

After Completion, the Target Group shall be treated as subsidiaries of the Group and their results will be consolidated into the consolidated financial statements of the Group.

4. Business Overview

The Target Group principally engages in the (i) provision of scientific R&D services, small animal breeding services and scientific research consulting services (the "**R&D Services**"); (ii) sales of functional skincare products and raw materials (the "**Skincare Solutions Business**"); and (iii) provision of brand marketing and consulting services (the "**Brand Marketing and Consulting Services**").

For R&D Services, the Target Group mainly provides (i) scientific research services in the field of biomedical studies and product testing; (ii) small animal breeding services for animal testing experiments; and (iii) scientific research consulting services through the extraction of cells and genes. Customers of R&D Services mainly include hospitals, universities, scientific research institutions and pharmaceutical companies.

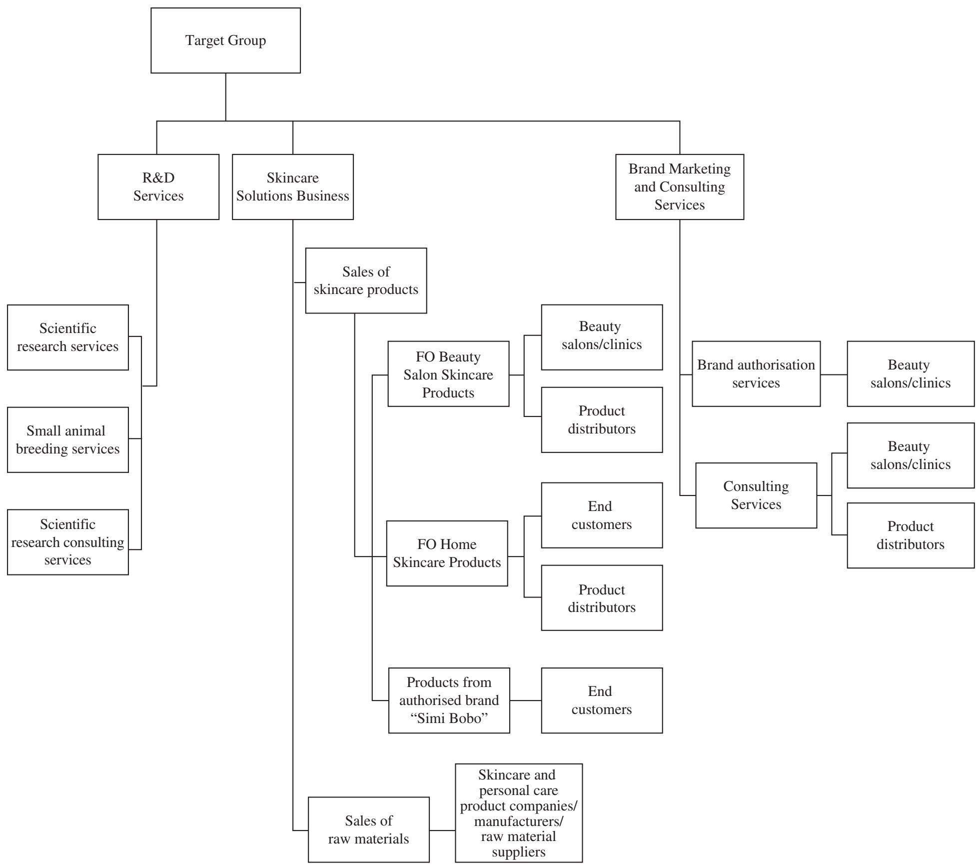
For Skincare Solutions Business, the Target Group mainly engages in (i) design, development and sales of skincare products under the FO Brand and other personal care products; and (ii) design, development and sales of raw materials such as processed animal umbilical cord extracts for the manufacturing of skincare and personal care products. Customers of Skincare Solutions Business mainly include beauty salons and clinics, skincare products distributors or other distributors in the related industry, other skincare and personal care companies, and product end-users.

For Brand Marketing and Consulting Services, the Target Group builds on its knowhow on skincare products, experience in building the FO Brand and knowledge on beauty salon operations, and expands its business to provide consulting services which cover product training and facial treatment training to business operation improvement, customer generation and online marketing, and further to customer relationship management and event planning, as well as brand authorisation services which allows beauty salons and clinics to operate under the FO Brand and help such beauty salons and clinics to form a more professional image and increase their recognisability for customers.

The three business segments of the Target Group are inter-related and synergetic to one another. The R&D Services and Skincare Solutions Business segments create synergetic benefits resulting from the application of in-house processed bioactive ingredients and the utilisation of R&D findings in the creation of effective formulae for skincare products under the FO Brand. Leveraging on the R&D capabilities, the Target Group can utilise advanced technology in applying bioactive ingredients to its skincare products and develop multifunctional skincare products which accommodate market needs based on customers' preferences. Bioactive ingredients were proven with specific functions such as skin repair, anti-aging, whitening, moisturising and immunity improvement.

The Skincare Solutions Business and Brand Marketing and Consulting Services segments also create synergetic benefits from the dual circulation model where end users of skincare products under the FO Brand will visit beauty salons and clinics which provide facial services with skincare products under the FO Brand and vice versa, and where the enhancement of the brand image of the FO Brand will attract more customers for consulting and brand authorisation services and vice versa. Further with the strong brand image of the FO Brand as an expert in bioactive ingredient application in skincare products, it will bring along more business opportunities for customers to engage the Target Group for related R&D Services.

The following chart demonstrates the business segments of the Target Group as at the Latest Practicable Date:



5. R&D Services

Foreseeing the potential in the business of third-party scientific research services and the emerging market needs of functional skincare products, Dr. Su Yaoyao (蘇耀耀) ("**Dr. Su**") and Dr. Li Yijia (李一佳) ("**Dr. Li**"), who have previously been involved in the studies of extraction and application of human umbilical cord-derived mesenchymal stem/stromal cells, believed that they could apply their knowledge and experiences in providing scientific research services and developing highly effective functional skincare products with bioactive ingredients. Therefore, in early 2019, together with their acquaintance, they established the Laboratory to provide scientific research services to customers and gradually expanded its scope of business.

The Target Group currently provides (i) scientific research services, (ii) small animal breeding services and (iii) scientific research consulting services under its R&D Services. Its scientific research services mainly include pharmacodynamics experiments on small animal disease models, small animal imaging analysis, pharmacokinetic or toxicological experiments, preclinical drug safety evaluation, in vivo tracing of cellular drugs, cellular functional testing and molecular biology analysis. Compared with other large contract research organisations, the Target Group can provide a more flexible and targeted service system at a lower cost. By providing pre-experiment and other services, the trial and error costs of early-stage drug development companies can be reduced. The Target Group can also provide more personalised services, such as venue and instrument support and basic technical personnel support, which can significantly improve the efficiency of scientific researchers.

Since the Target Group established the Laboratory in 2019 to provide specific pathogen-free ("**SPF**") laboratory animals and platform support to carry out animal research, the Target Group has also provided small animal breeding services through such animal barrier facilities. With the support of the machinery and equipment in the Laboratory, the Target Group provides scientific research consulting services by extracting cells and genes from the human body to generate health analysis.

Over the years, the Target Group has accumulated extensive expertise and know-how in the biomedical and drug development field, particularly in cell and molecular biology. Its expertise and know-how, combined with advanced technologies applied during its R&D process, help ensure both the high-quality results and efficiency of the development process. The Target Group develops the formulae for the skincare products under the FO Brand, including the bioactive ingredients used in the production process, through the R&D capabilities and advanced technologies invested in the Laboratory.

The provision of R&D Services is project-based. The Target Group's capabilities to undertake additional R&D projects of different scales hinges on, among other things, its operating capacity, including the availability of machinery and manpower. R&D Services are project-based in nature and revenue is recognised over time, generally by stages in accordance with progress towards completion. Leveraging on the in-depth knowledge of and years of experience in the provision of scientific research services, the R&D Services segment is the backbone of the Target Group and generates a steady income for the operation of the Target Group. The scale of the R&D personnel and the scope of R&D Services provided by the Target Group is gradually expanding. With the improvement in advanced facilities, technical knowhow and proven track record, the Target Group becomes more sophisticated in the field of cell and molecular biology, and is then able to take up projects which require meticulous calculation and application of high technology, which also give a more considerable contract fee. The Target Group expects its R&D Services will benefit from the other business segments of the Target Group and will continue to undergo a steady growth in the years to come.

(a) R&D Capabilities

The R&D team collaborates closely with leading industry experts, providing invaluable guidance and significant insights into the research and development and product invention of the Target Group. The Target Group has developed a cohesive and vibrant corporate culture that inspires and encourages innovation, which the management of the Target Group believes will help attract, retain and motivate a dynamic R&D team capable of driving growth.

The R&D team comprised 15 experienced executives and scientists with know-how in biotechnology who graduated from well-known universities worldwide and were majoring in biology-related subjects, among which two members were equipped with doctor's degrees and six members were equipped with master's degrees.

In particular, Dr. Su, a co-founder and the chief executive officer of the Target Group, obtained a doctorate from Southeast University in public health and has over 12 years of experience in scientific research services, and is responsible for overall management of business operations and management of the R&D processes of the Target Group. The R&D team of the Target Group is led by the vice-directors of the team, Dr. Li and Ms. Hu Dongbing (胡冬冰) ("**Ms. Hu**") and the director of product department of the Target Group, Mr. Song Hongqiang (宋宏強) ("**Mr. Song**"). Dr. Li, obtained a doctorate in Biology from The University of Melbourne in neurobiology in 2013. He is a professional in R&D service and is familiar with market and industry insights. He has been engaged in scientific research services since his graduation. Ms. Hu, joined the Target Group in 2019 and obtained a master's degree in biochemistry and molecular biology from Zhejiang Sci-Tech University in 2017. She has over six years of experience in R&D services. Dr. Li and Ms. Hu are responsible for determining the directions and operations of the R&D Services of the Target Group. Mr. Song has been engaged in research and development of skincare products since 2000. He has extensive knowledge in the usage of ingredients for processing the skincare products and in the usage and management of the medical devices.

(b) R&D Facilities

The Laboratory

The exterior of the Laboratory

The Target Group leased a premise in Hangzhou, the PRC, with a total area of over 1,600 square meters for the Laboratory. The Laboratory carries out basic drug development and fundamental biomedical research, comprising cell, animal and molecular experiments.

The Target Group strives to obtain the full suite of quality laboratory machinery and equipment, and stringent animal testing protocols to conduct tests in as humanely as possible. Meanwhile, the Target Group continuously evaluates its actions and impact on the environment, monitoring the resources it consumes and the supply chains it works with.

The technical methods currently used in basic medical and biomedical research include cell, animal and molecular experiments. The site requirements for conducting molecular experiments are relatively low and can be carried out in an open working environment. Therefore, many scientific research departments in universities and hospitals have their own molecular laboratories. In contrast, cell experiments require sterile laboratories, and the success of any experiment depends on the ability to control and monitor all variables precisely. Therefore, the requirements for the site are relatively high and involve skilled operators. Due to the small space and incomplete equipment of laboratories in some universities and hospitals, some experiments and model data support may not be substantially completed. The Laboratory is equipped with machines and equipment with advanced technology and can, therefore, complete some experiments that are difficult to achieve in universities and hospitals. Not only do these devices provide greater precision, but they also provide results in less time, ensuring project progress and success. This provides the Target Group with a large market opportunity to provide third-party services to such scientific institutes.

In addition, animal experiments are indispensable in developing new drugs and basic research in biomedicine, and qualified laboratory animals are an important prerequisite for scientific research. Animal laboratories have strict environmental requirements and are often built only in a university or hospital. The Target Group seized the opportunity to establish an animal centre where animal experiments and cell experiments can be conducted and can effectively provide such services to research institutions on request. Establishing scientific and standardised laboratory animal barrier facilities provides SPF laboratory animals and platform support for carrying out animal research. The setting up of a specific pathogen-free facility for laboratory animals requires the laboratory to fulfil certain standards in terms of construction, management of regulations, personnel training and management, sterilisation and cleaning, and waste disposal. The Laboratory is the only laboratory with an SPF experimental animal qualification in Xiaoshan, Hangzhou, the PRC, which also creates a competitive edge against other market players in the area for the Target Group.

The corporate culture wall of the Laboratory

Technician performing sample testing

Technician conducting experiments on laboratory animals

The premise is owned by Zhejiang Yangtze River Delta Biomedical Technology Management Co., Ltd.* (浙江長三角生物醫藥科技管理有限公司), being the landlord and a shareholder of Hangzhou Qingda Kerui. The existing lease agreement at the rental fee of RMB241,484 per quarter will expire in April 2024, therefore, the Target Group has entered into a lease agreement for this premise of three years between 1 April 2024 and 31 March 2027 at a rental fee of RMB196,205.75 per quarter with a renewal clause stating that it can be renewed every three years with an adjusted rent according to the market price by giving prior written notice of not less than three months to the landlord. The management of the Target Group believed that with the support from the landlord, the risk of forced relocation or imposition of more stringent payment terms at renewal is low.

Machinery and Equipment

The Laboratory focuses the research on pharmacodynamics experiments on small animal disease models, pharmacokinetic/toxicological experiments, preclinical drug safety evaluation, in vivo tracing of cellular drugs, small animal imaging analysis, cellular functional testing and molecular biology analysis. Research projects carried out by the Target Group include ‘‘study on the method of promoting skin barrier regeneration using mesenchymal stem cell factors’’, ‘‘study on the freeze-drying process of mesenchymal stem cell culture medium’’, and ‘‘study on the efficacy evaluation of stem cell supernatant in treating psoriasis in mice’’. The carrying out of such experiments involves the operation of specific machinery and equipment by skilled scientists.

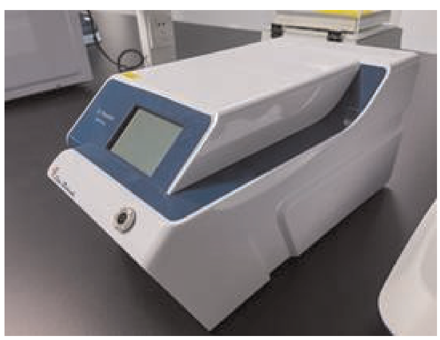
The following types of machinery and equipment are commonly used in the provision of third-party contract research:

Flow Cytometer

The flow cytometer is an instrument for automatic analysis and sorting of cells. It can rapidly measure, store and display a series of key biophysical and biochemical characteristic parameters of dispersed cells suspended in fluid. It can also sort out designated cell subpopulations based on preselected parameter ranges. In general, flow cytometers are zero-resolution instruments which are able to measure indicators such as the total nucleic acid and total protein of a cell.

Cell Counter

Cell counters are widely used in life science research and clinical diagnosis. It can be applied to evaluate the effect of potential treatments on cell proliferation and survival, as well as to conduct pharmacology, toxicology and other experiments. In the field of biopharmaceuticals, it can be applied to monitor and control the growth and metabolism of microorganisms in fermentation processes. In addition, cell counters can be applied in clinical diagnostic work including blood cell counting and cancer screening.



Cell Electroporator

The cell electroporator mainly uses electroporation to transfer DNA into competent cells, animal cells, plant cells and yeast cells. Compared to other methods, the instrument-based transfection method has the advantages of high repeatability, high efficiency, easy operation and being quantitatively controllable. In addition, electroporation has no genotoxicity, making it an essential fundamental technology of molecular biology.

In Vivo Imaging System for Small Animals

The in vivo imaging system for small animals adopts a breakthrough new generation of high-speed electron paramagnetic resonance (EPR) imaging technology to perform in vivo imaging of parameters such as free radicals and oxygen partial pressure in small animals. With the characteristics of high resolution, high sensitivity and high speed of image acquisition, it is applicable for monitoring indicators in organisms, including oxygen partial pressure, redox state, oxidative stress and pH, as well as reconstructing three-dimensional images.

Meanwhile, the Target Group is devoted to keep improving and expanding the diversity of its machinery and equipment to ensure the continuous provision of high quality and reliable R&D Services and expand the scale of operation by taking up research projects of wider range of research areas. For instance, the Target Group has purchased a multifunctional microplate reader which gives fluorescence and chemiluminescence measurements, and can be applied in DNA and protein multiparameter analysis, genotyping and pathogen identification and clinical diagnostics, and a blood culture instrument, which allows isolation, differentiation, and detection of pathogens in blood samples, and can be applied in the analysis of anaerobic and aerobic cultures and micro-aerophilic organisms.

(c) Technology Applied in the In-house Processed Bioactive Ingredients

The Target Group develops and processes bioactive ingredients and formulates the ingredient mix applied in skincare products under the FO Brand. The core active ingredient applied in the skincare products under the FO Brand is animal umbilical cord extracts. Animal umbilical cord extracts are in liquid form and are required to be stored at minus -80 degrees Celsius to maintain the activeness of the bioactive ingredients they contain. This creates an obstacle in the application and transportation of such extracts. Therefore, the preparation of animal umbilical cord extracts to be included in skincare products involves impurities removal, purification and freeze-drying to preserve the activeness of the bioactive ingredients inside the extracts while ready for further applications in products.

Freeze-drying involves freezing the product and reducing the surrounding pressure, which allows the frozen water within the material to sublimate, i.e. transitioning directly from a solid to a gas state, which is done in three phases, namely freezing the raw material, sublimation and desorption. Setting parameters to speed up the process can lead to the deterioration of the product's properties. Different sublimation temperatures affect water content and activity, therefore, the temperature during freeze-drying, especially sublimation temperature, and the free-drying time are the key factors affecting the vitality loss during the freeze-drying process due to compromised cell membrane integrity and permeability. At sub-zero temperature and vacuum state, moisture inside such extracts is sublimated to retain the activeness of the bioactive ingredients. The animal umbilical cord extracts will then be processed into powder form to manufacture skincare products or for other applications. Upon processing, the general shelf life for skincare products with such bioactive ingredients can then be extended to around two years.

Upon the processing of animal umbilical cords, the R&D process will involve the formulation of various skincare product ingredients. The product development process involves formulation research, animal skin disease models, efficacy research, customised product development research, and quality standard safety research.

The processing of the extracts to maintain the activeness of most bioactive molecules requires complicated research on genomics and proteomics databases, genetic engineering, and bioactive ingredient preservation. Through the R&D capabilities of the Laboratory, the Target Group develops multiple ingredients which can be applied to skincare products for skin health and complexion improvements. It supplies its in-house processed materials, such as processed animal umbilical cord extractions, internally for the skincare products under the FO Brand. The R&D capabilities of the Target Group differentiate it from other research institutes in the biomedical and drug development market. Such R&D capabilities in the cell and molecular biology area constitute the core competency and a key entry barrier for new market entrants. It also sells its in-house processed materials to other skincare and personal care companies and manufacturers to produce skincare products.

(d) Scope of Business

The R&D Services comprise the provision of (i) scientific research services; (ii) small animal breeding services; and (iii) scientific research consulting services. The detail scope of R&D Services provided by the Target Group is as follows:

(i) Scientific Research Services

The Target Group is equipped with the Laboratory with SPF experimental animal qualification and is therefore eligible to provide animal testing related research and experiments. The Target Group provides research services to third parties on pharmacodynamics experiments on small animal disease models, small animal imaging analysis, pharmacokinetic/toxicological experiments, preclinical drug safety evaluation, in vivo tracing of cellular drugs, small animal imaging analysis, cellular functional testing and molecular biology analysis.

The Laboratory is equipped with facilities for research and experiments in the area of cell function and molecular biology, therefore, the Target Group also provides research services to third parties on cell function evaluation which includes cell transfection, luciferase reporter gene, cell immunofluorescence, flow cytometry, cell proliferation/toxicity testing and cell movement function testing, and on molecular biology analysis which includes protein expression detection, gene expression detection, CRISPR-Cas9 mediated genome editing technology.

The Target Group also conducts R&D on bioactive ingredients for the application in skincare products and formulation of functional skincare products which preserves the effectiveness of bioactive ingredients.

(ii) Small Animal Breeding Services

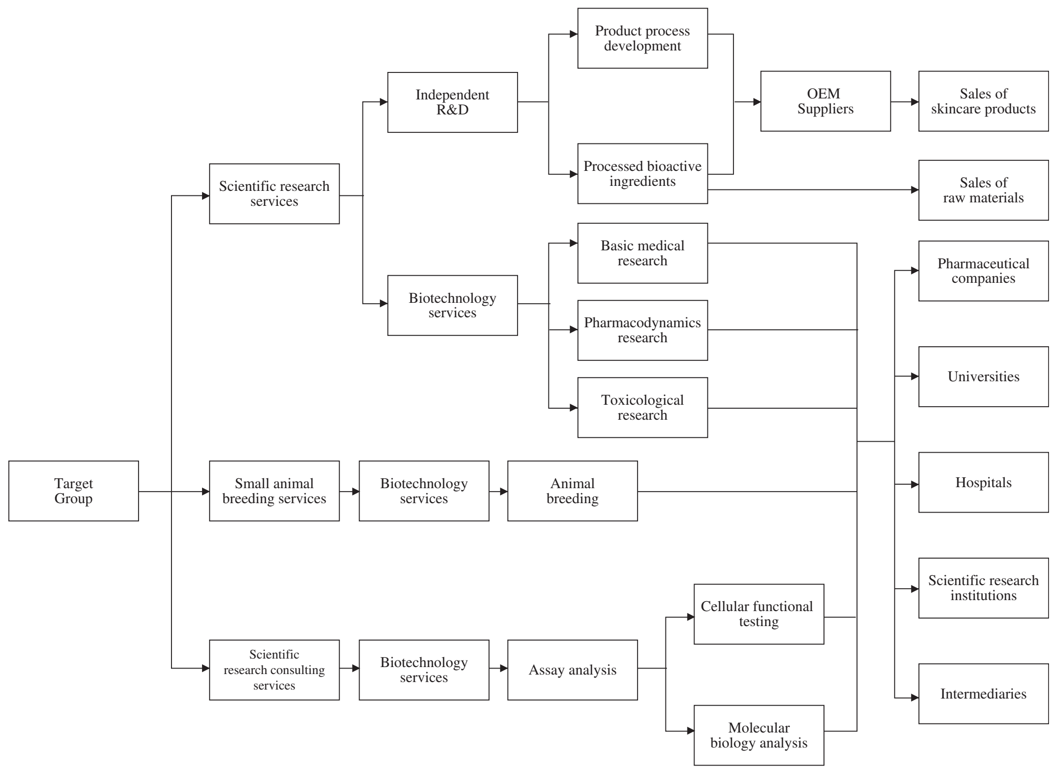
Since the Laboratory is equipped with animal barrier facilities which allow the breeding of specific pathogen-free (SPF) animals, which require highly specific feeding conditions, for the support of carrying out of animal research, the Target Group provides small animals breeding services, mainly on transgenic mice and immunodeficient mice.

(iii) Scientific Research Consulting Services

The Laboratory is equipped with facilities for the research and experiments in the area of cell function and molecular biology, and is competent in the provision of genetic testing and analysis and cell detection and analysis through the extraction of cell/genes from human body. The Target Group also provides scientific knowledge education activities services.

*(e) **Business Flow***

The business flow of the R&D Services is set out below:



*(f) **Customers***

The Target Group provides (i) scientific research services, (ii) small animal breeding services and (iii) scientific research consulting services to customers ranging from hospitals, universities, and other scientific research institutions to pharmaceutical companies, including Nanjing Gulou Hospital affiliated with Nanjing University, The No. 3 People Hospital of Hangzhou, Southeast University, Jiangnan University and Hangzhou Qihan Biotech Co., Ltd. As the research projects of biotechnology field are usually complex and involve complicated analysis, renowned hospitals, universities and pharmaceutical companies tend to select experienced service providers with successful track records. Such a diverse project portfolio enables the Target Group to cater to the varied requirements of different customers through well-honed R&D capabilities.

Based on the information provided by the management of the Target Group, there were 43, 39, 33 and 34 customers for R&D Services for the three years ended 31 December 2022 and the nine months ended 30 September 2023, respectively. For the three years ended 31 December 2022 and the nine months ended 30 September 2023, the five largest customers of R&D Services accounted for approximately 43.3%, 15.7%, 22.3% and 9.6% of the total revenue of the Target Group, respectively. Among which, the largest customer accounted for approximately 16.3%, 3.9%, 10.0% and 2.7% of the total revenue of the Target Group, respectively. As at the Latest Practicable Date, the Target Group had

14 on-going projects, from which the total contract sum expected to be recognised before the end of 2024 amounted to approximately RMB6.3 million (equivalent to approximately HK$6.9 million).

(g) Sales and Marketing

The sales and marketing team is led by Mr. Li Song (李松) ("**Mr. Li**"), who obtained a bachelor's degree in pharmaceutical engineering from Southeast University. Mr. Li joined the Target Group in 2019 and has over eight years of experience in research services. He is responsible for formulating the sales and marketing plans of the R&D Services. All sales and marketing team members are equipped with science-related backgrounds and are familiar with the scope of research of the Target Group.

The sales and marketing team is devoted to reaching out to more potential customers for R&D Services through pitching from various biomedical parks, participating in academic conferences and dermatology industry seminars, in order to expand the comprehensive network and promote the Target Group. For instance, the Target Group attended the 6th International Biomedical (Hangzhou) Innovation Summit held in Hangzhou, the 5th Biomedical Future Leaders Summit held in Wuhan, Zhangjiang Life Sciences International Innovation Summit and Bioproducts Processing Conference held in Shanghai, and have established connections with over 15 potential customers.

Some hospitals, universities and research institutes might engage intermediaries to procure scientific research and technical services on behalf of them. Therefore, the Target Group also provides its R&D Services through intermediaries, which source its R&D Services for their customers. The agreements the Target Group entered into with intermediaries are generally the same as those entered into with direct customers, except it will be specified in the agreements entered into with intermediaries the names and identities of the end-customer.

The Target Group believes that its successful track record demonstrates its ability to provide high-quality and reliable R&D services leading to referrals to new customers and recurring engagements from existing customers.

(h) Suppliers

The suppliers include the supply of raw materials, such as animals and chemicals, packages and equipment. The Target Group maintains a long-term and stable business relationship with various suppliers located in the PRC, which allows a stable supply of raw materials for the provision of the R&D Services. The year of relationship of the suppliers of R&D Services ranges from one to four years, and the Target Group had no material disputes with its suppliers. Suppliers are mainly sourced at various business occasions such as academic conferences or seminars. As at the Latest Practicable Date, there were in total 64 suppliers for R&D Services of the Target Group.

(i) Regulatory Requirements

The principal rules and regulations in the PRC relating to R&D Services applicable to the Target Group include:

- Regulation on the Administration of Laboratory Animals (《實驗動物管理條例》), which mainly stipulates that any units and individuals engaged in the research, conservation, breeding, supply, application, management and supervision of experimental animals should carry out experimental animal work in accordance with the regulation;

- Measures for the Administration of Licenses of Laboratory Animals (Trial) (《實驗動物許可證管理辦法(試行)》), which mainly stipulates that organisations and individuals who use experimental animals and related products for scientific research and experiments in the PRC shall obtain a License for the Use of Laboratory Animals to engage in the conservation breeding, and production of experimental animals and related products;

- Animal Epidemic Prevention Law of the PRC (《中華人民共和國動物防疫法》), which mainly provides guidelines on animal disease prevention and control, approval and quarantine inspection system for non-edible wile animals; and

- Measures for the Administration of Quality Management of Laboratory Animals (《實驗動物質量管理辦法》), which mainly stipulates the quality of experimental animals.

As advised by the PRC legal advisers, the Target Group has obtained the License for the Use of Laboratory Animals and completed the registration of the pathogen microbiology laboratory for the provision of small animal breeding services under the segment of R&D Services, according to the relevant rules and regulations mentioned above. As at the Latest Practicable Date, the Target Group had obtained all licenses necessary to conduct the operations in all material respects from the relevant government authorities in the PRC, and such licenses and credentials obtained remained valid.

(j) Intellectual Properties

The R&D capabilities of the Target Group contributed to the successful development and invention, which were subsequently registered as patents. As at the Latest Practicable Date, the Target Group had registered five patents in the PRC. Details of which are set forth below:

Type of Patent	Particular of the Patent	Registration Number	Relevant R&D Project
Invention patent (發明專利)	Composite gel for chronic wound treatment and evaluation and preparation method (用於慢性傷口治療和評估的複合凝膠及其製備方法)	ZL202011028862.7	The technology was developed in the project on the application studies of extracts from umbilical cord from pigs on skin recovery, and was applied to the development of eye masks under the FO Brand.
Utility model patent (實用新型專利)	An aerosol drug delivery device convenient for oral and nasal diseases (便於口鼻疾病的霧化給藥裝置)	ZL202020969241.8	The technology was developed in the project on evaluation study of chronic liver injury model and on asthma desensitisation evaluation in mice, and was applied to the general projects of animal testing and experiments involving mice.

Type of Patent	Particular of the Patent	Registration Number	Relevant R&D Project
Utility model patent (實用新型專利)	A mouse intravenous injection fixed stent (小鼠靜脈注射固定支架)	ZL202021042093.1	The technology was developed in the project on the evaluation of the efficacy of stem cells in treating fibrosis in mice, and was applied to the general projects of animal testing and experiments involving mice.
Utility model patent (實用新型專利)	A stem cell factor extraction device (幹細胞因數萃取裝置)	ZL202222288922.X	The technology was developed in the project on efficacy evaluation of stem cell supernatant in treating psoriasis in mice and the preparation and quality evaluation of muscle base essence based on cell extraction technology, and was applied to the formulation and development of essences under the FO Brand.
Software	Essence preparation process management software V1.0 based on cytokine extraction technology (基於細胞因數萃取技術製備的精華液製備工藝管理軟體V1.0)	2022SR0291409	

The Target Group pays great attention to the registration of patents and believes the invention of new technology is important for the sustainable growth of R&D Services. The Target Group is continuing to strengthen its R&D capabilities, and as at the Latest Practicable Date, the Target Group also has three applications for patents in the PRC. Details of which are set forth below:

Type of Patent	Particular of the Patent	Registration Number
Invention patent (發明專利)	Cell cryopreservation solution and preparation method and application (一種細胞凍存液及其製備方法與應用)	202010078096.9
Invention patent (發明專利)	A method to promote skin barrier regeneration by overexpressing lncRNA H19 in mesenchymal stem cells (一種間質幹細胞過度表現lncRNA H19促進皮膚屏障再生的方法)	202210136495.5
Invention patent (發明專利)	A freeze-drying process for mesenchymal stem cell culture fluid (一種間質幹細胞培養液凍乾工藝)	202210136504.0

(k) R&D Awards

The R&D achievements of the Target Group is recognised by various awards and accreditations:

Year	Awards/Recognitions	Awarding Institution/ Authority
2019	2019 Clean Innovation Best Innovation Award	Zhejiang Tsinghua Yangtze River Delta Research Institute
2021	Outstanding Member Award of the Medical Services Professional Committee	Shanghai Modern Service Industry Federation
2022	Qingda Kerui Cell Biology Popular Science Education Base	Zhejiang Provincial Science and Technology Association

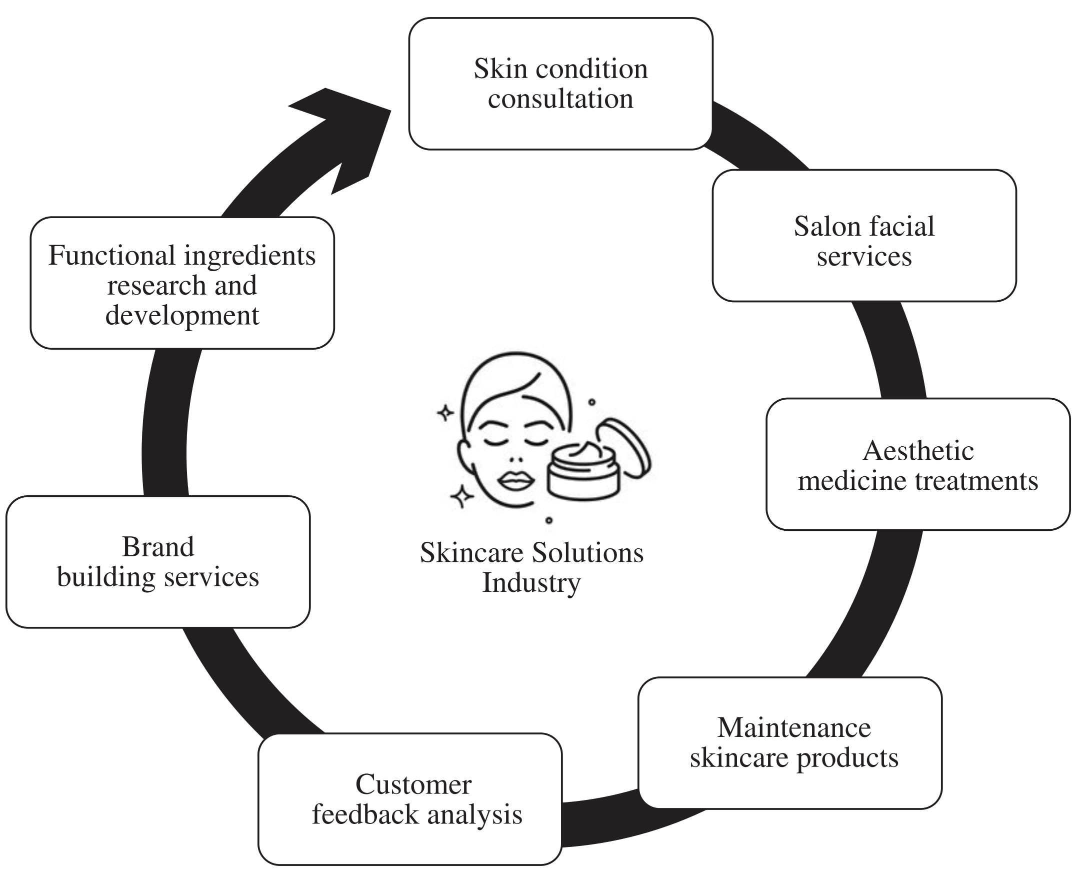
6. Skincare Solutions Business

Foreseeing the enormous potential in the functional skincare market in the PRC, the Target Group rode on the competency of its R&D capabilities and applied bioactive ingredients extracted from animal umbilical cords to develop functional skincare products. The Target Group established the FO Brand in 2019 for the distribution and sales of mid-to-high-end functional skincare products.

To accommodate the diverse and evolving consumer needs for skincare products, the Target Group has launched skincare products under the FO Brand for application during facial services in beauty salons and clinics (“**FO Beauty Salon Skincare Products**”) and at home by individuals (“**FO Home Skincare Products**”) under its FO Brand, which a majority of the products applied bioactive ingredients extracted from animal umbilical cord from the R&D results of the Laboratory. The Target Group also sells its in-house processed animal umbilical cord extractions to other material suppliers and skincare and personal care companies.

The following graph demonstrates the closed-loop ecosystem within the skincare solutions industry:

Closed-loop Skincare Solutions Ecosystems



The skincare solutions ecosystem has a broad scope and generally refers to the provision of all services and products in relation to consumer awareness and the development of companies in the industry. Major services within the skincare solutions ecosystem include sales of skincare products, provision of facial and aesthetic medicine services and sales, marketing and R&D of skincare-related products and services.

The Target Group aims to build an ecosystem with its group and to be involved in different sectors within the skincare solution industry. For instance, leveraging on its R&D capabilities, it is able to introduce new products to the market in a timely manner to catch up with market trends and satisfy customers' evolving demands. Through the introduction of more technological advanced bioactive ingredients applied skincare products, the Target Group is able to further demonstrate its R&D capabilities, which will attract more skincare related companies to engage the Target Group for its skincare related R&D Services.

It also collaborates with beauty salons and clinics for the provision of facial services and post-aesthetic treatment services, which can further collect customers' feedback on products and enhance brand awareness of the FO Brand. The availability of skincare products under the FO Brand in beauty salons and clinics help promote the image of professional and strong R&D capability of the Target Group, which will further enhance its publicity and brand image.

Furthermore, customers who enjoyed FO Home Skincare Products are likely to be interested in visiting beauty salons and clinics which provide facial services with FO Beauty Salon Skincare Products, and vice versa, which, in turn, creates a product cycle for skincare products under FO Brand for customers.

(a) Scope of Business

The Skincare Solutions Business comprises (i) sales of skincare products; and (ii) sales of raw materials. The detailed scope of the Skincare Solutions Business provided by the Target Group is as follows:

(i) Sales of Skincare Products

The Target Group sells skincare products which apply its in-house processed bioactive ingredients, including processed animal umbilical cord extracts, under the FO Brand. The FO Brand is positioned as mid-to-high-end skincare products, which are further categorised into FO Beauty Salon Skincare Products and FO Home Skincare Products. FO Beauty Salon Skincare Products are sold to distributors and beauty salons and clinics through offline sales channels, whereas FO Home Skincare Products are sold to the end-customers through distributors offline and directly by the Target Group mainly through online sales channels, such as Baijin Cloud Platform.

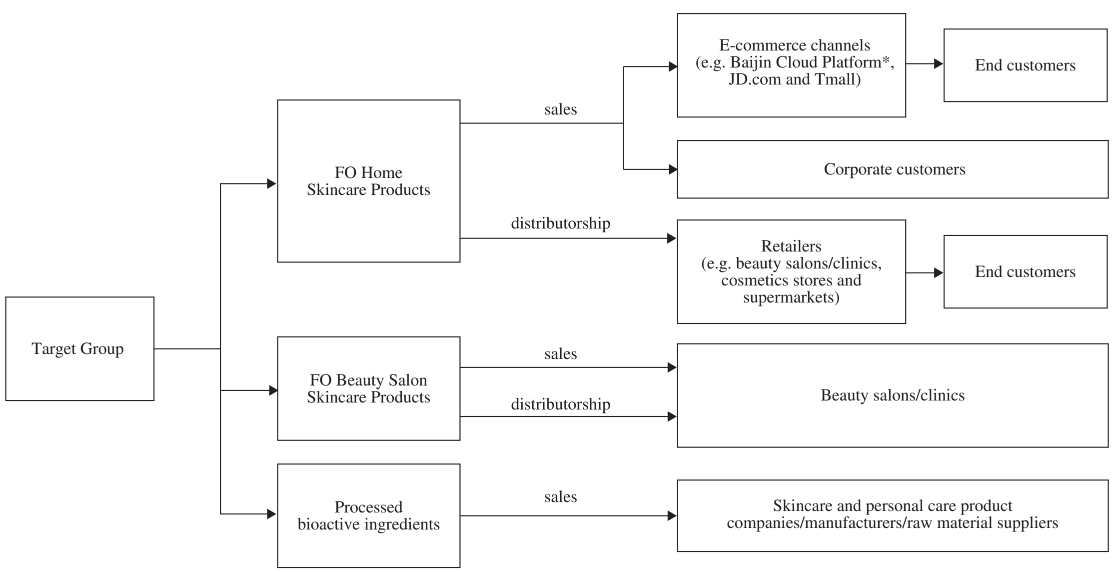
The Target Group is authorised to formulate, manufacture and distribute personal care products of "Simi Bobo", which is a female personal care product line that applied processed materials developed by the Laboratory. Based on the requirements of the customer, which is an intermediate shareholding company of one of the shareholders of Baijin Life Science, the Target Group designed the formulae of the products under the brand of "Simi Bobo", engaged OEM manufacturers for the production and distributed the products through the Baijin Cloud Platform.

(ii) Sales of Raw Materials

The raw materials sold by the Target Group mainly include animal umbilical cord extracts extracted from pigs by the expertise of the Laboratory by accumulated know-how technology. Animal umbilical cord extracts, with their effective active substance extraction will be one of the crucial ingredients in the production of skincare products. The Target Group sells such extracts to other skincare brands and material suppliers which will apply such materials to their skincare or personal care products.

(b) Business Flow

The business flow of the Skincare Solutions Business is set out below:



Note: Baijin Cloud Platform distributes also personal care products under the brand "Simi Bobo" which are manufactured according to formulae developed by the Target Group and applied processed bioactive materials supplied by the Target Group.

(c) Product

Product Offerings under the FO Brand

The Target Group is positioned as a bioactive ingredient-based skincare product retailer and distributor with a high calibre R&D expertise team and a comprehensive biotechnology laboratory. The Target Group endeavours to develop and launch new types of products to strengthen its product portfolio, penetrate new markets, and meet diverse customer demands.

Leveraging on its R&D capabilities, the Target Group launched a wide range of product portfolio in terms of FO Beauty Salon Skincare Products and FO Home Skincare Products with self-developed materials, mainly animal umbilical cord extractions which contain a variety of bioactive molecules, which are proven effective in giving anti-inflammatory, wound healing, anti-ageing and cell damage repair functions, to address diverse and evolving consumer needs for skincare.

FO Beauty Salon Skincare Products and FO Home Skincare Products differ in their respective concentration of bioactive molecules. FO Beauty Salon Skincare Products are highly concentrated in bioactive molecules, which cannot be fully absorbed by the skin when applied with bare hands. Therefore, FO Beauty Salon Skincare Products are mainly available in beauty salons and clinics, where such products can be applied to the skin with professional import devices to introduce nutrients into the deep layer of the skin through high-frequency vibration or penetration needle, which can effectively nourish and care for the skin. FO Home Skincare Products are designed for more convenient use by customers at their own places, and the concentrations of bioactive molecules in such products can be delivered purely by attaching them to the skin surface. Beauty salons and clinics also consume FO Home Skincare Products if the therapists think it is fit.

The Target Group also makes effort to optimise product design in order to improve user experience. The product team are devoted to enhance skincare products under the FO Brand to beyond traditional product design, as well as, continue to progress in sourcing and logistics competencies. Mr. Cao Yu (曹宇), the vice director of product team of the Target Group, graduated from Rostov State University of Civil Engineering. He has over six years of experience in industrial design of products and has been guiding the Target Group in its continuous product design development. Mr. Yun Guoliang (尹國亮) , the director of the manufacturing and logistic department of the Target Group, graduated from Shijiazhuang Army Command College (currently known as Joint Operations College, National Defense University). He has over four years of experience in logistic management. He is responsible for overall arrangement of logistic and delivery services of the Target Group.

Skincare Products under the FO Brand Introduced to the Market

Through continuous hard work in R&D, the Target Group has achieved scientific breakthroughs in the field of bioactive ingredients with potential for further innovations. The Target Group maintained its momentum by consistently launching new products. The Target Group has based on various skincare needs such as anti-inflammation, wound healing, anti-ageing and cell damage repair to launch different skincare products under the FO Brand.

Skincare products are subject to different registration requirements in the PRC based on their ingredients and concentration. Those with ‘‘cosmetics’’ credentials can be consumed by individuals upon fulfilment of registration filing requirements, whereas skincare products with ‘‘mechanical’’ credentials should be used by doctors in beauty clinics only.

The product offerings of the Target Group, according to their respective year of launch and categories, are as follows:

Year 2019

Product Image	**Product Name**	**Product Categories**
	FO Peptide Rejuvenating & Repairing Lyophilised Essence (Premium) (FO小分子肽煥顏修護凍乾精華(極致款))	FO Beauty Salon Skincare Products

Year 2020

Product Image	**Product Name**	**Product Categories**
	FO Double-extract Revitalising Serum (Gemini Series) (3 pink bottles set) (FO雙萃小安瓶活妍煥彩肌底精華Gemini系列(3支裝粉))	FO Beauty Salon Skincare Products
	FO Double-extract Revitalising Serum (Gemini Series) (3 green bottles set) (FO雙萃小安瓶活妍煥彩肌底精華Gemini系列(3支裝墨))	FO Beauty Salon Skincare Products FO Home Skincare Products
	FO Double-extract Revitalising Serum (Gemini Series) (14 pink bottles set) (FO雙萃小安瓶活妍煥彩肌底精華Gemini系列(14支裝粉))	FO Home Skincare Products
	FO Double-extract Revitalising Serum (Gemini Series) (14 green bottles set) (FO雙萃小安瓶活妍煥彩肌底精華Gemini系列(14支裝))	FO Home Skincare Products

Year 2021

Product Image	**Product Name**	**Product Categories**
	FO Oak Charcoal Multi-Effect Deep Care Black Mask (OAK Series) (FO橡樹備長炭多效深層精護黑奢面膜OAK系列)	FO Beauty Salon Skincare Products FO Home Skincare Products
	FO Peptide Rejuvenating & Repairing Lyophilised Essence (Balanced) (FO小分子肽煥顏修護凍乾精華(均衡款))	FO Beauty Salon Skincare Products
	FO Peptide Rejuvenating & Repairing Lyophilised Essence (Calming) (FO小分子肽煥顏修護凍乾精華(寧靜款))	FO Beauty Salon Skincare Products
	FO Peptide Rejuvenating & Repairing Lyophilised Essence (Revitalising) (FO小分子肽煥顏修護凍乾精華(長青款))	FO Beauty Salon Skincare Products
	FO Peptide Rejuvenating & Repairing Lyophilised Essence (Hydrating) (FO小分子肽煥顏修護凍乾精華(破曉款))	FO Beauty Salon Skincare Products

Year 2022

Product Image	Product Name	Product Categories
	FO Peptide Group Microcapsule Skin Refinisher Lyophilised Essence Luxury Box Set (FO小分子肽組迷蔻凍乾精華禮盒)# # mechanical credentials	FO Beauty Salon Skincare Products
	FO Collagen Double Brightening Freeze-Dried Eye Mask (Virgin Series) (FO膠原蛋白雙重煥亮凍乾維睛眼膜Virgin系列)	FO Home Skincare Products

Year 2023

Product Image	Product Name	Product Categories
	FO Restructure Collagen Bio-repair Dressing Luxury Box Set (FO重組膠原蛋白生物修復敷料迷蔻禮盒)# # mechanical credentials	FO Beauty Salon Skincare Products

New Product Pipeline

For the development of skincare products under FO Brand, the Target Group is expanding the product matrix by introducing new product lines.

Registration type	Stages of R&D						Expected commercial launch
	Product	Design and formulation	Production and testing of prototypes	Refinement	Third-party testing	Registration	
Cosmetics	FO Youthful Skin Lotion						2024 Q1
	FO Pearl Whitening Essence						2024 Q3
	FO Pearl Whitening Cream						2024 Q1
	FO Sunscreen Spray						2024 Q4
Mechanical	FO medical Aesthetic Products						2026 Q4

The current product lines of skincare products under the FO Brand mainly cover the features of anti-inflammation, wound healing, anti-ageing and cell damage repair, but not skin whitening. The Target Group is therefore performing R&D on applying pearls as ingredients and recombinant collagen and natural collagen in skincare products under the FO Brand.

FO Home Skincare Products: FO Pearl Whitening Cream

FO Beauty Salon Skincare Products: FO Pearl Whitening Essence

Based on the current pipeline, the FO Youthful Skin Lotion has already obtained the relevant credentials for sales and will be introduced to the market by the first quarter of 2024. For the product line with pearl as an ingredient, namely, the Target Group has developed FO Pearl Whitening Essence (under the category of FO Beauty Salon Skincare Products) and FO Pearl Whitening Cream (under the category of FO Home Skincare Products), which are designed to deliver the functions of whitening, anti-wrinkle, repair and hydrating. The Target Group has completed the trial on the pearl powder extraction process, which includes the cleaning and removal of grease from the pearls by using alkaline water; crushing of pearls to solid pearl powder by baking, grinding and sieving; and hydrolysing the solid pearl powder into pearl hydrolysate through enzymolysis and hydrolysis processes. FO Pearl Whitening Cream has been delivered to a third-party testing centre to test its efficacy, and the Target Company targets to file the information of FO Pearl Whitening Cream to the Provisional Food and Drug Administration in the PRC to obtain the relevant credentials for sales by early 2024. FO Pearl Whitening Essence is undergoing further refinement of the formula, which is expected to be introduced to the market in late 2024.

(d) Customers

The sales of skincare products mainly cover (i) sales of FO Home Skincare Products; (ii) sales of FO Beauty Salon Skincare Products; and (iii) sales of personal care products of other brands. Customers of FO Beauty Salon Skincare Products are mainly beauty salons and clinics which purchase from the Target Group through direct sales and distributors which further sell to other beauty salons and clinics, whereas customers of FO Home Skincare Products are mainly end-customers who purchase from the Target Group through the Baijin Cloud Platform and distributors who further sell to other offline retails, beauty salons and clinics. Customers of personal care products of other brands are end-customers who purchase from the Target Group through the Baijin Cloud Platform.

The Target Group also sells processed materials such as animal umbilical cord extracts to skincare and cosmetic companies and manufacturers.

Based on the information provided by the management of the Target Group, there were 90, 165 and 492 customers for Skincare Solutions Business for the two years ended 31 December 2022 and the nine months ended 30 September 2023, respectively. For the three years ended 31 December 2022 and the nine months ended 30 September 2023, the five largest customers of Skincare Solutions Business accounted for approximately 12.9%, 31.9%, 32.2% and 6.8% of the total revenue of the Target Group, respectively. Among which, the largest customer accounted for approximately 6.7%, 13.1%, 14.2% and 1.8% of the total revenue of the Target Group, respectively.

(e) Sales and Marketing

The sales and marketing activities of Skincare Solutions Business are carried out by the sales team and marketing team together with the social media and e-commerce team of the Target Group. The Target Group has invested, and will continue to invest, a large amount of financial and other resources in promoting its brand awareness and acquiring customers, including expanding the sales team and marketing team, which currently consist of 15 members. Under the leadership of Mr. Shang Xiaonan (賞效楠) ("**Mr. Shang**"), Mr. Shen Jie (沈劼) ("**Mr. Shen**"), Mr. Cao Hui (曹慧) ("**Mr. Cao**"), Mr. Zhu Fengliang (朱鳳良) ("**Mr. Zhu**") and Mr. Ding Tianjiao (丁天驕) ("**Mr. Ding**"), the Target Group experiences a growth in its sales and adopts a diversified marketing strategy. Mr. Shang, the managing director of the Target Group, graduated from China Jiliang University, specialised in mechanical design manufacturing and automation and has over 10 years of experience in marketing and brand promotion and operation, Mr. Shang is responsible for the strategic sales and brand promotion of skincare products under the FO Brand. Mr. Shen, the director of the brand marketing department, obtained a master's degree from University of Northumbria at Newcastle and has over eight years of experience in marketing. Mr. Cao, the director of the sales department, graduated from Huazhong University of Science and Technology in business management, has extensive experience in branding activities and has been engaged in the sales of skincare products since 2002. Mr. Zhu, the director of the social media and e-commerce department, graduated from Northwestern Polytechnic University and has over seven years of experience in marketing. Mr. Ding, the vice-director of the social media and e-commerce department, obtained a master's degree from The University of Alabama System in bimolecular and has four years of experience in marketing. Their valuable experience combined with their deep understanding of and passion for the skincare industry make them effective leaders for the sales and marketing departments of the Target Group.

To expand the sales network and raise brand awareness, the Target Group engages in joint efforts to formulate marketing strategies and carry out online and offline promotional campaigns to promote the FO Brand in order to entice sufficient consumer demand for skincare products under the FO Brand.

Sales Channel

It is a common marketing trend in the PRC that brands will begin with offline sales to raise brand awareness among customers and further expand to online sales to increase the reach and facilitate the shopping experience.

For the Skincare Solutions Business, FO Beauty Salon Skincare Products are mainly distributed through offline channels to beauty salons and clinics, whereas FO Home Skincare Products are distributed through both online channels and offline channels. In 2022, the Target Group launched an online platform, FO Cloud ("**FO Cloud**"), to consolidate the ordering and delivery processes of FO Home Skincare Products. With the increase in number of end customers and product distributors, the Target Group enhanced the online system and launched Baijin Cloud Platform, a WeChat-based mini programme of the Target Group. Currently, FO Home Skincare products are distributed through Baijin Cloud Platform and other e-commerce platforms such as Tmall and JD.com; and offline channels such as beauty salons and cosmetics stores. Both FO Beauty Salon Skincare Products and FO Home Skincare Products are sold through distributors and direct sales.

The user interface of Baijin Cloud Platform

The user interface of FO Cloud

The user interface of the shop of the Target Group on Tmall

The user interface of the shop of the Target Group on JD.com

The Skincare Solution Business, particularly the sales of skincare products, is subject to seasonality. The Target Group generally experiences an increase in sales of skincare products in the fourth quarter of each year as there is a relatively celebratory atmosphere in the country, and customers are driven to shop for personal enjoyment and gifts for friends and family. During the same period, customers are more likely to visit beauty salons and clinics to prepare for celebrations and gatherings.

In general, such sales in the first quarter will be lower compared to other quarters in the year because there is Chinese New Year in February, during which PRC citizens may travel around for family reunions and leisure, thereby lowering the demand for skincare products.

In the near future, the Target Group will deploy more resources to strengthen its exposure on e-commerce platforms to improve sales performance. The Target Group has a gross merchandise value ("**GMV**") from online direct sales and sales to major e-commerce platforms of over RMB1.0 million (equivalent to HK$1.1 million) from August to September in 2023. The Target Group continued the investment in those efforts in the fourth quarter of 2023, especially for the "double eleven (雙十一)" and "double twelve (雙十二)" events, which are the popular sales events in the PRC for November and December.

Third Party Distributors

The Target Group adopts a distributorship sales strategy for FO Beauty Salon Skincare Products. The Target Group signs distribution agreements with third party distributors. Distributors look for downstream buyers, mainly retailers. Third party distributors purchase a large quantity of the products directly from the Target Group and further sell to third party retailers. The profit for distributors is mainly derived from the price differences between retailers' purchase prices and their sourcing prices.

Distributors mainly resell FO Beauty Salon Skincare Products to beauty salons and clinics and FO Home Skincare Products to retailers in their designated territories, such as supermarkets, cosmetics stores, beauty salons and clinics. It is believed that distributors with strong sales channel management capabilities, as well as sales and distribution experience of skincare products, can help the Target Group penetrate a broader user base (including beauty salons and clinics located in various territories) and increase the market share as well as enhance the brand awareness efficiently. Such a distributorship model also enables skincare products under the FO Brand to be distributed in a cost-effective manner whilst allowing the Target Group to focus more on the core strength of product development. The Target Group generally enters into a distribution agreement with each domestic distributor.

The Target Group selects its distributors based on a number of criteria, including, among others, their experience, marketing capabilities and financial conditions. The number of distributors of the Target Group increased from 43 in 2021 to 114 in 2022 and further to 417 to the Latest Practicable Date, among which, over 200 of the distributors are regional agents. The sales and marketing team communicates closely with the distributors to understand their respective market demand, and it is believed that such strategy enables the Target Group to attain sustainable growth in the number of distributors and their sales of skincare products under the FO Brand.

Marketing Channels

Diversified online shopping channels and marketing activities are more adaptable to the spending habits of younger consumer groups, such as Generation Z and Millennials, which are becoming the main force of consumption for skincare products. With increasing purchasing power and a growing population, young generations are becoming the major consumer group. As a result, content marketing services are required to match the changing preferences of young generations. As media, such as short videos and live streaming, is getting popular and widely spread among the younger generation, embedding advertisements into those media is the latest marketing trend to get the attention of the younger generation.

The Target Group has been actively and continuously expanding its distribution channels for both FO Beauty Salon Skincare Products and FO Home Skincare Products. Going forward, with the emerging big data era and the culture of active social media usage, particularly in the PRC, the Target Group will put more emphasis on developing online sales and promotion. Taking advantage on the big data era and social media platform, the Target Group puts emphasis on online sales and promotion, which adapts to the marketing trends in the PRC, including but not limited to launching online activities with expertise to introduce the efficacy of the skincare products under FO Brand, hosting live shows on different social media platforms to introduce the FO Brand and its skincare products, extending the online sales channels to other online platforms, such as TikTok (抖音), Kuaishou (快手) and Xiaohongshu (小紅書) and conducting advertising campaigns.

In May 2023, the Target Group also developed the Baijin Cloud Platform, a WeChat-based mini programme, that integrates online resources of promotion materials of the Target Group and interactions among users. Users of the Baijin Cloud Platform who registered as a member (the "**Baijin Members**") can purchase skincare products under the FO Brand, access information of the locations of beauty salons and clinics operated by the Brand Partners, share experiences of the use of skincare products of the FO Brand, join activities and gain points to redeem gifts. With the introduction of the Baijin Cloud Platform, the number of Baijin Members is poised for exponential growth through promotion activities, providing the Target Group with a greater clientele. Since the establishment of the Baijin Cloud Platform and up to the Latest Practicable Date, the Target Group has sold over 9,700 pieces of skincare products under FO Brand to customers. The number of Baijin Members has increased significantly from approximately 150 in May 2023, to approximately 350 in September 2023, and further to over 900 as at the Latest Practicable Date.

With the launch of the Baijin Cloud Platform, the Target Group has introduced a referral programme (the "**Referral Programme**") to attract customers. The Referral Programme is a promotion programme where customers are encouraged to promote skincare products under the FO Brand and share their experience using FO Homecare Skincare Products through the Baijin Cloud Platform. The Target Group engages customers to be key opinion customers ("**KOC**") who will enthusiastically recommend products to people around them after purchasing products through sharing and interaction among friends, and KOL who are famous online celebrities to promote the product of the FO Brands by launching live shows by expertise in relation to the efficacy of the products.

To foster the cycle between FO Beauty Salon Skincare Products and FO Home Skincare Products, the Target Group also encourages beauty therapists of the Brand Partners to promote FO Home Skincare Products to their customers, allowing customers to enhance their skin health and beauty while away from beauty salons and clinics and return for professional facial treatments. If the online customers would like to have a facial treatment by using FO Beauty Salon Skincare Products in beauty salons/clinics, through the system of "Location-based Services" in the Baijin Cloud Platform, it would refer such online customers to the nearby authorised beauty salons and clinics, where customers will be able to undergo facial treatments with skincare products under FO Brand.

Through this Referral Programme, KOC, therapists and KOL will obtain a promotion bonus of 50% of the sales amount after successful purchases from the then customers that satisfying a target purchase amount of over RMB399. By connecting online and offline channels between beauty salons and clinics with the Baijin Cloud Platform and empowering social interaction, big data transmission and sales promotion online through the Baijin Cloud Platform, the Target Group will be able to expand its clientele. The total number of skincare products under the FO Brand sold through the Baijin Cloud Platform has recorded a significant sales performance of approximately 1,800 items in September 2023.

(f) Suppliers

The Target Group engages independent original equipment manufacturing suppliers (the "**OEM Suppliers**") to produce skincare products from the materials developed by the Laboratory. The Target Group maintains a long-term and stable business relationship with OEM Suppliers where the number of years of business relationship with OEM Suppliers ranges from two to four years. As at the Latest Practicable Date, there are in total 18 OEM Suppliers for the Skincare Solutions Business of the Target Group. The Target Group entered into master agreements with the OEM Suppliers to secure a stable supply of the skincare products under the FO Brand manufactured by them, and the Target Group had no material disputes with such OEM Suppliers.

Suppliers are mainly sourced through referrals from Ultimate Beneficial Owners, industry associations and walk-in suppliers. For OEM Suppliers, the Target Group will select reputable and reliable companies with relevant credentials to produce the skincare products.

(g) Regulatory Requirements

The principal rules and regulations in the PRC relating to cosmetic and skincare products applicable to the Target Group include:

- General regulations:

  — Regulation on the Supervision and Administration of Cosmetics (《化妝品監督管理條例》), which mainly stipulates the responsibilities of the different parties in the operation of cosmetics;

- Regulations in relation to registration and filing requirements of cosmetic products:

  — Measures for the Administration of the Registration and Recordation of Cosmetics (《化妝品註冊備案管理辦法》), which mainly stipulates that an application of cosmetics and new cosmetic ingredients shall comply with the requirements of applicable laws, administrative regulations, compulsory national standards and technical specifications;

- Manufacturing and operations:

  — Good Manufacturing Practices for Cosmetics (《化妝品生產品質管制規範》), which mainly stipulates the requirements of a production quality control system by the enterprises to monitor the production process;

  — Provisions on the Supervision and Administration of the Fulfilment of Primary Quality and Safety Responsibilities by Sellers of Cosmetics (《企業落實化妝品質量安全主體責任監督管理規定》), which mainly stipulates the responsibility of the enterprise for the R&D, production, operation quality, safety efficacy claims of cosmetic products;

  — Technical Specifications for Cosmetic Safety Released (Version 2015) (《化妝品安全技術規範(2015年版)》), which mainly stipulates that the production of cosmetics shall comply with the relevant specification requirements for the production of cosmetics and the production process of cosmetics shall be scientific and reasonable to ensure product safety;

- Regulations in relation to safety control of cosmetic products:

  — Measures for the Administration of Adverse Reactions for Cosmetics (《化妝品不良反應監測管理辦法》), which mainly stipulates that applicants shall establish a monitoring and evaluation system for adverse reactions, compile a list of adverse reactions, and report adverse reactions to the relevant monitoring agency in accordance with relevant rules and provisions;

- Regulations in relation to the naming and labelling of cosmetic products:

  — Notice on Issuing the Provisions and Guidelines on the Naming of Cosmetics (《關於印發化妝品命名規定和命名指南的通知》), which mainly stipulates that the name of cosmetics sold within the territory of the PRC shall generally consist of trade name, general name and attribute name. The naming of cosmetics may not include false, exaggerated and absolute claims, medical functions and words that express or imply medical effects;

  — Measures on the Administration of Labels for Cosmetics (《化妝品標籤管理辦法》), which mainly stipulates that the smallest sales unit of cosmetics shall be labelled. The contents of the labels shall be lawful, authentic, complete, accurate and consistent with the relevant contents registered or filed;

- Regulations in relation to the classification and efficacy claims of cosmetics products:

  — Guidelines for Cosmetic Efficacy Claim Evaluation (《化妝品功效宣稱評價規範》), which mainly stipulates that evaluation of cosmetic efficacy claims should comply with the requirements stipulated in the Guidelines; and

  — Measures for the Supervision and Administration of Online Distribution of Cosmetics (《化妝品網絡經營監督管理辦法》), which mainly supervises on enterprise regarding e-commerce, including both sales through online platforms and/or through self-established online platforms.

As advised by the PRC legal advisers, the Target Group complies with all required registration and filing procedures in relation to the relevant skincare products and ingredients used in the skincare products, according to the relevant rules and regulations mentioned above. As at the Latest Practicable Date, the Target Group has obtained all licenses necessary to conduct the operations in all material respects from the relevant government authorities in the PRC and obtained all relevant credentials for sales of the skincare products.

7. Brand Marketing and Consulting Services

When the Target Group first introduced its skincare products, among the strong competition in the skincare solutions market in the PRC, the Target Group carried out a diversified marketing plan. It participated in a series of marketing activities, such as drone flight demonstration activities, music festivals and train display advertisements, to promote the FO Brand. The Target Group believed that beauty salons providing facial services with FO Beauty Salon Skincare Products would provide greater opportunities for potential customers to experience FO Beauty Salon Skincare Products first-hand and serve as an effective way to promote the FO Brand. The Target Group then carefully considered a number of locations and set up a beauty salon under the FO Brand in Xiaoshan, Hangzhou, the PRC, in March 2021 (the "**Hangzhou FO Beauty Salon**"). Through the promotion of the Hangzhou FO Beauty Salon, the Target Group has successfully enhanced its publicity and image to a broader public, strengthening its reputation and brand value.

The setting up of the Hangzhou FO Beauty Salon in the PRC was a successful marketing plan, and the Target Group has generated a group of loyal customers since then. With its skincare products emerging in the consumer market, the FO Brand became more recognisable and the Target Group decided to recalibrate its focus to its major business of sales and distribution of bioactive ingredient-based skincare products. The Target Group believed that it was an opportunity to turn the beauty salon operation into a brand authorisation business as planned. Therefore, in 2022, the Target Group transferred the Hangzhou FO Beauty Salon to a third party independent from the Target Group who agreed to continue operating the beauty salon under the brand name of FO and provide facial services with FO Beauty Salon Skincare Products. The Target Group continued to expand its network of brand partners (the "**Brand Partners**") which it authorised the Brand Partners to operate their beauty salons and clinics under the FO Brand and supplied skincare products under the FO Brand to them for the provision of facial treatments (the "**Brand Authorisation Services**").

The Target Group has four Brand Partners as at the Latest Practicable Date. Taking into consideration the contracts in negotiation, the number of Brand Partners will reach over nine by the end of 2024. With the increasing number of beauty salons and clinics applying FO Beauty Salon Skincare Products, more potential customers were able to enjoy a first-hand experience of FO Beauty Salon Skincare Products at beauty salons and clinics, which, if they were satisfied with the results, would then prompt them to purchase FO Home Skincare Products.

Through the operation of Hangzhou FO Beauty Salon and the daily interactions with its customers which are beauty salons and clinics, the Target Group has gained enriched experience in the internal operation of beauty salons and clinics, as well as the skill sets in brand building, particularly through online marketing. The online marketing in China primarily comprises short video marketing, text and image marketing, live streaming marketing and audio marketing. Driven by continuous innovations in internet and mobile technologies and the increasing amount of time consumers spend on digital devices as well as the data-driven potential of online marketing, marketers are increasingly shifting their marketing spending from offline channels to online channels in order to achieve wider but more target audience reach and provide more tailored marketing messages in a cost effective manner. The Target Group has a vision that many existing skincare solution companies requires creative and production services, from the production of various online contents to formulate a full-scale marketing campaign. The Target Group then gradually developed a business model of provision of consulting services (the "**Consulting Services**") with its technical knowhow in business operations, skincare products and enhancement of marketing channels.

The Target Group has from time to time arranged site visits to the Laboratory and road shows and seminars to introduce the FO Brand to potential collaborators and customers and recruit regional agents, which can help focus in a particular territory and reach out to more beauty salons and clinics within the territory. The Target Group believed that the recruitment of regional agents could more effectively promote the FO Brand by connecting with more beauty salons and clinics and product distributors in various territories, which apply FO Beauty Salon Skincare Products for facial treatments and further distribute FO Home Skincare Products to their customers.

In late 2022, from the connection with these market players, the Target Group identified companies which were interested in starting up a business in the skincare solutions industry, existing beauty salons and clinics operators and product distributors, who engaged the Target Group in the provision of Consulting Services, including product training and facial treatment training to business operation improvement, customer generation and online marketing, and further to customer relationship management and event planning. The provision of Consulting Services generates a stable source of income from consulting fees for the Target Group.

(a) Scope of Business

The Brand Marketing and Consulting Services comprises (i) brand authorisation services; and (ii) consulting services. The detailed scope of the Brand Marketing and Consulting Services provided by the Target Group is as follows:

(i) Brand Authorisation Services

The Target Group authorises the Brand Partners to operate their beauty salons and clinics and perform facial services with skincare products under the FO Brand. The Target Group believed that brand authorisation for beauty salons and clinics to operate under the FO Brand can help such beauty salons and clinics to form a more professional image and increase their recognisability for customers, which will further drive customers to visit such beauty salons and clinics for their services, which will help generate greater revenue for such beauty salons and clinics. The Target Group will provide interior and marketing material design so that the beauty salons and clinics of Brand Partner have a consistent brand image and colour scheme as the FO Brand, authorised to use the trademarks of the FO Brand in both online and offline materials, provide assistance in operational flow of provision of facial treatments with FO Salon Skincare Products, and provide publicity channels for the Brand Partners, for instance, information of the Brand Partners is available on the Baijin Cloud Platform, and the Target Group launches promotions and live streams on online platforms to attract potential customers to attend the beauty salons and clinics operated by the Brand Partners. Through such Brand Partners, the Target Group can build trust between customers and the FO Brand, which will in turn increase the demand for skincare products under the FO Brand.

Through the engagement of the brand authorisation services, the Brand Partners can differentiate themselves from other beauty salons and clinics in the territory by their correlation with well-known functional skincare brand and the establishment of a professional and high-end image, which will help strength customer loyalty and attract potential customers. The Target Group will receive a brand authorisation fee in return. The brand authorisation fee is charged on an annual basis, and the revenue is recognised on a straight-line basis over the specified period.

The Target Group continued to expand its network of brand authorisation services. It has from time to time arranged site visits to the Laboratory and Brand Partners, as well as, road shows and seminars to introduce the FO Brand to potential collaborators and customers. As at the Latest Practicable Date, the Target Group has four Brand Partners, namely in (i) Xiaoshan, Hangzhou, Zhejiang, the PRC; (ii) Wenzhou, Zhejiang, the PRC; (iii) Ma'anshan, Anhui, the PRC; and (iv) Qingdao, Shandong, the PRC. The Target Group has also confirmed a Brand Partner in Fuzhou, Fujian, the PRC, a third party independent from the Target Group, from one of the road shows. The beauty salon in Fuzhou, Fujian, the PRC is under trial operation as at the Latest Practicable Date, and is expected to officially operate as a beauty salon under the FO Brand in early 2024.

For selection of Brand Partners, the Target Group will select suitable regions and partners based on the economic conditions and spending power of the particular region and the resources of the potential Brand Partners. Since the Brand Authorisation Services are regional exclusive, the annual fee for general prefecture-level cities is RMB1.0 million, and for county-level cities is RMB0.5 million.

As at the Latest Practicable Date, the Target Group is further in negotiation with three other potential Brand Partners in Shandong, the PRC and Anhui, the PRC. Taking into consideration the contracts in negotiation, the number of Brand Partners will reach over nine by the end of 2024. Set out below are the details of the four existing Brand Partners:

Location: Xiaoshan, Hangzhou, Zhejiang, the PRC

Opening date: March 2021

Information: The Target Group first set up the Hangzhou FO Beauty Salon in Xiaoshan, Hangzhou, Zhejiang, the PRC, in March 2021. While the Target Group decided to recalibrate its focus to its major business of sales and distribution of bioactive ingredient-based skincare products, a facial treatment customer, Ms. Yu, of the Hangzhou FO Beauty Salon, who is third party independent from the Target Group, expressed her interest in investing in the beauty salon. Therefore, in early 2023, the Target Group transferred its entire interest in the Hangzhou FO Beauty Salon to Ms. Yu and her friends and acquaintance.

Location: Wenzhou, Zhejiang, the PRC

Opening date: January 2023

Information: Ms. Chen Jia (陳加) ("**Ms. Chen**"), one of the Ultimate Beneficial Owners and a limited partner of Hangzhou Fantianou Enterprise Management Partnership (Limited Partnership)* (杭州梵天歐企業管理合夥企業(有限合夥)), a minority shareholder of Baijin Life Science, had also operated small scale beauty salons in Wenzhou, Zhejiang, the PRC in the past, believed that she could utilise her previous experience in the beauty industry and customer network to expand the FO Brand in Wenzhou, Zhejiang, the PRC. Ms. Chen then entered into a brand authorisation agreement with the Target Group in early 2023 for the establishment of the beauty salon under the FO Brand in Wenzhou, Zhejiang, the PRC.

Location: Ma'anshan, Anhui, the PRC

Opening date: October 2023

Information: The Target Group partnered with district government authorities to organise inspection tours to build networks and to encourage mutual learning among industry players in various districts. After attending the inspection tour, a representative from Anhui Province, a third party independent from the Target Group, expressed his interest in establishing a beauty salon in Ma'anshan, Anhui, the PRC under the FO Brand. He believed his connections built from his previous experience in the insurance industry will form a solid clientele foundation for the beauty salon. Such representative then entered into a brand authorisation agreement with the Target Group in mid-2023 for the establishment of the beauty salon under the FO Brand in Ma'anshan, Anhui, the PRC.

Location: Qingdao, Shandong, the PRC

Opening date: November 2023

Information: The Target Group organised roadshows for potential Brand Partners to gain a deep understanding in the operation of beauty salons under the FO Brand. Through site visits and seminars held by the Target Group, participants can gain a first-hand experience of the daily operations of a beauty salon and the technique for generating customers. After attending one of the road shows, a participant from Qingdao, Shandong, the PRC, a third party independent from the Target Group, expressed his interest in establishing a beauty salon in Qingdao, Shandong, the PRC under the FO Brand. Such participant then entered into a brand authorisation agreement with the Target Group in late 2023 for the establishment of the beauty salon under the FO Brand in Qingdao, Shandong, the PRC.

(ii) Consulting Services

Through the sales of skincare products and usual interactions with beauty salons and clinics, the Target Group was aware that beauty salons and clinics operators are facing various types of challenges in their operations and are constantly looking for service providers to accommodate their needs.

The Target Group noticed that some existing beauty salons and clinics are facing severe competitions against other market players which offer similar service and product categories, and the Target Group believed that a professional team which can provide consulting services on shop construction, standardised operations, therapist resources, marketing training, operation training and event planning training, will be able to assist the beauty salons and clinics operators to better allocate their resources and improve customer satisfaction.

Furthermore, with the rapid development of mobile applications in the PRC, such as WeChat, TikTok and Xiaohongshu, mobile internet users in the PRC are increasingly dependent on social media platforms to share opinions, ask for product recommendations, and connect with others. Growing number of brands now change their focus from general content to a more specific content like self-created videos that matches with their products and services. Through engaging multiple social media platforms, brand owners are able to find the right target customers, build customer communities, drive traffic and interact with customers. However, the technical knowhow on online marketing is still not very common among beauty salons and clinics operators in the PRC. Therefore, the Target Group formed a systematic service team, which cover copywriters, photographers, anchors, traffic operations, system data analysis, conference affairs and other positions, in order to offer suitable online marketing services to customers.

There are also beauty salons and clinics operators in the PRC which require other consulting services exhibition opportunities, advertising, and industry researches, which can facilitate the better development of their new products or services to cater customers' emerging needs.

With previous experience in beauty salon operation and R&D technology, the Target Group organises road shows, seminars and site visits to promote its Consulting Services to potential customers. Customers of consulting services mainly include beauty salons and clinics and product distributors. The scope of service for each customer of Consulting Services is designed based on the specific needs of the particular customer and thus varies from one another. Based on the existing contracts entered into with customers of consulting services, the annual fee for Consulting Services ranges from RMB0.1 million to RMB3.0 million, and on average RMB1.2 million.

The consulting services provided to product distributors mainly focus on features of skincare products under the FO Brand and offline marketing strategies, where product distributors will be able to distribute the skincare products under the FO Brand more efficiently.

Those provided to beauty salons and clinics can be categorised into three main focuses, namely (i) business operations; (ii) product trainings; and (iii) sales and marketing. Consulting services on business operations cover the provision of business handbook with regular updates; provision of regular training to shop managers and beauty therapists; techniques in handling customer complaints;

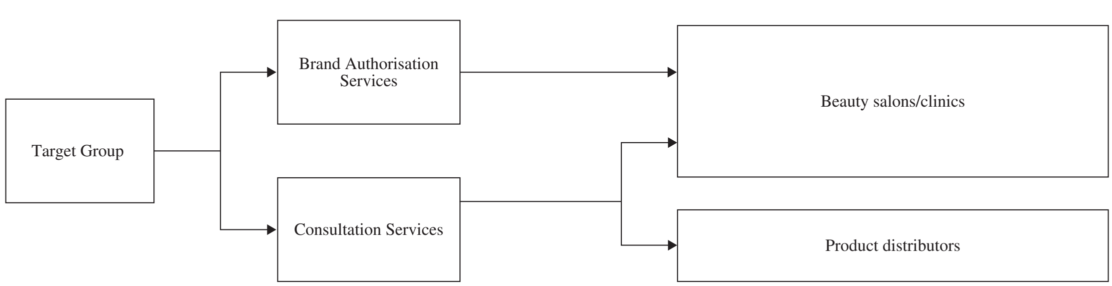
customer service support, setting up and upgrade of necessary information technology systems and pricing strategies. Consulting services on product training cover the usage of skincare products under the FO Brand in facial treatments, the operation procedures of equipment with skincare products under the FO Brand and the product features. Consulting services on sales and marketing cover provision of sales promotion proposal, customer generation, online marketing strategies, social media platform algorithm analysis and event planning. In some circumstances, for customers who are interesting in entering the skincare solution industry or setting up beauty salons and clinics, the Target Group also provides consulting services on starting new businesses, including but not limited to recommendations on store location, interior design, conducting market research, such as analysis on surrounding business district and competition, assisting in purchase of equipment and machinery.

The Target Group mainly obtains customers for consulting services through road shows, seminars and inspection tours organised with government authorities, which all customers for consulting services, who are all independent third parties, were obtained through such channels. In addition to potential collaborators and customers, the Target Group also recruits regional agents from the above road shows and seminars. Since the regional agents are more familiar with the preferences of a particular territory, and therefore, through the assistance of regional agents, the Target Group can reach out to more local beauty salons and clinics to promote the skincare products under the FO Brand and expand its sales of skincare product network, which on the other hand, promote the brand image of the FO Brand and effectively generate more customers for other business segments of the Target Group.

As at the Latest Practicable Date, the Target Group has eight customers engaging its consulting services, and is in negotiation with nine other potential customers. Taking into consideration the contracts in negotiation, the number of customers engaging its consulting services will reach over 20 by the end of 2024.

(b) Business Flow

The business flow of the Brand Marketing and Consulting Services is set out below:



(c) Customers

The customers of Brand Marketing and Consulting Services include regional agents, beauty salons and clinics operators and companies which are interested in cross-industry cooperation in the skincare solutions industry.

Regional agents focus on expanding their sales network and improving their marketing skills to better promote their products. The Target Group provides professional technical training and marketing tool support to assist the sales management teams of the regional agent to operate more professionally and systematically, and in turn improve their channel control and sales performance.

Customers of beauty salons and clinics operators include existing business owners and companies which are interested in setting up beauty salons and clinics. The Target Group therefore offers business operation related trainings and on-job trainings to such customers to resolve their operation obstacles and to improve their sales performance and regional influence.

Prior to the entry into the skincare solutions industry, companies which are interested in cross-industry cooperation conduct in-depth industry researches and look for opportunities to gain more insights in the industry. Therefore, the Target Group can offer its industry understanding and share previous experience to such customers, which can facilitate the better development of their new products or services to cater customers' emerging needs.

Based on the information provided by management of the Target Group, there were three and seven customers for Brand Marketing and Consulting Services for the year ended 31 December 2022 and the nine months ended 30 September 2023, respectively. The three customers accounted for approximately 2.1% of the total revenue of the Target Group for the year ended 31 December 2022. The seven customers accounted for approximately 50.5% of the total revenue of the Target Group for the nine months ended 30 September 2023, whereas the largest customer accounted for approximately 12.7% of the total revenue for the same period.

(d) Sales and Marketing

In order to reach out to more potential collaborators and customers and recruit regional agents, the Target Group has from time to time arranged site visits to the Laboratory and the Brand Partners, as well as, road shows and seminars to introduce and promote the FO Brand. The Target Group also partners with district government authorities to organise inspection tours and networking events to connect with industry players and to encourage mutual learning among various districts in the PRC. Since the Laboratory is located in the first professional biopharmaceutical industrial park in Xiaoshan, Hangzhou, the PRC which aims to develop into an integrated medical and aesthetic professional park integrating R&D, clinical, production and marketing, and Hangzhou is currently a representative city for innovative development in the PRC, therefore, local government authorities across the country tend to organise inspection tours and investment promotion for the promotion of the biopharmaceutical industrial park. The Target Group is also active in forming strategic networks with other tenants in the biopharmaceutical industrial park, in order to explore potential business opportunities.

Through these business and networking events, the Target Group effectively promoted its Consulting Services, and identified customers who require tailor-made advisory plans in their business operations. Since 2022, the Target Group has organised over 30 site visits, road shows, seminars and inspection tours, from which it has obtained two Brand Partners and six customers for Consulting Services. The number of customers of Brand Marketing and Consulting Services increased from two in 2022 to 11 as at the Latest Practicable Date. Among potential customers for consulting services, the Target Group also looks for collaborators who are interested in operating beauty salons or clinics under the FO Brand.

The Target Group further allocates its resources on new media advertising, such as organising lectures hosted by industry experts, launching celebrity live broadcast promotions, participating in exhibitions, launching product experience projects and sponsoring popular social events, to promote the FO Brand and its brand authorisation services and consulting services.

The Target Group also values the importance of regional agents who are more familiar with the demographic of particular territories, which can help reach out to more local beauty salons and clinics within the territory and identify potential collaborators and customers. The Target Group believed that the recruitment of regional agents could more effectively promote the FO Brand by connecting with more beauty salons and clinics and product distributors, which apply FO Beauty Salon Skincare Products for facial treatments and further distribute FO Home Skincare Products to their customers, and in turn promote the brand image of the FO Brand and effectively generate more customers for other business segments of the Target Group. As at the Latest Practicable Date, the Target Group formed a regional agent network of over 200 agents, and is continuing to expand its network.

(e) Expansion Network

Since the Laboratory is located in Hangzhou, it is easier to radiate to Zhejiang and surrounding other cities. With offices in Beijing and Xi'an, it is also convenient for the Target Group to improve its market exposure in such areas. The Target Group will progressively expand the coverage of its Brand Marketing and Consulting Services in four stages. Each stage will cover specific regions in the PRC. The first stage of development is expected to be completed within two years. With regards to the geographic locations of its existing regional agents, the Target Group allocated certain provinces to be in its first stage of development, namely Fujian Province and Hunan Province. Secondly, according to the regional transportation and economic conditions, the Target Group also prioritises Eastern China and Southern China to Central China, Western China and Northern China, among which the first and second tier cities with larger population, greater consumption power and more number of beauty salons and clinics are in higher priority.

The Target Group is also actively looking for collaborators from other industries who are interesting in the skincare solutions industry and would like to set up beauty salons and clinics under the FO Brand. The Target Group is optimistic about the massive market potential of the skincare solutions industry. However, due to the high entry barrier, it is difficult for companies without solid knowledge and strong network to enter into the industry. Therefore, such companies will tend to cooperate with another company that has proven track record and is familiar with the industry. Through such collaborations, it is mutually advantageous for both parties, since the Target Group's existing brand promotion team and sales channel can empower them in their business operation and the Target Group can also benefit from the publicity and increase its sales of skincare products.

The Target Group expects the number of Brand Partners will reach over nine and the number of customers of Consulting Services will reach over 20 by the end of 2024, respectively.

8. Customer Concentration

For the three years ended 31 December 2022 and the nine months ended 30 September 2023, the five largest customers of the Target Group accounted for approximately 45.4%, 33.4%, 45.6% and 50.8% of the total revenue of the Target Group, respectively. Among which, the largest customer accounted for approximately 16.3%, 13.1%, 24.2% and 12.7% of the total revenue of the Target Group, respectively.

For the nine months ended 30 September 2023, all five largest customers were from Brand Marketing and Consulting Services. The reasons for such customer concentration in the nine months ended 30 September 2023 was that for Brand Authorisation Services, each single Brand Authorisation project has a relatively large contract sum such that small number of projects can contribute a substantial amount to the total revenue of the Target Group for a particular period. Therefore, when the Target Group undertakes certain Brand Authorisation projects, such Brand Partners may easily become the largest customers in terms of revenue contribution. Despite such concentration, the management of the Target Group considers that the Target Group is not reliant on any single customer because the combination of the five largest customers differs for each year or period during the Track Record Period and the Target Group is continuing to expand and diversify its customer base by establishing long-term relationship with other customers and offer new products and services to increase sales in each business segment. The number of customers for Skincare Solutions Business recorded and significant increase from 90 in 2021 to 165 in 2022 and further to 755 for the nine months ended 30 September 2023 with the launch of Baijin Cloud Platform. Furthermore, taking into consideration the contracts in negotiation, the Target Group expects the number of Brand Partners will reach over nine by the end of 2024. The management of the Target Group believes that a loyal and expanding customer base mitigates the risk of customer concentration.

9. List of Projects

The following table sets forth the summary of the contracts entered into between the Target Group and its customers as at the Latest Practicable Date:

	Number of projects	Total contract amount	Expected revenue to be recognised by 31 December 2023	Expected revenue to be recognised by 31 December 2024
		(RMB'000) *(approximately)*	*(RMB'000)* *(approximately)*	*(RMB'000)* *(approximately)*
R&D Services				
Scientific research services	1	300	300	—
Small animal breeding	2	927	77	463
Scientific research consulting services	—	—	—	—
Skincare Solutions Business (excluding online platforms)				
Sales of skincare products	10	21,880	2,179	22,160
Sales of raw materials	1	50	—	600
Brand Marketing and Consulting Services				
Brand authorisation services	4	3,500	83	3,000
Consulting Services	4	9,300	432	4,515
Total	22	35,957	3,071	30,738

The following table sets forth the contracts expected to be obtained by the Target Group for the year ending 31 December 2024:

	Number of projects	Expected revenue to be recognised by 31 December 2024 *(RMB'000)*
R&D Services		
Scientific research services	8	1,480
Small animal breeding	—	—
Scientific research consulting services	—	—
Skincare Solutions Business (excluding online platforms)		
Sales of skincare products	11 *(Note)*	13,400
Sales of raw materials	2	200
Brand Marketing and Consulting Services		
Brand authorisation services	3	1,500
Consulting Services	4 *(Note)*	2,000
Total	**28**	**18,580**

Note: It includes 8 contracts to be obtained in relation to sales of skincare products and/or consulting services, amounting to approximately RMB11.4 million.

The key assumptions of the above table are as follows:

R&D Services

1. The expected contract sum for new customers is based on the communication and understanding between the Target Company and such potential customers in respect of their future business cooperation.

2. For recurring customers, it is assumed that they will continue to engage the Target Group for similar projects at an expected contract sum calculated based on the trend of historical amount recognised from contracts with the respective customers.

3. It is assumed that with the introduction of new experiment or testing methods, the Target Group will be able attract new customers.

Skincare Solution Business

4. The expected contract sum for Skincare Solution Business does not include sales from online sales platforms such as Baijin Cloud Platform, JD.com, Tmall and TikTok.

5. For recurring customers, it is assumed that they will continue to engage the Target Group for similar type and amount of products at an expected contract sum calculated based on the trend of historical amount recognised from contracts with the respective customers.

Brand Marketing and Consulting Services

6. It is assumed that all existing Brand Partners for Brand authorisation services will renew their respective contract at the same contract sum as the previous year.

7. It is assumed that all potential Brand Partners in negotiation will enter into the Brand authorisation services contract with the Target Group.

10. Human Resources

The Target Group believes that a team of competent talents is the cornerstone of business operations and sustainable development. The Target Group is dedicated to cultivate a corporate culture that promotes belonging and performance, which helps attract, retain and motivate a dynamic team capable of driving its growth.

The recruitment management of the Target Group is led by Ms. Zhang Meng (張萌), an executive director of the Target Group, who obtained a master degree from The University of Queensland in food and science in 2018 and has rich experience in administrative and human resources management. She is responsible for developing and implementing the policy of the administrative and human resources for the Target Group. The Target Group continues to improve human resource management and recruit talents, provide systematic training and development programs, as well as regularly reviews the incentive package and performance evaluation mechanism, thereby setting the foundation for the long term success.

11. Major Risks Relating to the Business of the Target Group

The China's beauty industry is rapidly evolving and highly competitive. The Target Group is subject to intense competition from domestic and international competitors, and the Target may face challenges in maintaining or enhancing the market share in this industry for a variety reasons.

According to the White Paper, China's beauty market has grown fast since 2015, becoming the world's second-largest beauty market by 2019 at a market size of RMB425.6 billion. In 2021, sales of beauty and personal care products reached around RMB550.0 billion to RMB600.0 billion, 10% more than the previous year. The Target Group is a small and medium-size market player with a track record since 2018 and the annual revenue for the three years ended 31 December 2022 and the nine months ended 30 September 2023 being approximately HK$2.5 million, HK$12.9 million, HK$21.6 million and HK$19.5 million, respectively.

The business environment in which the Target Group operates is highly competitive and characterised by constantly evolving market, frequent introduction of new products and services, consumers' focus on quality and function and increasing customer expectations. The Target Group competes on the basis of integration of the provision of the R&D Services, the Skincare Solutions Business and the Brand Marketing and Consulting Services, and the ability to tailor the services and products to consumer preferences and market trends. The Target Group faces competition from both domestic and international competitors. Many multinational and large-size cosmetic companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer base than the Target Group does, and may be able to respond more effectively to changing business and economic conditions than the Target Group. In addition, it is difficult for the Target Group to accurately predict the timing and scale of the competitors' activities or whether new competitors will emerge in the cosmetics industry. Moreover, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and the strength and success of the competitors' marketing programs may impede Target Group's growth and the implementation of its business strategy.

Target Group's business depends on market recognition of the FO Brand, and it may be subject to risks in relation to the sales and marketing strategies.

When the Target Group first introduced its skincare products, among the strong competition in the skincare solutions market in the PRC, the Target Group carried out a diversified marketing plan. After a series of marketing activities, the Target Group has generated a group of loyal customers since then. With its skincare products emerging in the consumer market, the FO Brand became more recognisable. The continued success and growth depend significantly on the ability to protect and promote the FO Brand in the existing markets and new market the Target Group intends to enter into. Promoting and defending the FO Brand also depend, in part, on securing the cooperation of distributors and Brand Partners and on expanding online sales and promotion through the Baijin Cloud Platform and the Referral Programme. If the Target Group fails to successfully promote the FO Brand or to protect and enhance the FO Brand identity, or if the Target Group fails to protect the FO Brand and its position, or if the Target Group fails to properly supervise the distribution or the Referral Programme or use of the products under the FO Brand by the distributors/KOC/KOL, or if such distributors/KOC/KOL fail to comply with the policies, the market recognition of the FO Brand may deteriorate, the Target Group may not be able to sell the products under the FO Brand at acceptable prices and/or volumes, and, as a result, the results of operations may be adversely affected.

In addition, the Target Group manage a sales and distribution network and sell the products through both online and offline channels. During the track record period, the Target Group sold the products mainly through distributors/agents (which further sell the products to consumers), beauty salons/clinics, direct sales and Baijin Cloud Platform. With the launch of the Baijin Cloud Platform, the Target Group has introduced the Referral Programme in 2023 to attract customers. However, given the intense competition from competitors and unpredictable changes in consumer demand, there are significant challenges and uncertainties involved in the strategic plan, including whether (i) the Target Group will be able to complete the strategic plan, such as expansion of the product portfolio on schedule; (ii) the Target Group will be able to generate anticipated revenue and profits from the plans; and (iii) the plans will be in line with the market demand and national and local policies in the future. The Target Group cannot assure that it will be successful in implementing the strategies or that the strategies, even if implemented, will lead to successful achievement of the objectives. The failure of the execution of the sales and marketing strategies could materially and adversely affect the Target Group's business, financial condition, results of operations and prospects.

Target Group's business and future growth prospects rely on consumer demand for the Target Group's services and product. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand, may materially and adversely affect the Target Group's business and results of operations.

The Target Group operates in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. The success of the Target Group depends on the widespread market acceptance of the products under the FO Brand, the ability to identify and response to constantly shifting consumer demand and trends, develop new and appealing products on a timely basis, and achieve acceptance of such new products by customers.

In particular, the Target Group depends on, to a significant extent, continued consumer demand for skincare products and relevant consulting services and the Target Group cannot assure that consumers will continue to demand such products. If the Target Group fails to achieve or maintain widespread market acceptance of the products under the FO Brand, anticipate and respond appropriately to changing consumer trends and preferences, or if consumer preferences shift away from products and services under the FO Brand, results of operations and financial condition may be materially and adversely affected.

Changes in supply, quality and costs of raw materials, transportation and other necessary suppliers or services may impact the business, financial condition and results of operations.

During the Track Record Period, the Target Group's cost of revenue mainly consisted of purchase of raw materials and processing service fee, which represented approximately 40.1%, 55.9%, 57.4% and 25.3% of the total cost of revenue for the three years ended 31 December 2022 and for the nine months ended 30 September 2023. The Target Group is subject to fluctuation in the prices of raw materials, as well as transportation and other necessary supplies or services, due to factors beyond the control of the Target Group, such as inflation, changes in the supply and demand for such related raw materials. The Target Group may not be able to offset price increases by raising the prices of the products/services, in which case the profit margin will decrease, and the financial condition and results of operations may be materially and adversely affected.

Any failure to obtain, maintain or renew any of the requisite licenses, permits, registrations and filings required for business could adversely affect the operations of the Target Group.

The Target Group is equipped with the Laboratory with SPF experimental animal qualification and is therefore eligible to provide animal testing related research and experiments. The setting up of a specific pathogen-free facility for laboratory animals requires the laboratory to fulfil certain standards in terms of construction, management of regulations, personnel training and management, sterilisation and cleaning, and waste disposal. If the Target Group fails to maintain or renew the SPF experimental animal qualification, the operations could be disrupted. In addition, given the constant evolution of government regulations governing the Target Group's business, it might become increasingly onerous for the Target Group to comply with such evolving regulations, and any non-compliance may expose to liability. In case of any non-compliance, the Target Group may have to incur monetary expenses and divert substantial management time and resources to resolving any deficiencies. The Target Group may also experience negative publicity arising from such deficiencies, which may adversely affect the business and financial performance.

The Accumulated Profit Guarantee provided by the Vendor and the Guarantors does not constitute a profit forecast and there is a probability that the Target Group may not be able to achieve the Accumulated Profit Guarantee.

The Vendor and the Guarantors jointly and severally, irrevocably guarantee to the Purchaser that the aggregate Audited Consolidated Net Profit for the two years ending 31 December 2024 shall not be less than HK$21.05 million. While in addition to historical track records, the Accumulated Profit Guarantee has also taken into consideration a forecast prepared by the directors of the Target Group after due and careful enquiry, the assumptions of the forecast include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results, and the actual results or outcomes could be affected by events or circumstances after the forecast had been prepared. The Accumulated Profit Guarantee may differ materially from those expressed in the forecast by the directors of the Target Group, therefore, the Accumulated Profit Guarantee should not be construed as a profit forecast and there is no guarantee that the Target Group will achieve the Accumulated Profit Guarantee.

The Board has set up a compensation mechanism regarding the failure to achieve the Accumulated Profit Guarantee to safeguard the interests of the Company and the Shareholders as a whole. In the event that the Target Group be unable to meet the Accumulated Profit Guarantee, the consideration will be adjusted by the Compensation Amount. For further details, please refer to the paragraph headed "II. The Sale and Purchase Agreement — Profit Guarantee and Adjustments to the Consideration of the Acquisition".

IX. FINANCIAL AND TRADING PROSPECTS OF ENLARGED GROUP

Upon the Acquisition, together with the Target Group, the Group can build a diverse, multi-segment, counter-cyclical business model which offers development resilience and enables the formation of a growth matrix covering R&D Services, skincare solutions, brand marketing and consulting services, pearls and jewellery products and investment and financial services. The Target Group is considered a strategically valuable asset to the Group, which allows the Group to further penetrate the enormous female consumer market, diversify its revenue structure and generate future economic benefits for the Group's sustainable development.

The Group after the Acquisition aims to bring along the following prospects and strategies, which will offer unique investment value.

(a) Expansion of Product Matrix

Leveraging on the in-depth knowledge of and years of experience in the provision of scientific research services, the R&D Services segment is a backbone of the Target Group and has always generated a steady income for the operation of the Target Group. Going forward, the Target Group will continue to enhance its R&D capabilities and operating efficiencies for the provision of R&D Services to third parties.

A majority of the products apply bioactive ingredients extracted from animal umbilical cords processed by the Laboratory, and have been proven effective in improving skin health and condition. With the positioning of the FO Brand as a technology-driven bioactive skincare brand, the Target Group strives to become the go-to brand of functional skincare products in the PRC. The Target Group endeavours to develop and launch new types of products to strengthen its product portfolio, penetrate new markets and meet diverse customer demands. Therefore, the Target Group will also accumulate the know-how and equip itself with the ability to match the trends in beauty and skincare products and diversify and expand its product portfolio to achieve sustainable business growth in the long run.

The current R&D for new skincare products under the FO Brand involves the application of pearls as ingredients and recombinant collagen and natural collagen in skincare products under the FO Brand. The Target Group has studied the efficacy of the pearls, the knowhow technology for the pearl powder extraction process and the formulation for applying the pearls to skincare products. Based on the R&D results conducted by the Laboratory, the complementarity of pearl and animal umbilical cord extracts can improve efficacy in skincare products.

The Target Group is also cooperating with third-party units in developing and processing recombinant collagen and natural collagen, which are intended to be included in skincare products under the FO Brand. The Laboratory has developed know-how on the extraction of animal tissues through its previous operation on animal-related scientific research services, which can be further applied to the extraction of natural collagen from animals. While the shortcomings of natural collagen, including immunogenicity and lack of biocompatibility, are yet to be overcome, the Target Company also initiated R&D on recombinant collagen, which has the potential to be a promising alternative to natural collagen.

In addition to the sales of processed materials, the Target Group will expand its product matrix to cover tailor-made services on skincare products to customers based on their respective needs, in particular those customers with stable and mature sales channels. The Target Group will provide the technical support (such as research, experiment and report and expert endorsement) for the skincare product production required by such customers. As at the Latest Practicable Date, four customers have engaged the Target Group to develop tailor-made skincare products, including skincare products for female customers and skin repair products for pets. The Target Group will promote tailor-made services together with the sales of raw materials.

(b) Expansion of Clientele

For the expansion of clientele, the Target Group will continue to strengthen its Brand Marketing and Consulting Services and explore more online and offline sales opportunities to enlarge the sales and distribution network, enhance the penetration of skincare products under the FO Brand, and carry out science- and knowledge-driven marketing to reinforce the FO brand recognition. The Target Group launched the Baijin Cloud Platform to elevate consumers' knowledge of functional skincare and the products' efficacy of skincare products under the FO Brand through live streaming and promotional materials. The Baijin Cloud Platform also allows customers and KOLs to promote the FO Brand, which will help reach out to more potential customers and improve brand awareness, and in turn, expand the sales of skincare products under the FO Brand.

The Target Group will continue to strengthen its collaboration with offline beauty salons and clinics, partner with more business partners to establish beauty salons and clinics under the FO Brand and provide brand building, marketing and consulting services to more customers, where the Target Group will receive a brand authorisation fee or consulting fee from the cooperation. As at the Latest Practicable Date, the Target Group has entered into respective agreements with four beauty salons, and is in trial run with another beauty salon, which is expected to begin operation in early 2024. A total of nine beauty salons and clinics in the PRC operating under the FO Brand are expected to be in 2024. The Target Group will also continue to expand its network of customer for consulting services and expects to have over 20 customers for consulting services by the end of 2024.

As at the Latest Practicable Date, the Target Company had confirmed sales orders for 22 projects, from which the total contract sum expected to be recognised before the end of 2024 amounted to approximately RMB30.7 million (equivalent to approximately HK$33.8 million).

(c) Synergies with the Group

The Group engages in the sales and distribution of pearls and jewellery, with its ultimate customers mainly focusing on the female market. The Group has extensive sources of pearls due to its close and stable relationship with pearl suppliers including pearl farmers, freshwater pearl processors and distributors in the PRC, the Philippines, French Polynesia and Australia.

While FO Brand skincare products are functional skincare products mainly targeting mid-to-high-end customers, the main ingredients are processed extracts from animal umbilical cords, rich in a variety of bioactive molecules. Such bioactive molecules such as small molecular peptides, lipids and small nucleic acids from processed extracts from animal umbilical cords may bring along skin condition improvements such as anti-inflammation, wound healing, anti-ageing and cell damage repairing; they do not have the function of skin whitening.

Over the years, pearl powder has been applied widely in skincare products and has also been scientifically proven to have the effect of skin whitening. According to the *Beauty Ingredients Trend Insight Report 2022* issued by *Ocean Engine* in 2022, pearl, whose primary function is whitening, is one of the top ten popular ingredients for applying in skincare products. In addition, according to the report issued by iResearch Consulting Group Limited in 2022, over 46% of the females were concerned about the function of whitening in skincare products. Based on the complementarity of pearl and animal umbilical cord extracts, the Target Group is therefore in the process of developing new skincare products containing pearls as ingredients for skin whitening.

The application of pearl as an ingredient in the skincare products under the FO Brand also allows the FO Brand to develop repairing and whitening skincare products in order to enrich the product lines, improve product competitiveness and expand the market, which in turn creates a synergy between the Target Group and the Group.

While the sales of pearls and jewellery by the Target Group mainly cover the United States of America, the United Kingdom and Europe, the Group has yet to build a strong distribution network in the PRC. To capture the opportunity in the PRC market, the Group intends to progressively expand its sales of pearls and jewellery into the PRC. Given the Target Group is based in the PRC with strong distribution experience and marketing capabilities, it is familiar with the consumers' preferences and applicable rules and regulations, it in a prominent position to act as a bridge for the Group to enhance its market penetration in the sales of pearls and jewellery in the PRC. In line with the improvement of the consumption power and the diversification of jewellery products, jewellery has gradually become a fashion accessory for people's daily wear. According to the *China Jewellery Market Size By Type (Gold, Diamond, Silver), By Product (Necklace, Rings, Earrings, Bangles, Cuff links) And Forecast* published in April 2023 by *Verified Market Research*, a global research and consulting firm, looking forward, due to the growing purchasing power of PRC citizens, jewellery market size in the PRC was valued at US$52.3 billion (equivalent to approximately HK$407.9 billion) in 2021 and is projected to reach US$100.2 billion (equivalent to approximately HK$781.6 billion) by 2030, growing at a CAGR of 7.50% from 2023 to 2030.

The Acquisition also brings along potential collaboration and cross-selling opportunities that will be mutually beneficial for both the Group and the Target Group. Both the distribution of pearls and jewellery by the Group and the development and distribution of skincare products by the Target Group primarily focus on the female consumer market. The Group believes there is substantial overlap between the target customers of the current pearls and jewellery products line-up and the skincare products under the FO Brand of the Target Group, where promotional events and selected stores which demonstrate both product lines can be established to capture the enormous business potential in female consumer market.

Through the distribution of pearl and jewellery, the Group has already developed expertise in the female consumer market. The Group believes it to be a way to leverage its management expertise to expand its existing business to further uncover the potential market of its ultimate female consumers and to expand its existing business both vertically by using existing pearl products as raw materials for skincare products and horizontally by widening its range of female consumer products extending from pearl and jewellery to skincare products.

X. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group engages in the sales and distribution of pearls and jewellery with its ultimate customers mainly focusing on female market. The Group is principally engaged in (i) the purchase, processing, design, production and wholesale distribution of pearls and jewellery products and (ii) the operation of strategic investment and financial services segment, with the objective to include investments in real estate and other potential investment opportunities. The Group's revenue in the pearls and jewellery products segment was severely impacted by the pandemic, and had slightly recovered in 2022 overall. Although there was a temporary drop in the overall sales performance of the Group for the six months ended 30 September 2023, despite the volatile external environment, based on the Group's observation and estimation, it is expected that the overall downtrend will be carried forward to a certain extent but shall be gradually and eventually back to the normal level following the recovery from the pandemic.

Diversification of Income Stream and Business Portfolio

Catalysed by the downturn of the Group's businesses during the pandemic outbreak, the Company has recognised the need to diversify its business and income stream to gain resilience to cyclical development of the economy. Therefore, the Company has been exploring opportunities to expand and diversify on its business portfolios. Over the years, the Group has been actively seeking diversified sources of income in order to enhance returns to the Shareholders, including suitable acquisition opportunities. In particular, through the long term engagement in the pearls and jewellery products segment, the Group has developed an expertise in female consumer market, and the Group believes that it is able to further uncover the potential market of its ultimate female consumers by leveraging on its management expertise.

The Company has identified the Target Group which is principally engaged in providing (i) scientific and pharmaceutical research and development services, (ii) skincare solutions through self-transformed skincare brand and mid-to-high-end functional skincare products, as well as (iii) brand marketing and consulting services.

Outsourcing to a scientific research service provider allows a biotechnology company to expand its manufacturing and technology capacity without increased overhead and capital expenditure. Scientific research service providers are increasingly becoming integral parts of the biotechnology companies' value chain. The numbers of biotechnology companies and drug product pipelines have grown exponentially in the past few years supported by a combining force of several contributors, including the growing pool of talents and technologies in biotech industry, and the broadening access to public market of pre-revenue biotech companies. As such, there is a trend toward high-tech added value and industrial application process. The Laboratory mainly provided scientific research services to customers at the initial stage. It gradually expanded its setups and equipment in relation to the conservation breeding and the use of experimental animals for scientific research and experiments. With the continuous expansion in customer base and the facilities in the Laboratory, the Target Group further expanded to provide scientific research consulting services in relation to cell and genes analysis to customers. Leveraging on the in-depth knowledge of and years of experience in provision of contract researches services, the R&D Services segment is a backbone of the Target Group and generates a steady income for the operation of the Target Group.

The Target Group rode on the competency of its research and development capabilities and applied bioactive ingredients extracted from animal umbilical cords for the development of functional skincare products. It has been an increasingly popular awareness that different consumer needs should be addressed by different product categories, which drives the development of product categories focusing on specific concerns of consumers. Functional skincare products refer to products which tackle specific concerns of customers, namely improvement of skin integrity, provision of relief from skin conditions and addressing specific skin concerns such as acne, dark spots, hyperpigmentation, fine lines and inflammation. The Target Group is considered a strategically valuable asset to the Group, which allows the Group to further penetrate the enormous female consumer market, diversify its revenue structure and generate future economic benefits for the Group's sustainable development. Based on the market research conducted by the Company, the business development and financial performance of the Target Group and the factors discussed below, the Company is optimistic about the prospects of the Chinese skincare market and believes that the Skincare Solutions Business segment of the Target Group is well positioned to capture the business opportunities under the current beauty market atmosphere in China.

According to the White Paper, China's beauty market has grown fast since 2015, becoming the world's second-largest beauty market by 2019 at a market size of RMB425.6 billion. In 2021, sales of beauty and personal care products reached around RMB550.0 billion to RMB600.0 billion. Meanwhile, consumer interest in skincare products has grown fast between 2020 and 2022 in China and China's skincare market was worth about RMB9.2 billion in 2021, recording a 17% year-over-year increase, and it is expected to reach RMB24.0 billion by 2027. According to the report prepared by *iResearch Inc.* in 2022, it commented that the market size of functional skincare products reached RMB30.8 billion in 2021, and is expected to reach RMB200.0 billion in 2027, with a CAGR of 30% from 2021 to 2027. With the increase in R&D investment of domestic skincare and beauty products and China's per capita GDP, there is huge room for growth of the domestic skincare and beauty market in the PRC. One major change in beauty consumption after the pandemic was that people began to consume more skincare products based on the research by *Daxue Consulting*. Due to the damage from wearing face masks for a long time, products with "skin repair", "basic skincare" and "first-aid care" functions gained popularity. Generation Z accounted for the largest beauty consumer group as at September 2022 and showed a greater interest in skincare products such as eye essence, eye cream, and face masks compared to other age groups.

Consumers are also paying more attention to ingredients and technologies used in cosmetic products, which encouraged cosmetics companies to focus more on research and development and the technology applied in functional skincare products. It is commented in the White Paper that nowadays, consumers pay greater attention to ingredients, which has led beauty marketers to coin the phrase "skintellectuals", who are consumers that carefully read product ingredient lists to select those that can better address their skin problems, removing redundant additions to their skincare routine. The FO Brand, focusing on mid-to-high-end functional skincare products, becomes more recognisable under such consumption tend, and it keeps moving on new product developments to accommodate the diverse and evolving consumer needs for skincare products.

Meanwhile, the Chinese domestic skincare companies are beginning to adopt popular sales and marketing strategies on social media platforms and more favorable product designs to satisfy consumer needs, in order to facilitate the increasing spending power of younger consumer groups and adapt to the changing market conditions of the PRC market. Domestic beauty brands have risen strongly in recent years by leveraging social media marketing and e-commerce. Through the Baijin Cloud Program, the Target Group is able to promote the FO Brand in an efficient way and better manage the customer relationship. It is also commented by *Sheer Analytics and Insights*, an international consulting firm, in its *China Skincare Market Share and Growth Analysis Report for 2032* published in December 2022 that the online segment held the largest market share during the pandemic period, with some key players are focusing on expanding their business growth by offering new benefits through online retailers and online shops or creating mini programs to offer electronic coupons and improve consumer relations to increase both online and offline sales.

Leveraging on its previous experience in branding and promotion work for the FO Brand, the Target Group commenced its Brand Marketing and Consulting Services segment last year. Although this emerging business segment was originally derived from the operation of FO Beauty Salon by the Target Group, the Target Group is establishing a network of potential customers by different marketing and promotion channels. The Company believes that the revenue from the Brand Marketing and Consulting Services can supplement the Target Group.

Upon the Acquisition, together with the Target Group, the Group can build a diverse, multi-segment, counter-cyclical business model which offers development resilience and enables the formation of a growth matrix covering R&D services, skincare solutions, brand marketing and consulting services, pearls and jewellery products and investment and financial services.

Completion of the Acquisition can bring Immediate Financial Contribution to the Group

The Target Group's overall growth in revenue increased from approximately HK$12.9 million in 2021 to approximately HK$21.6 million in 2022, primarily driven by the significant growth in revenue in R&D Services and Skincare Solutions Business, as well as a slight growth in revenue in Brand Marketing and Consulting Services. For the nine months ended 30 September 2023, the revenue of the Target Group already reached approximately HK$19.5 million.

It is expected that the businesses of the Target Group will continue to be cash flow and profit-generating after the Completion and thus it will contribute further to the cash flow and financial performance of the Group by becoming an indirect wholly-owned subsidiary of the Company upon Completion, thus benefitting the overall performance of the Group's businesses. The Company is of the view that the Acquisitions will provide stable and attractive earnings which are expected to improve the Group's overall operating results and therefore the competitiveness of the Group.

Synergetic Effect Expected to be Brought along by Fusing the Group and the Target Group's Network and Experience

The Company considers that the skincare market has immense potential and there is product crossover between the Group's pearl products and the Target Group's skincare products, one of the synergies being processing pearls to become one of the ingredients in skincare products. The Group has extensive sources of pearls due to its close and stable relationship with pearl suppliers including pearl farmers, freshwater pearl processors and distributors in the PRC, the Philippines, French Polynesia and Australia. Over the years, pearl powder has been applied widely in skincare products and has also been scientifically proven to have the effect of skin whitening. Based on the complementarity of pearl and animal umbilical cord extracts, the Target Group is therefore in the process of developing new skincare products containing pearls as ingredients for skin whitening. The application of pearl as an ingredient in the skincare products under the FO Brand also allows the FO

Brand to develop repairing and whitening skincare products in order to enrich the product lines, improve product competitiveness and expand the market, which in turn creates a synergy between the Target Group and the Group.

The Acquisition also brings along potential collaboration and cross-selling opportunities that will be mutually beneficial for both the Group and the Target Group. The distribution of pearls and jewellery by the Group and the development and distribution of skincare products by the Target Group primarily focus on the female consumer market. The Group believes there is substantial overlap between the ultimate target customers of the current pearls and jewellery products line-up and the skincare products under the FO Brand of the Target Group.

The Directors believe that the Acquisition gives the Group an opportunity to expand its existing business both vertically by using the Group's existing pearl products as raw materials for skincare products and horizontally by widening its range of female consumer products extending from pearl and jewellery to skincare products.

Board's Assessment on the Fairness and Reasonableness of the Acquisition

The Directors are of the view that the Acquisition would be able to bring positive contribution to the Group if successfully materialised. Having considered that (i) it is essential for the Group to enhance its income stream to generate stable and recurring income, which in line with the business strategy of the Company; (ii) the solid financial position of the Target Group as at the Latest Practicable Date; (iii) the prospects of the industries where the Target Group operates in; (iv) the Acquisition does not create any cash outflow to the Group; (v) the Accumulated Profit Guarantee provided by the Vendor; (vi) the Consideration Shares and the Convertible Bond will be locked up until the Accumulated Profit Guarantee is achieved, and where it cannot be achieved, the consideration of the Acquisition will be adjusted accordingly; and (vii) the reasons for and benefits of the Acquisition as discussed above, the Board (including all the independent non-executive Directors) is of the view that the terms and conditions of the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and that are in the interests of the Company and its Shareholders as a whole.

XI. EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and allotment and issue of the Consideration Shares; and (iii) immediately after Completion and allotment and issue of the Consideration Shares and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bond. Shareholders should take note that the analysis under scenario (iii) is shown for illustration purpose only.

Shareholders	**As at the Latest Practicable Date**		**Immediately after Completion and allotment and issue of the Consideration Shares but before conversion of the Convertible Bond**		**Immediately after Completion and allotment and issue of the Consideration Shares and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bond**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Pacific Wish Limited *(Note 1)*	84,088,691	13.15	84,088,691	12.38	84,088,691	10.52
Vendor *(Note 2)*	—	—	39,954,338	5.88	159,817,351	20.00
Other public Shareholders	555,209,237	86.85	555,209,237	81.74	555,209,237	69.48
	639,297,928	100.00	679,252,266	100.00	799,115,279	100.00

Notes:

1. These 84,088,691 Shares were directly owned by Pacific Wish Limited, which are legally and beneficially owned by Mr. Chan Vincent Wing Sing ("**Mr. Chan**") as to 50% and Ms. Hui Ka Man Emily ("**Ms. Hui**") as to 50%. As at the date of the Latest Practicable Date, the board of directors of Pacific Wish Limited comprised Mr. Chan and Ms. Hui.

2. The numbers are hypothetical and for illustration purpose only as the conversion of the Convertible Bond is subject to the conversion restrictions set out under the paragraph headed "III. The Convertible Bond" above and may be subject to the fulfillment of the Accumulated Profit Guarantee and completion adjustment (if any) set out under the paragraph headed "II. The Sale and Purchase Agreement — Profit guarantee and adjustments to the consideration of the Acquisition".

XII. APPLICATION FOR LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares, when issued and allotted, will rank *pari passu* in all respects with all the existing Shares in issue.

XIII. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the Group's consolidated financial statements.

Earnings

The audited profit after tax of the Group for the year ended 31 March 2023, as extracted from the annual report dated 28 July 2023 of the Company, was approximately HK$8.73 million.

As set out in Appendix II to this circular, the Target Group recorded an audited net profit after tax of approximately HK$2.3 million for the year ended 31 December 2022 and approximately HK$3.4 million for the nine months ended 30 September 2023.

The Directors consider that the Acquisition will bring positive contribution to the earnings of the Enlarged Group subject to the future performance of the Target Company.

Assets and Liabilities

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the net assets of the Group would increase from approximately HK$75.3 million to approximately HK$100.3 million as a result of the Acquisition.

Upon Completion, the Group's non-current assets would increase from approximately HK$0.5 million to approximately HK$80.0 million and its non-current liabilities would increase from approximately HK$0.1 million to approximately HK$59.0 million. In addition, the Group's current assets would increase from approximately HK$98.0 million to approximately HK$117.7 million and its current liabilities would increase from approximately HK$23.1 million to approximately HK$38.5 million.

XIV. IMPLICATIONS UNDER THE LISTING RULES

As one or more than one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

New Continuing Connected Transaction

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. As soon as the Target Company becomes a subsidiary of the Company, the continuing transactions between members of the Enlarged Group and its connected persons will become continuing connected transactions of the Company.

Dr. Li has provided personal guarantee as security for bank loans taken out by the Target Group, and such guarantee is expected to continue after Completion. Upon Completion, Dr. Li, a substantial shareholder of the Company's subsidiary, will become a connected person of the Company, and the provision of guarantee by Dr. Li will constitute financial assistance by a connected person of the Company. As the guarantee will be provided on normal commercial terms and will not be secured by the Group's assets, pursuant to Rule 14A.90 of the Listing Rules, the guarantee is fully exempt from the reporting, annual review, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, the Target Group will not continue procuring and selling products and/or services from/to its related parties (i.e. will be regarded as connected persons under Chapter 14A of the Listing Rules) after Completion.

XV. THE EGM

The EGM will be held by the Company at Units 5906–12, 59/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Thursday, 8 February 2024 at 11:00 a.m., to consider and if thought fit, to approve, the Acquisition and the transactions contemplated thereunder, including the issue of the Consideration Shares, the Convertible Bond and the Conversion Shares.

Any Shareholder and his or her or its associates with a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder will abstain from voting at the EGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholders are required to abstain from voting on the relevant resolution to be considered at the EGM as at the Latest Practicable Date.

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, the resolution put to the vote at the EGM will be taken by way of poll.

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for the EGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (i.e. not later than 11:00 a.m. on Tuesday, 6 February 2024) or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish. If you attend and vote at the EGM in person, the form of proxy shall be deemed to be revoked.

Closure of Register of Member

The transfer books and register of members of the Company will be closed from Monday, 5 February 2024 to Thursday, 8 February 2024 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for the right to attend and vote at the EGM, all transfers of Shares accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 February 2024.

XVI. RECOMMENDATION

As at the Latest Practicable Date, none of the Directors had any material interests in the Sale and Purchase Agreement and the transactions contemplated thereunder. As such, none of the Directors was required to abstain from voting on the board resolution in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Board is of the view that although the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the terms are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. As such, the Board recommends that all Shareholders vote in favour of the ordinary resolution to be proposed at the EGM regarding the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond and the grant of the Specific Mandate).

Completion of the Acquisition is subject to fulfillment of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

XVII. ADDITIONAL INFORMATION

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

By order of the Board
AFFLUENT PARTNERS HOLDINGS LIMITED
Cheng Chi Kin
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 March 2021, 2022 and 2023 and the six months ended 30 September 2023 have been published and are available on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.affluent-partners.com), and can be accessed by the direct hyperlinks below:

(i) the audited financial statements included in the annual report of the Company for the year ended 31 March 2021 published on 22 July 2021 (pages 66 to 199):

(https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0722/2021072200885.pdf)

(ii) the audited financial statements included in the annual report of the Company for the year ended 31 March 2022 published on 26 July 2022 (pages 63 to 187):

(https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0726/2022072600465.pdf)

(iii) the audited financial statements included in the annual report of the Company for the year ended 31 March 2023 published on 28 July 2023 (pages 62 to 175):

(https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0728/2023072801511.pdf)

(iv) the unaudited financial statements included in the interim report of the Company for the six months ended 30 September 2023 published on 18 December 2023 (pages 4 to 37):

(https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1218/2023121800424.pdf)

2. WORKING CAPITAL

The Directors, after due and carefully enquiry and taking into account the financial resources including internally generated funds and the available banking facilities available to the Enlarged Group, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular in the absence of any unforeseeable circumstances.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding indebtedness as follows:

	At 30 November 2023
	HK$'000
Current	
Other borrowings — unsecured *(notes a)*	3,153
Lease liabilities *(note b)*	137
	3,290
Non-current	
Lease liabilities *(note b)*	63
Total indebtedness	3,353

Notes:

(a) The unsecured other borrowing due to New Times Commerce Consultants Limited of principal in amount of approximately HK$3,000,000 and relevant interest of approximately HK$153,000, the principal was interest-bearing at 6% per annum and payable on 12 December 2023. Such loan included the clause of repayable on demand.

(b) The Group entered into of several lease agreements with lessors for leasing office premises with lease terms of 2 years. The Group recognised right-of-use assets and lease liabilities for these leases. The estimated incremental borrowing rate of the leases ranged 4.75% to 5.13% per annum.

Save as aforesaid, and apart from intra-group liabilities and normal trade payable in the ordinary course of the business, as at the close of business on 30 November 2023, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

Please see "Management Discussion and Analysis of the Target Group — Indebtedness — Indebtedness Statement" in Appendix III to this circular for the Statement of Indebtedness of the Target Group as at the close of business on 30 November 2023.

4. MATERIAL ADVERSE CHANGE

On 24 November 2023, the Company published the profit warning announcement that, based on the preliminary assessment of the unaudited consolidated management accounts of the Group, the Group was expected to record a loss of approximately HK$2.0 million attributable to equity holders of the Company for the six months ended 30 September 2023 as compared to the profit of approximately HK$10 million attributable to equity holders of the Company for the six months ended 30 September 2022. The loss for the six months ended 30 September 2023 was mainly attributable to (i) the substantial decrease in revenue and gross profit due to the decrease in sales of pearls and jewellery products; (ii) the increase in administrative expenses; and (iii) the decrease in reversal of allowance for expected credit losses on trade receivables.

As at the Latest Practicable Date, save for the above, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2023, being the date to which the latest published audited financial statements of the Company were made up.

The following is the text of a report set out on pages II-1 to II-79, received from the Target Group's reporting accountants, Moore CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

MOORE

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大華馬施雲
會計師事務所有限公司

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TARGET GROUP TO THE DIRECTORS OF AFFLUENT PARTNERS HOLDINGS LIMITED

Introduction

We report on the historical financial information of Tonnett Julis Holdings Limited, a company incorporated in the British Virgin Islands (the "**BVI**"), with limited liability (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-79, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 and the consolidated income statements, consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for the each of the years ended 31 December 2020, 2021 and 2022 and the period from 1 January 2023 to 30 September 2023 (the "**Relevant Periods**"), and a summary of material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-79 forms an integral part of this report, which has been prepared for inclusion in the circular of Affluent Partners Holdings Limited (the "**Company**") dated 25 January 2024 (the "**Circular**") in connection with the acquisition of the one issued share of the Target Company, representing the entire issued share capital of the Target Company acquired by Eminent Affluent Limited, a company incorporated in the BVI with limited liability, which is also a wholly-owned subsidiary of the Company (the "**Purchaser**") from Ketto Inform Limited, a company incorporated in Hong Kong with limited liability (the "**Vendor**") pursuant to the formal sale and purchase agreement dated 29 June 2023 (the "**Acquisition**").

Director's responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, and of the Target 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 financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the nine months ended 30 September 2022 and other explanatory information (together, the "**Stub Period Comparative Financial Information**"). The director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative 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 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 Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (winding up and miscellaneous provisions) Ordinance

Adjustments

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

Dividends

We refer to Note 11 to the Historical Financial Information which states that no dividend was declared or paid by Target Company in respect of the Relevant Periods.

Underlying Financial Statements

The consolidated financial statements of the Target Group for the Relevant Periods (the ''**Underlying Financial Statements**''), on which the Historical Financial Information is based, were prepared by the director of the Target Company in accordance with the accounting policies that conform with the Hong Kong Financial Reporting Standards issued by the HKICPA.

Moore CPA Limited
Certified Public Accountants

Leung Yu Ngong
Practising Certificate Number: P06734

Hong Kong, 25 January 2024

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

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

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

CONSOLIDATED INCOME STATEMENTS

		For the year ended 31 December			For the nine months ended	
					30 September	30 September
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Revenue	*6*	2,518	12,869	21,590	10,822	19,474
Cost of revenue	*6*	(1,424)	(5,717)	(5,984)	(3,216)	(4,236)
Gross profit	*6*	1,094	7,152	15,606	7,606	15,238
Provision for allowance for expected credit losses ("**ECL**") on trade receivables, net	*9*	(1)	(30)	(131)	(128)	(205)
(Provision for)/reversal of allowance for ECL on other receivables, net	*9*	(454)	(975)	1,242	(527)	(491)
(Provision for)/reversal of allowance for ECL on other deposit, net	*9*	(4)	(6)	(2)	7	(1)
Impairment loss on intangible assets		—	(5)	(9)	—	—
Selling expenses		(819)	(3,337)	(2,386)	(2,063)	(2,099)
Administrative expenses		(4,149)	(8,407)	(12,024)	(8,543)	(8,847)
Other gains/(losses), net	*7*	2,063	106	670	476	343
Share of profit/(loss) of an associate	*13*	7	(9)	—	—	—
Gain on disposal of an associate	*13*	—	—	2	2	—
Operating (loss)/profit		(2,263)	(5,511)	2,968	(3,170)	3,938
Finance income	*8*	26	119	49	12	51
Finance costs	*8*	(123)	(529)	(612)	(504)	(272)
(Loss)/profit before income tax	*9*	(2,360)	(5,921)	2,405	(3,662)	3,717
Income tax (expense)/credit	*10*	(234)	240	(149)	(93)	(342)
(Loss)/profit for the year/period		(2,594)	(5,681)	2,256	(3,755)	3,375
(Loss)/profit for the year/period attributable to						
Equity owners of the Company		(2,156)	(4,541)	1,251	(3,345)	3,048
Non-controlling interests		(438)	(1,140)	1,005	(410)	327
		(2,594)	(5,681)	2,256	(3,755)	3,375

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended 31 December			For the nine months ended	
					30 September	30 September
		2020	**2021**	**2022**	**2022**	**2023**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
(Loss)/profit for the year/period		(2,594)	(5,681)	2,256	(3,755)	3,375
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations		(5)	(98)	1,913	888	(807)
Total comprehensive (loss)/income for the year/period		(2,599)	(5,779)	4,169	(2,867)	2,568
Total comprehensive (loss)/income for the year/period attributable to						
Equity owners of the Company		(2,161)	(4,639)	3,164	(2,457)	2,241
Non-controlling interests	*33*	(438)	(1,140)	1,005	(410)	327
		(2,599)	(5,779)	4,169	(2,867)	2,568

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	As at 30 September 2023 HK$'000
Non-current assets					
Property, plant and equipment	*15*	3,609	5,900	4,799	5,577
Intangible assets	*12*	—	—	—	—
Right-of-use assets	*16*	2,746	1,738	858	1,338
Investment in an associate	*13*	118	109	—	—
Prepayment	*19*	140	4	20,503	16,612
Deferred tax assets	*27*	—	19	1	29
		6,613	7,770	26,161	23,556
Current assets					
Inventories	*17*	5,025	4,908	3,254	2,718
Costs to fulfil contracts	*18*	309	34	31	253
Financial assets at fair value through profit or loss	*14*	1,141	1,092	—	—
Trade receivables	*19*	144	1,003	2,419	7,040
Other receivables, prepayments and deposits	*19*	5,492	13,224	6,138	8,107
Contract assets	*20*	502	293	409	536
Cash and cash equivalents	*21*	973	693	4,724	1,116
		13,586	21,247	16,975	19,770
Current liabilities					
Trade payables	*22*	1,510	4,647	3,351	1,811
Other payables and accruals	*22*	9,086	14,235	4,508	3,795
Contract liabilities	*23*	1,238	1,280	2,079	1,784
Bank borrowings	*24*	4,157	11,037	7,700	3,221
Other borrowings	*25*	—	—	272	254
Tax payable		—	16	134	285
Lease liabilities	*26*	952	1,463	354	1,261
		16,943	32,678	18,398	12,411
Net current (liabilities)/assets		(3,357)	(11,431)	(1,423)	7,359
Total assets less current liabilities		3,256	(3,661)	24,738	30,915

	Notes	As at 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	As at 30 September 2023 HK$'000
Non-current liabilities					
Lease liabilities	*26*	2,150	758	304	143
Deferred tax liabilities	*27*	234	—	9	6
		2,384	758	313	149
NET ASSETS/(LIABILITIES)		872	(4,419)	24,425	30,766
CAPITAL AND RESERVES					
Share capital	*28*	576	1,040	2,322	—*
Reserves		(79)	(5,275)	12,714	20,658
Equity attributable to owners of the companies		497	(4,235)	15,036	20,658
Non-controlling interests	*33*	375	(184)	9,389	10,108
TOTAL EQUITY/(DEFICIT)		872	(4,419)	24,425	30,766

* *Less than HK$1,000*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of the Target Company					
	Share capital	Capital reserve	Translation reserve	Accumulated losses	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2020	312	3,773	(15)	(1,676)	750	3,144
Changes in equity for 2020:						
Loss for the year	—	—	—	(2,156)	(438)	(2,594)
Other comprehensive income:						
Exchange difference on translation of foreign operations	—	—	(7)	—	—	(7)
Total comprehensive loss	—	—	(7)	(2,156)	(438)	(2,601)
Capital injection	264	—	—	—	—	264
Disposal of a subsidiary *(Note 1)*	—	—	2	—	63	65
Balance at 31 December 2020	576	3,773	(20)	(3,832)	375	872

Note 1:

On 28 April 2020, the Target Group transferred 40% of equity interest in 杭州漠柏生物科技有限公司 to 邵芬, at consideration of RMB40,000, of which the investee was having cash and cash equivalents of approximately RMB7,000, trade receivables of approximately RMB22,000, leasehold improvement of approximately RMB24,000, construction in progress of approximately RMB290,000, other payables of approximately RMB587,000, resulting net liabilities of approximately RMB244,000.

On 24 November 2020 and 24 January 2022, the Target Group transferred 10% of equity interest in 杭州漠柏生物科技有限公司 to 杭州方略生物科技有限公司 and 10% of equity interest in 杭州漠柏生物科技有限公司 to 郭貝貝, at consideration of RMB10,000 and nil respectively.

	Attributable to the owners of the Target Company				Non-	
	Share capital	**Capital reserve**	**Translation reserve**	**Accumulated losses**	**controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2021	576	3,773	(20)	(3,832)	375	872
Changes in equity for 2021:						
Loss for the year	—	—	—	(4,541)	(1,140)	(5,681)
Other comprehensive income:						
Exchange difference on translation of foreign operations	—	—	(98)	—	—	(98)
Total comprehensive loss	—	—	(98)	(4,541)	(1,140)	(5,779)
Capital injection	464	—	—	—	24	488
Increase in non-controlling interests due to equity transfer *(Note 2)*	—	(557)	—	—	557	—
Balance at 31 December 2021	1,040	3,216	(118)	(8,373)	(184)	(4,419)

Note 2:

On 9 August 2021, 浙江長三角生物醫藥科技管理有限公司, 杭州水木豐華創業投資合夥企業(有限合夥) and Hangzhou Qingda Kerui Corporate Management Partnership (Limited Partnership) ("**Hangzhou Qingda Kerui LP**") increased the paid-up capital of Hangzhou Qingda Kequi Biological Technology Company Limited, leading to increase non-controlling interests from 26% to 37% in Hangzhou Qingda Kequi Biological Technology Company Limited.

	Attributable to the owners of the Target Company						
	Share capital	**Capital reserve**	**Merger reserve**	**Translation reserve**	**Accumulated losses**	**Non-controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2022	1,040	3,216	—	(118)	(8,373)	(184)	(4,419)
Changes in equity for 2022:							
Profit for the period	—	—	—	—	(3,345)	(410)	(3,755)
Other comprehensive income:							
Exchange difference on translation of foreign operations	—	—	—	888	—	—	888
Total comprehensive income	—	—	—	888	(3,345)	(410)	(2,867)
Capital injection	870	—	—	—	—	—	870
Reduction in share premium	—	(1,876)	—	—	—	—	(1,876)
Balance at 30 September 2022	1,910	1,340	—	770	(11,718)	(594)	(8,292)

	Attributable to the owners of the Target Company					Non-controlling interests	Total
	Share capital	Capital reserve	Merger reserve	Translation reserve	Accumulated losses		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2022	1,040	3,216	—	(118)	(8,373)	(184)	(4,419)
Changes in equity for 2022:							
Profit for the year	—	—	—	—	1,251	1,005	2,256
Other comprehensive income:							
Exchange difference on translation of foreign operations	—	—	—	1,921	—	—	1,921
Total comprehensive income	—	—	—	1,921	1,251	1,005	4,177
Capital injection	1,282	16,563	—	—	—	8,647	26,492
Reduction in share premium	—	(1,876)	—	—	—	—	(1,876)
Decrease in non-controlling interests due to acquisition of a subsidiary *(Note 3)*	—	138	—	—	—	(138)	—
Disposal of a subsidiary *(Note 4)*	—	—	—	(8)	—	59	51
Balance at 31 December 2022	2,322	18,041	—	1,795	(7,122)	9,389	24,425

Note 3:

On 26 October 2022, the Target Group increased equity interest of the entity was held through a limited partnership, of which Beijing Baijin is a general partner holding equity interest of approximately 17.9999%, while the limited partnership is a shareholder holding 15% equity interest of the entity, together with 63% of equity interest directly held by Beijing Baijin, which in turn 65.7% of equity interest of the entity is held by Beijing Baijin, which results the entity being an indirect non-wholly owned subsidiary of the Target Company.

Note 4:

On 31 October 2022, the Target Group transferred 100% of equity interest in 杭州梵歐健康管理有限公司 to independent third party, 余文莉, at a consideration of RMB510,000. The Controlling Shareholder has provided indemnity to the Target Group for any loss arisen uncollected amount of the consideration.

	Attributable to the owners of the Target Company						
	Share capital	Capital reserve	Merger reserve	Translation reserve	Accumulated losses	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2023	2,322	18,041	—	1,795	(7,122)	9,389	24,425
Changes in equity for 2023:							
Profit for the period	—	—	—	—	3,048	327	3,375
Other comprehensive income:							
Exchange difference on translation of foreign operations	—	—	—	(807)	—	—	(807)
Total comprehensive income	—	—	—	(807)	3,048	327	2,568
Capital injection	3,381	—	—	—	—	392	3,773
Merger reserve arising from reorganizations *(Note (i))*	(5,703)	—	5,703	—	—	—	—
Balance at 30 September 2023	—*	18,041	5,703	988	(4,074)	10,108	30,766

Note:

(i) Please refer to the details of reorganisation disclosed in Note 1.

* *Less than HK$1,000*

CONSOLIDATED STATEMENTS OF CASH FLOWS

		For the year ended 31 December			For the nine months ended	
					30 September	30 September
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Cash flows from operating activities						
(Loss)/profit before income tax		(2,360)	(5,921)	2,405	(3,662)	3,717
Adjustments for:						
Finance income	*8*	(26)	(119)	(49)	(12)	(51)
Finance costs	*8*	121	517	605	499	257
Fair value losses on financial assets at fair value through profit or loss	*7*	44	84	—	—	—
Gain on disposal of financial assets	*7*	—	—	(128)	(130)	—
Depreciation of property, plant and equipment	*15*	908	1,589	1,612	1,358	985
Depreciation of right-of-use assets	*16*	501	1,049	1,174	928	1,041
Share of (profit)/loss of an associate	*13*	(7)	9	—	—	—
Gain on disposal of a subsidiary	*7*	(78)	—	(40)	—	—
Provision for allowance for ECL on trade receivables, net	*9*	1	30	131	128	205
Provision for/(reversal of) allowance for ECL on other receivables	*9*	454	975	(1,242)	527	491
Provision for/(reversal of) allowance for ECL on other deposit	*9*	4	6	2	(7)	1
Provision of impairment loss on intangible assets	*12*	—	5	9	—	—
Written off of goodwill		74	—	—	—	—

		For the year ended 31 December			For the nine months ended	
					30 September	30 September
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Operating cash flows before working capital changes		(364)	(1,776)	4,479	(371)	6,646
Changes in working capital:						
Inventories		(2,720)	116	1,654	(353)	536
Trade and other receivables, deposits and prepayments		(5,408)	(9,635)	7,371	(7,843)	(7,200)
Trade and other payables and accruals		7,452	8,287	(11,024)	11,159	773
Contract liabilities		1,215	42	799	515	(295)
Costs to fulfil contracts		(23)	276	3	24	(222)
Contract assets		(502)	209	(116)	193	(127)
Cash (used in)/generated from operations		(350)	(2,481)	3,166	3,324	111
Income tax paid		(11)	—	—	(4)	(215)
Net cash (used in)/generated from operating activities		(361)	(2,481)	3,166	3,320	(104)
Cash flows from investing activities						
Payments to acquire property, plant and equipment	*15*	(2,195)	(3,654)	(1,538)	(213)	(50)
Payments to acquire intangible assets		—	(6)	(9)	(9)	—
Purchase of financial assets at fair value through profit or loss		(1,188)	—	—	—	—
Proceeds from disposal of financial assets at fair value through profit or loss		—	—	1,164	1,187	—
Proceeds from disposal of an associate		—	—	116	110	—
Net cash inflow arising on disposal of a subsidiary		56	—	—	—	—
Interest received		26	119	49	12	51

		For the year ended 31 December			For the nine months ended	
					30 September	30 September
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Investment cash flows before working capital changes		(3,301)	(3,541)	(218)	1,087	1
Changes in working capital:						
Prepayment		(140)	—	(20,499)	—	(1,123)
Net cash (used in)/generated from investing activities		(3,441)	(3,541)	(20,717)	1,087	(1,122)
Cash flows from financing activities						
Capital injection		264	488	26,492	870	3,773
Reduction in share premium		—	—	(1,876)	(1,876)	—
Interest paid to other borrowings		(43)	(379)	(502)	(410)	(197)
Interest paid to lease liabilities		(78)	(138)	(103)	(89)	(60)
Payment for principal portion of lease liabilities		(361)	(881)	(1,676)	(936)	(726)
Proceeds from borrowings		4,157	11,037	7,972	7,773	3,221
Repayments of borrowings		—	(4,292)	(10,191)	(9,937)	(7,306)
Net cash generated from/(used in) financing activities		3,939	5,835	20,116	(4,605)	(1,295)
Net increase/(decrease) in cash and cash equivalents		137	(187)	2,565	(198)	(2,521)
Cash and cash equivalents at beginning of the year		861	973	693	693	4,724
Effect of foreign exchange rate changes		(25)	(93)	1,466	(10)	(1,087)
Cash and cash equivalents at end of the year, represented by bank balances and cash		973	693	4,724	485	1,116

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in HK$)

1. BACKGROUND INFORMATION

Tonnett Julis Holdings Limited (the "**Target Company**") was incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 29 November 2022. The Target Company is the sole beneficial owner of the entire issued share capital of Baijin Hong Kong Limited, a company incorporated in Hong Kong on 16 December 2022 ("**Baijin Hong Kong**"), which in turn is interested in the entire registered and paid-up capital of Beijing Baijin Biotechnology Company Limited (北京佰金生物科技有限公司) ("**Beijing Baijin**").

The Target Company and its subsidiaries (together as "**Target Group**") are principally engaged in the provision of (i) skincare solutions through self-transformed skincare brand and mid-to-high end functional skincare products; and (ii) scientific and pharmaceutical research and development services.

On 29 June 2023, Eminent Affluent Limited a wholly-owned subsidiary of Affluent Partners Holding Limited (the "**Company**"), (the "**Purchaser**"), Ketto Inform Limited (the "**Vendor**"), the ultimate beneficial owners of the Vendor and the certain shareholders of the Vendor, being guarantors, entered into the Sale and Purchase Agreement, while the Vendor is ultimately owned by 41 individual shareholders, being the Ultimate Beneficial Owners who are parties to the Sale and Purchase Agreement to grant their consent as regards the transactions contemplated under the Sale and Purchase Agreement.

Pursuant to the Sale and Purchase Agreement the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire one issued share of the Target Company, representing the entire issued share capital of the Target Company, at the consideration of HK$42.0 million, which shall be satisfied as to HK$10.5 million by issue of 39,954,338 new ordinary shares of HK$0.02 each in the share capital to be allotted by the Company; and HK$31.5 million by non-listed convertible bond in the principal amount of HK$31.5 million issued by the Company.

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.

As at the date of this report, the Target Company has direct or indirect interests in the following subsidiaries, all of which are private companies listed below.

Name of subsidiary	Place of establishment/ principal place of operation	Registered/ paid-up share capital	Percentage of equity attributable to the Target Company Directly	Indirectly	Principal activities
Baijin Hong Kong Limited (佰金香港有限公司)	Hong Kong	HK$10,000	100	—	Investment holding
Beijing Baijin Biotechnology Company Limited (北京佰金生物科技有限公司) *(Note i)*	The People's Republic of China (the "**PRC**")	Registered: RMB5,010,000 Paid-up: RMB5,010,000	—	100	Sales of skincare products and provision of skincare services
Hangzhou Qingda Kequi Biological Technology Company Limited (杭州清大科瑞生物科技有限公司) *(Notes i and ii)*	The PRC	Registered: RMB2,614,379 Paid-up: RMB2,614,379	—	66	Sales of skincare products and provision of skincare services
Hangzhou Jiyun Health Management Co., Ltd. (杭州濟雲健康管理有限公司) *(Note i)*	The PRC	Registered: RMB100,000 Paid-up: RMB100,000	—	100	Sales of skincare products and provision of skincare services
Hangzhou Fantianou Health Management Co., Ltd (杭州梵天歐健康管理有限公司) *(Note i)*	The PRC	Registered: RMB1,000,000 Paid-up: RMB1,000,000	—	100	Sales of skincare products and provision of skincare services
Xi' an Fanke Biological Technology Co., Ltd (西安梵科生物技術有限公司) *(Note i)*	The PRC	Registered: RMB1,000,000 Paid-up: RMB1,000,000	—	100	Provision of skincare testing services
Shijiazhuang Baijin Warehouse Services Co., Ltd (石家莊佰金倉儲服務有限公司) *(Note i)*	The PRC	Registered: RMB100,000 Paid-up: RMB100,000	—	100	Provision of logistic services
Baijin (Hangzhou) Life Science Co., Ltd (佰金 (杭州) 生命科學有限公司) *(Note i)*	The PRC	Registered: RMB2,000,000 Paid-up: RMB1,380,000	—	51	Provision of skincare testing services

Notes:

(i) The official names of these entities are in Chinese. The English translation of the names is for identification purpose only.

(ii) The equity interest of the entity was held through a limited partnership, of which Beijing Baijin is a general partner holding equity interest of approximately 17.9999%, while the limited partnership is a shareholder holding 15% equity interest of the entity, together with 63% of equity interest directly held by Beijing Baijin, which in turn 65.7% of equity interest of the entity is held by Beijing Baijin, which results the entity being an indirect non-wholly owned subsidiary of the Target Company.

The consolidated financial statements have been prepared to include each entity of the Target Group because the entities were controlled by the same controlling shareholder, 蘇耀耀 ("**Controlling Shareholder**") throughout the Relevant Periods. As the control is not transitory and consequently, there was a continuation of risks and benefits to the Controlling Shareholder. Accordingly, the consolidated financial statements have been prepared using the principle of merger accounting. Principle of merger accounting is applied from the first day of the year on 1 January 2020 or the earliest date at which the entities were incorporated.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

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

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

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied all applicable HKFRSs which are effective during the Relevant Periods, except for any new standards or interpretations that are not yet effective during the Relevant Periods. The material accounting policy information that have been used in the preparation of the Historical Financial Information have been consistently applied throughout the Relevant Periods.

The Historical Financial Information has been prepared on the historical cost basis. Further details of the material accounting policy information adopted are set out in Note 4.

Issued but not yet effective HKFRSs

At the date of this report, the Target Group has not early adopted any of the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

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

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

The director of the Target Company has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, it has concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on these consolidated financial statements of the Target Group.

4. MATERIAL ACCOUNTING POLICY INFORMATION

(a) Basis of measurement

The Target Company's functional currency is Hong Kong dollar ("**HK$**"). The Historical Financial Information is presented in HK$ to conform with the reporting currency of the Target Group, while the PRC subsidiaries with business operations are having functional currency in Renminbi ("**RMB**"). All amounts have been rounded to the nearest thousand, except when otherwise indicated.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Subsidiaries

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

(i) Basis of combination

The financial information of the Target Group incorporate the financial statements of the Target Company and entities controlled by the same controlling parties. Control is achieved when the Company:

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

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

Combination of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated income statement from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Target Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

(ii) Business combination

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combined in which the acquisition date is on or after 1 January 2020, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting issued by Hong Kong Institute of Certified Public Accountants (the "**Conceptual Framework**") except for transactions and events within the scope of HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or HK (IFRIC) Interpretation 21 "Levies", in which the Group applies HKAS 37 or HK (IFRIC) Interpretation 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Tax" and HKAS 19 "Employee Benefits" respectively; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

(iii) Merger accounting for business combination involving businesses under common control

The financial information incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated income statements includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

(c) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 5.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates which is the functional currency, i.e. Renminbi. The consolidated financial statements are presented in HK$, which is the Target Company's functional and the Target Group's presentation currency.

(ii) Target Group entities

The results and financial position of all the Target Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of reporting period;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

(e) Financial risk management objectives and accounting policies

The Target Group's major financial instruments include, trade and other receivables and deposits, cash and cash equivalents, bank and other borrowings, trade and other payables and accruals and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments, which include market risk (interest rate risk), credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below. Save for credit risk, the Target Group does not have written risk management policies and guidelines. However, the director of the Target Company periodically analyses and formulates measures to manage the Target Group's exposure to different risks arising from the use of financial instruments. Generally, the Target Group employs conservative strategies regarding its risk management. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

- ***Credit risk***

Credit risk refers to the risk that the counterparty to a financial instrument would fall to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target Group.

Credit risk mainly arises from trade and other receivables, deposits and cash and cash equivalents.

Trade receivables

Most of the Target Group's customers do not have independent credit rating. To manage the risk arising from trade receivables, the Target Group has policies in place to ensure that revenue of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit periods granted to these customers are ranged from 0 to 180 days depending on credit quality of these customers being assessed, the Target Group has a large number of customers and there is no significant concentration of credit risk.

The Target Group measures the expected credit losses, trade receivables that have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the corresponding credit losses probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Target Group has identified the probabilities of default and recovery ratio to be the most relevant factors. Various economic scenarios are considered in generating the forward-looking adjustment, including general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The grouping is regularly reviewed by management of the Target Company to ensure relevant information about debtors' credit quality and grouping adopted in provision matrix is updated.

Other receivables and deposits

Other receivables and deposits are mainly comprised of receivables related to advances to staff and business partner companies, lease deposits, deposits paid to trading platforms and other receivables. Management of the Target Company manages the receivables and deposits by category, makes periodic assessments on the recoverability of other receivables based on historical settlement records and past experience. The Target Company has a large number of debtors and there is no significant concentration of credit risk.

The Target Group measures the expected credit losses, other receivables and deposits that have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the corresponding credit losses probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates are adjusted to reflect current and forward-looking information on different types and natures of the debtors to settle the receivables. The Target Group has identified the probabilities of default and recovery ratio to be the most relevant factors. Various economic scenarios are considered in generating the forward-looking adjustment, including types and natures of the debtors and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Target Group uses historical default experience, past experience, and also available reasonable and supportive forward-looking information, as appropriate, to assess whether credit risk has increased significantly since initial recognition.

Credit risk of cash and deposits

In respect of cash and cash equivalents, the Target Group will place them in banks with state-owned banks in the PRC. Management of the Target Group considers the bank balances are short-term in nature, and there has been no recent history of default in relation to these banks. Accordingly, the expected credit loss is close to zero.

- ***Liquidity risk***

Liquidity risk related to the risk that the Target Group will not able to meet its obligation associated with its financial liabilities. In the Management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows in the short and long term.

The following tables show the remaining contractual maturities at the end of reporting period of the Target Group's trade and other payables, accruals, bank borrowings, other borrowings and lease liabilities based on undiscounted cash flows (include interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Target Group can be required to pay.

	Effective interest rate per annual	On demand or less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 30 September 2023						
Trade and other payables and other accruals		5,054	492	60	5,606	5,606
Lease liabilities	6%–10%	1,286	145	—	1,431	1,404
Bank borrowings	4.44%	3,334	—	—	3,334	3,221
Other borrowings		—	254	—	254	254
		9,674	891	60	10,625	10,485
At 31 December 2022						
Trade and other payables and other accruals		7,703	92	64	7,859	7,859
Lease liabilities	6%–10%	377	313	—	690	658
Bank borrowings	4.44%–5.12%	7,863	—	—	7,863	7,700
Other borrowings		—	272	—	272	272
		15,943	677	64	16,684	16,489
At 31 December 2021						
Trade and other payables and other accruals		10,513	7,642	727	18,882	18,882
Lease liabilities	6%–10%	1,544	835	—	2,379	2,221
Bank borrowings	4.44%–5.12%	11,304	—	—	11,304	11,037
		23,361	8,477	727	32,565	32,140
At 31 December 2020						
Trade and other payables and other accruals		7,560	2,720	316	10,596	10,596
Lease liabilities	6%–10%	1,211	2,123	—	3,334	3,102
Bank borrowings	4.44%	4,279	—	—	4,279	4,157
		13,050	4,843	316	18,209	17,855

- ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Target Group is primarily exposed to fair value interest rate risk in relation to bank borrowings. The Target Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Interest-bearing bank borrowings obtained at variable rates expose the Target Group to the cash flow interest rate risk. Interest-bearing bank borrowings expose the Target Group to fair value interest rate risk. In general, the Target Group raises bank borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2020, 2021, 2022 and 30 September 2023, the Target Group's floating rates bank borrowings are as follows:

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Floating rate borrowings:				
Interest-bearing bank borrowings	4,157	11,037	7,700	3,221

The following table illustrates the sensitivity of the Target Group's profit/(loss) after income tax and retained earnings to a possible change in interest rates of +/- 1%, with effect from the beginning of each reporting period. The calculations are based on the Target Group's bank balances and interest-bearing bank borrowings at floating rate held at each of the reporting dates. All other variables are held constant. A positive/(negative) number below indicates an increase in profit/(decease in loss) after income tax and retained earnings/(accumulated loss) where interest rates increased by 100 basis points.

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Impact arising from interest bearing bank borrowings	42	110	(77)	(32)

For a decrease in interest rate by 100 basis points, there would be an equal but opposite impact on the profit/(loss) after income tax and accumulated loss.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the consolidated financial statements for the years ended 31 December 2020, 2021 and 2022 and nine months ended 30 September 2023 had been prepared on the same basis.

- ***Fair value estimation***

Financial instruments not measured at fair value include trade and other receivables, deposits, cash and cash equivalents, trade and other payables, contract liabilities, accruals and bank borrowings. The directors of the Target Company consider that the carrying amounts of these financial assets and liabilities carried at cost were not materially different from their fair values as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023.

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

For financial assets at fair value through profit or loss ("**FVPL**") which is investment in unlisted equity securities representing 10% equity interests in a private entity established in the PRC, classified as level 3, the management adopted adjusted net assets approach, in assessing and considering their fair values.

The determination of the level 3 fair value requires significant judgement by management with respect to the assumptions and estimates for the significant unobservable inputs, thus the management of the Target Company applied adjusted net assets approach for the fair value measurements.

The significant unobservable inputs are the price to book ratio, the management of Target Group has assessed and reviewed the combination of the assets and liabilities periodically, which mainly represented cash and cash equivalents, other receivables and accruals which are all monetary items, with leasehold improvement which is comparable to similar market supplies and considered as closed to market price, therefore the Target Group considered and believes that the book value of assets and liabilities of investee are considered as their fair values. If the net asset values is higher/lower, while all other variables were held constant, the carrying amount would increase/decrease.

- ***Capital risk management***

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

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debts. No changes in the objectives, policies or processes for managing capital were made during the year/period.

The capital structure of the Target Group consists of net debt, which included interest-bearing bank borrowings, other borrowings and net of cash and cash equivalents, as disclosed in Notes 24, 25 and 21 respectively, and equity attributable to owners of the Company, comprising share capital and reserves disclosed in the consolidated statement of financial position.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost less accumulated impairment losses, if any, over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values.

Leasehold improvements	33%
Plant and machinery	10% to 33%
Furniture, fixtures and equipment	33%
Computers	33%

(g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Target Group has sufficient resources and the intention to complete development. Other development expenditure is recognised as an expense in the period in which it is incurred.

The Target Group's intangible assets contained patents and trademarks which have been fully impaired.

Both the period and method of amortisation are reviewed annually.

(h) Financial assets

Financial assets are recognised in the Target Group's consolidated statement of financial position when a Target Group entity becomes a party to the contractual provisions of the financial assets.

Financial assets are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at FVPL are added to the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets at amortised cost

All recognised financial assets of the Target Group are measured at amortised cost on the basis of the Target Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

— the financial asset is held within a business model whose objective is to collect contractual cash flows; and

— the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVPL

Financial assets are classified as at FVPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVPL.

A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near term;

— on initial recognition it is a part of a portfolio of identified financial instruments that are the Target Group;

— manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Target Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVOCI as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch.

Impairment of financial assets

The Target Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables, cash and cash equivalents).

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Assessment are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Target Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for significant balances or collectively using a provision matrix with appropriate grouping based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors.

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

(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due depending on client's group, the Target Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Target Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

(ii) Definition of default

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

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 360 days past due depending on client's group, the Target Group has reasonable and supportable information that makes reference to other companies in same or similar industry.

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Target Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for the receivables; and
- External credit ratings where available.

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

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12 months ECL at the current reporting date.

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

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowing at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value.

The Target Group's financial liabilities comprise mainly trade payable, other payables and accruals, bank borrowings, other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Non-derivative financial liabilities measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(j) Trade receivables

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit.

If revenue has been recognised before the Group has an unconditional right to received consideration, the amount is presented as a contract asset.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments with original maturities of three months or less, in the consolidated statement of financial position.

(l) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Target Group recognises the related revenue set out in Note 6. A contract liability would also be recognised if the Target Group has an unconditional right to receive non-refundable consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(m) Revenue

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "**control**" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

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

The revenue of the Target Group arising from sales of skincare product is generally recognised at a point in time when control of the goods has been transferred, being when the goods have been shipped to the specific location (upon delivery of goods) and the customer acceptance has been obtained, being when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

The revenue of the Target Group arising from provision of scientific and pharmaceutical research and development services is recognised based on term of contracts entered and according to relevant accounting policy.

Costs to fulfil contracts represented the costs incurred in fulfilling a contract with a customer which is within the scope of HKFRS 15, Target Group shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

Costs that relate directly to a contract (or a specific anticipated contract) include any of the following:

(a) direct labour (for example, salaries and wages of employees who provide the promised services directly to the customer);

(b) direct materials (for example, supplies used in providing the promised services to a customer);

(c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision and depreciation of tools, equipment and right-of-use assets used in fulfilling the contract);

(d) costs that are explicitly chargeable to the customer under the contract; and

(e) other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).

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

(a) Sales of skincare products and raw materials

Revenue from sales of skincare products and raw materials is recognised at a point in time when the goods are delivered and the control of the goods have been transferred to the customers.

(b) Scientific research services

The Target Group offers scientific and pharmaceutical research to customers. Revenue is recognised at a point in time when relevant research reports are delivered.

For certain contracts with terms that the Target Group's performance does not create an asset with an alternative use to the Target Group and allow the Target Group to have an enforceable right to payment for performance completed to date, which satisfied the requirement of revenue recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, relevant revenue is recognised over time.

(c) Small animal breeding services

The Target Group offers small animal breeding service to customer. The services typically last from several months to one year. The Target Group accounts for the provision of such service as a performance obligation satisfied based on services provided.

(d) Brand authorisation services

Brand authorisation fee represents the brand of skincare product franchise to third-parties. The brand authorisation allows the users an exclusive rights to sell the products within 1 year. The Target Group accounts for the grant of the franchise as a performance obligation satisfied over time. Revenue is recognised over the period of contract on a straight-line basis.

(e) Others service income

Other services mainly consist of service fee from the provision of technical research consulting services, individual skincare services and consulting services related to beauty care and marketing. Revenue is recognised at a point in time when the services are rendered.

For certain consulting services related marketing, whose contracts with terms that the Target Group's performance does not create an asset with an alternative use to the Target Group and allow the Target Group to have an enforceable right to payment for performance completed to date, which satisfied the requirement of revenue recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, relevant revenue is recognised over time.

(n) Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the consolidated income statement on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate.

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

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors and certain senior managements who make strategic decisions.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results.

Allowance for ECL on trade receivables

The management estimates the amount of loss allowance based on the credit risk of the customers, the Target Group then uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar credit risk characteristic. The provision matrix is based on the Target Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable, and available without undue costs or effort. At every reporting date, the historical default rates are reassessed and changes in the forward looking information are considered. In addition, certain balances of trade receivables and those credit impaired are assessed for ECL individually. The provision of ECL is sensitive to changes in estimates.

The above assessment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of receivables and credit loss allowance/ reversal in the period in which the estimate has been changed.

The Target Group reassessed the estimation at the end of each reporting period. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, the net carrying amount of trade receivables of the Target Group denominated in RMB amounted to approximately HK$144,000, HK$1,003,000, HK$2,419,000 and HK$7,040,000 respectively. The management of the Target Company determined that net provision for allowance for ECL on trade receivables were recognised in consolidated profit or loss amounting to approximately HK$1,000, HK$30,000, HK$131,000, HK$205,000 for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and nine months ended 30 September 2023 respectively.

Allowance for ECL on other receivables

The Target Group reassessed the estimation at the end of each reporting period. As at 31 December 2020, 2021, 2022 and 30 September 2023, the amount of allowance for ECL on other receivables was approximately HK$479,000, HK$1,487,000, HK$165,000, HK$629,000. The management of the Target Company determined that net (provision for)/reversal of allowance for ECL on other receivables were recognised in consolidated profit or loss amounting to approximately (HK$454,000), (HK$975,000), HK$1,242,000, (HK$491,000) for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and nine months ended 30 September 2023 respectively.

Current and deferred tax

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

Deferred tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

6. REVENUE AND COST OF REVENUE

Revenue from sales of skincare products represents the amounts received and receivable from customers in respect of goods sold less returns and allowances.

Revenue arisen from services income mainly represented small animal breeding service, consultancy service, beauty service, scientific and pharmaceutical research and development services and brand franchise fee during the period/year.

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue	2,518	12,869	21,590	10,822	19,474
Cost of revenue	(1,424)	(5,717)	(5,984)	(3,216)	(4,236)
Gross profit	1,094	7,152	15,606	7,606	15,238

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue recognised at a point in time — R&D services					
Scientific research services	1,365	2,202	1,332	519	1,453
Scientific research consulting services	—	240	1,242	207	930
Others	—	393	—	—	—
Subtotal	1,365	2,835	2,574	726	2,383
Revenue recognised at a point in time — skincare solutions					
Sales of skincare products	392	8,031	12,565	7,452	4,519
Skincare services	—	304	572	583	—
Sales of raw materials	—	—	443	—	562
Subtotal	392	8,335	13,580	8,035	5,081
Revenue recognised at a point in time — Brand Marketing and Consulting Services					
Consulting services	—	—	450	—	4,433
Subtotal	—	—	450	—	4,433

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue recognised over time — R&D services					
Scientific research services	546	421	2,301	145	410
Scientific research consulting services	—	498	1,069	1,090	—
Small animal breeding services	215	780	1,616	826	798
Revenue recognised over time — Brand Marketing and Consulting Services					
Consulting services	—	—	—	—	4,451
Brand authorisation services	—	—	—	—	1,918
Subtotal	761	1,699	4,986	2,061	7,577
Total revenue	2,518	12,869	21,590	10,822	19,474

The Target Group's revenue recognised during the period/year is as follows:

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
R&D Services					
Scientific research services	1,911	2,624	3,634	665	1,864
Small animal breeding services	215	780	1,616	826	798
Scientific research consulting services	—	737	2,310	1,296	929
Others	—	393	—	—	—
Subtotal	2,126	4,534	7,560	2,787	3,591
Skincare Solutions					
Sales of skincare products	392	8,031	12,565	7,452	4,519
Skincare services	—	304	572	583	—
Sales of raw materials	—	—	443	—	562
Subtotal	392	8,335	13,580	8,035	5,081
Brand Marketing and Consulting Services					
Brand authorisation services	—	—	—	—	1,918
Consulting services	—	—	450	—	8,884
Subtotal	—	—	450	—	10,802
Total revenue	2,518	12,869	21,590	10,822	19,474

The Target Group's cost of revenue recognised during the period/year is as follows:

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
R&D Services					
Scientific research services	1,180	1,613	1,492	322	1,166
Small animal breeding services	113	717	624	311	564
Scientific research consulting services	—	660	746	645	123
Others	—	298	—	—	—
Subtotal	1,293	3,288	2,862	1,278	1,853
Skincare Solutions					
Sales of skincare products	131	2,038	2,572	1,684	1,008
Skincare services	—	391	249	254	—
Sales of raw materials	—	—	260	—	291
Subtotal	131	2,429	3,081	1,938	1,299
Brand Marketing and Consulting Services					
Brand authorisation services	—	—	—	—	265
Consulting services	—	—	41	—	819
Subtotal	—	—	41	—	1,084
Total cost of revenue	1,424	5,717	5,984	3,216	4,236

The Target Group's gross profit/(loss) during the period/year is as follows:

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
R&D Services					
Scientific research services	731	1,011	2,142	343	698
Small animal breeding services	102	63	992	515	234
Scientific research consulting services	—	77	1,564	651	806
Others	—	95	—	—	—
Subtotal	833	1,246	4,698	1,509	1,738
Skincare Solutions					
Sales of skincare products	261	5,993	9,993	5,768	3,511
Skincare services	—	(87)	323	329	—
Sales of raw materials	—	—	183	—	271
Subtotal	261	5,906	10,499	6,097	3,782
Brand Marketing and Consulting Services					
Brand authorisation services	—	—	—	—	1,653
Consulting services	—	—	409	—	8,065
Subtotal	—	—	409	—	9,718
Total gross profit	1,094	7,152	15,606	7,606	15,238

7. OTHER GAINS/(LOSSES), NET

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Government grants *(Note 1)*	1,083	238	584	338	402
Special subsidies *(Note 2)*	899	—	—	—	—
Other income/(loss)	34	—	(29)	—	—
Other levy	(7)	(48)	(40)	(16)	(50)
Fair value losses on financial assets at fair value through profit or loss	(44)	(84)	—	—	—
Gain on disposal of financial assets	—	—	128	130	—
Gain on disposal of a subsidiary	78	—	40	—	—
Sundry income/(expenses)	20	—	(13)	24	(9)
Total	2,063	106	670	476	343

Note 1: For the years ended 31 December 2020, 31 December 2021, 31 December 2022 and periods ended 30 September 2023 and 30 September 2022, government grants mainly represented the industrial grants obtained from Hangzhou Xiaoshan District Finance Bureau under the "5213 Talent Plan" implemented by the Xiaoshan government amounted to approximately HK$900,000, HK$190,000, HK$326,000, HK$367,000 and HK$332,000 respectively.

There are no unfulfilled conditions or contingencies attaching to these grants.

Note 2: For the year ended 31 December 2020, special subsidies provided by Yangtze Delta Region Institute of Tsinghua University, Zhejiang amounted to approximately HK$899,000.

There are no unfulfilled conditions or contingencies attaching to these grants.

8. FINANCE INCOME AND COSTS

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Finance income					
Interest income on short-term bank deposits	8	11	49	12	51
Other interest income	18	108	—	—	—
Total	26	119	49	12	51
Finance costs					
Bank charges	2	12	7	5	15
Interest expenses on borrowings	43	379	502	410	197
Interest expenses on lease liabilities	78	138	103	89	60
Total	123	529	612	504	272

9. (LOSS)/PROFIT BEFORE INCOME TAX

		For the year ended 31 December			Nine months ended	
					30 September	30 September
		2020	2021	2022	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Employee benefit expenses (including directors' emoluments)		2,631	5,193	7,368	5,589	6,106
Auditor's remuneration		—	—	961	445	669
Expense relating to short-term leases		76	191	108	110	46
Depreciation of property, plant and equipment	*15*	908	1,589	1,612	1,358	985
Depreciation of right-of-use assets	*16*	501	1,049	1,174	928	1,041
Provision for allowance for ECL on trade receivables, net	*19*	1	30	131	128	205
Provision for/(reversal of) allowance for ECL on other receivables, net	*19*	454	975	(1,242)	527	491
Provision for/(reversal of) allowance for ECL on other deposit, net	*19*	4	6	2	(7)	1

10. INCOME TAX EXPENSE/(CREDIT)

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current tax	—	15	123	100	373
Deferred tax	234	(255)	26	(7)	(31)
Income tax expense/(credit)	234	(240)	149	93	342

PRC corporate income tax

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, subsidiaries in the PRC are subject to the PRC corporate income tax rate at 25% of the estimated assessable profits during the Relevant Periods.

The amount of income tax position for the years/periods can be reconciled to the (loss)/profit before income tax as follows:

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
(Loss)/profit before income tax	(2,360)	(5,921)	2,405	(3,662)	3,717
Tax calculated at statutory income tax rate at 25%	(590)	(1,480)	601	(916)	929
Tax reduction	—	(63)	(637)	—	(1,540)
Expenses that are not deductible for tax purpose	349	43	201	153	283
Income not subject to tax	(72)	(140)	(342)	(231)	(178)
Tax losses not recognised	547	1,400	529	1,087	848
Utilisation of tax losses not recognised previously	—	—	(203)	—	—
Tax expense/(credit) calculated at statutory income tax rate at 25%	234	(240)	149	93	342

11. DIVIDENDS

No dividend was paid or declared by Target Company or its subsidiary in respect of the Relevant Periods.

12. INTANGIBLE ASSETS

	Patents and trademarks
	HK$'000
Cost	
1 January 2020, 31 December 2020 and 1 January 2021	7
Additions	6
31 December 2021 and 1 January 2022	13
Additions	9
31 December 2022, 1 January 2023 and 30 September 2023	22
Accumulated amortisation and impairment	
1 January 2020, 31 December 2020 and 1 January 2021	7
Impairment	5
Exchange realignment	1
31 December 2021 and 1 January 2022	13
Impairment	9
31 December 2022, 1 January 2023 and 30 September 2023	22
Net book value:	
At 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023	—

13. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	118	109	—	—

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ operation	Percentage of ownership interest attributable to the Group				Principal activities
			2020	2021	2022	2023	
杭州森茂生物科技有限公司*	Ordinary shares	The PRC	49	49	—	—	Provision of research and experimental services

* *On 26 January 2022, investment in an associate was disposed of at consideration RMB100,000 (equivalent to approximately HK$116,000).*

Summarised financial information in respect of the associate, 杭州森茂生物科技有限公司 ("**杭州森茂**"), as extracted from its financial statements is summarised below:

	As at 31 December		As at 26 January
	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*
Current assets	251	259	222
Current liabilities	(1)	(18)	—
Equity	250	241	222
Revenue	85	—	—
Other gains	1	—	—
Profit/(loss) for the year/period	13	(18)	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in these consolidated financial statements:

	As at 31 December		As at 26 January
	2020	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*
Net assets of the associate	250	241	222
Group's interest in 杭州森茂	49%	49%	49%
	123	118	109
Goodwill	1	1	1
Exchange realignment	(6)	(10)	4
Carrying amount of Target Group's interest in 杭州森茂	118	109	114
Proceeds of disposal			116
Less: carrying amount of investment on the date of loss of significant influence			(114)
Gain on disposal of an associate			2

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at the beginning of the year	111	118	109	—
Share of profit/(loss) of an associate for the year	7	(9)	—	—
Exchange difference	—	—	5	—
Disposal	—	—	(114)	—
	118	109	—	—

The associate is accounted for using the equity method in these consolidated financial statements.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVPL	1,141	1,092	—	—

The unlisted equity securities are shares in 杭州艾瑞美眾信息科技有限公司, a company incorporated in the PRC and engaged in provision for internet service. The Target Group measured its investment in 杭州艾瑞美眾信息科技有限公司 at FVPL, as the investment is held for trading purposes. No dividends were received on this investment during the Relevant Period.

In 2022, the Target Group disposed of the investment in 杭州艾瑞美眾信息科技有限公司, at a consideration of approximately HK$1,164,000. An gain on disposal of approximately HK$128,000 has been recognised in profit or loss.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computers	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2020						
Opening net book amount	1,577	679	4	—	324	2,584
Additions	1,620	561	14	—	—	2,195
Depreciation	(730)	(176)	(2)	—	—	(908)
Elimination on disposal of a subsidiary *(Note 1)*	(27)	—	—	—	(324)	(351)
Exchange realignment	56	33	—	—	—	89
Closing net book amount	2,496	1,097	16	—	—	3,609
At 31 December 2020						
Cost	3,436	1,322	19	—	—	4,777
Accumulated depreciation and impairment	(940)	(225)	(3)	—	—	(1,168)
	2,496	1,097	16	—	—	3,609

Note 1:

On 28 April 2020, the Target Group transferred 40% of equity interest in 杭州漠柏生物科技有限公司 to 邵芬, at consideration of RMB40,000, of which the investee was having cash and cash equivalents of approximately RMB7,000, trade receivables of approximately RMB22,000, leasehold improvement of approximately RMB24,000, construction in progress of approximately RMB290,000, other payables of approximately RMB587,000, resulting net liabilities of approximately RMB244,000.

On 24 November 2020 and 24 January 2022, the Target Group transferred 10% of equity interest in 杭州漠柏生物科技有限公司 to 杭州方略生物科技有限公司 and 10% of equity interest in 杭州漠柏生物科技有限公司 to 郭貝貝, at consideration of RMB10,000 and nil respectively.

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computers *HK$'000*	Total *HK$'000*
Year ended 31 December 2021					
Opening net book amount	2,496	1,097	16	—	3,609
Additions	—	3,719	34	38	3,791
Depreciation	(1,162)	(415)	(11)	(1)	(1,589)
Exchange realignment	61	28	—	—	89
Closing net book amount	1,395	4,429	39	37	5,900
At 31 December 2021					
Cost	3,548	5,085	53	38	8,724
Accumulated depreciation and impairment	(2,153)	(656)	(14)	(1)	(2,824)
	1,395	4,429	39	37	5,900

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computers *HK$'000*	Total *HK$'000*
Year ended 31 December 2022					
Opening net book amount	1,395	4,429	39	37	5,900
Additions	—	1,535	3	—	1,538
Depreciation	(847)	(745)	(13)	(7)	(1,612)
Elimination on disposal of a subsidiary *(Note 2)*	(326)	(297)	(13)	—	(636)
Exchange realignment	(75)	(311)	(2)	(3)	(391)
Closing net book amount	147	4,611	14	27	4,799
At 31 December 2022					
Cost	2,459	5,942	22	35	8,458
Accumulated depreciation and impairment	(2,312)	(1,331)	(8)	(8)	(3,659)
	147	4,611	14	27	4,799

Note 2:

On 31 October 2022, the Target Group transferred 100% of equity interest in 杭州梵歐健康管理有公司 to independent third party, 余文莉, at a consideration of RMB510,000. The Controlling Shareholder has provided indemnity to the Target Group for any loss arisen uncollected amount of the consideration.

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computers	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nine months ended 30 September 2023					
Opening net book amount	147	4,611	14	27	4,799
Additions	—	1,969	—	7	1,976
Depreciation	(118)	(858)	(2)	(7)	(985)
Exchange realignment	(3)	(208)	(1)	(1)	(213)
Closing net book amount	26	5,514	11	26	5,577
At 30 September 2023					
Cost	2,462	7,478	21	40	10,001
Accumulated depreciation and impairment	(2,436)	(1,964)	(10)	(14)	(4,424)
	26	5,514	11	26	5,577

16. RIGHT-OF-USE ASSETS

	Premises
	HK$'000
Cost:	
At 1 January 2020	1,531
Additions	2,103
At 31 December 2020 and 1 January 2021	3,634
Additions	—
At 31 December 2021 and 1 January 2022	3,634
Additions	1,004
Elimination on disposal of a subsidiary *(Note 1)*	(1,287)
At 31 December 2022 and 1 January 2023	3,351
Additions	1,478
At 30 September 2023	4,829

	Premises
	HK$'000
Accumulated depreciation:	
At 1 January 2020	360
Charge for the year	501
Exchange realignment	27
At 31 December 2020 and 1 January 2021	888
Charge for the year	1,049
Exchange realignment	(41)
At 31 December 2021 and 1 January 2022	1,896
Charge for the year	1,174
Elimination on disposal of a subsidiary *(Note)*	(579)
Exchange realignment	2
At 31 December 2022 and 1 January 2023	2,493
Charge for the period	1,041
Exchange realignment	(43)
At 30 September 2023	3,491
Net carrying amount:	
At 31 December 2020	2,746
At 31 December 2021	1,738
At 31 December 2022	858
At 30 September 2023	1,338

Note:

On 31 October 2022, the Target Group transferred 100% of equity interest in 杭州梵歐健康管理有公司 to independent third party, 余文莉, at a consideration of RMB510,000. The Controlling Shareholder has provided indemnity to the Target Group for any loss arisen uncollected amount of the consideration.

	For the year ended 31 December			Nine months ended	
				30 September	30 September
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Fixed payments	439	1,019	1,779	1,025	786
Expense relating to short-term leases	76	191	108	110	46
Total cash outflow for leases	515	1,210	1,887	1,135	832

17. INVENTORIES

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	190	280	203	510
Work in progress	1,319	2,070	2,081	1,759
Finished goods	3,516	2,558	970	449
	5,025	4,908	3,254	2,718

18. COSTS TO FULFIL CONTRACTS

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of year/period	287	309	34	31
Additions	569	44	21	492
Utilisations	(564)	(330)	(21)	(257)
Exchange realignment	17	11	(3)	(13)
At the ended of year/period	309	34	31	253

19. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

Trade receivables

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables, gross	145	1,036	2,576	7,386
Less: allowance for ECL on trade receivables	(1)	(33)	(157)	(346)
Trade receivables, net	144	1,003	2,419	7,040

An ageing analysis of these trade receivables, net of allowance for ECL, as at the reporting date, based on due dates, is as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not overdue	30	853	2,309	5,190
Overdue by:				
1 to 30 days	84	24	36	52
31 to 90 days	7	—	29	137
91 to 180 days	23	118	34	1,648
Over 180 days	—	8	11	13
Trade receivables, net	144	1,003	2,419	7,040

The allowance for impairment are measured at lifetime ECL in accordance with ECL policy, trade receivables that have been grouped based on shared credit risk characteristics and the days past due.

Movements in the allowance for ECL on trade receivables are as follows:

	Lifetime ECL- not credit impaired	**Lifetime ECL- credit impaired**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2020	—	—	—
Changes in the loss allowance:			
— Charged to consolidated profit or loss	1	—	1
As at 31 December 2020 and 1 January 2021	1	—	1
Changes in the loss allowance:			
— Charged to consolidated profit or loss	11	19	30
Exchange realignment	1	1	2
As at 31 December 2021 and 1 January 2022	13	20	33
Changes in the loss allowance:			
— Charged to consolidated profit or loss	24	107	131
Exchange realignment	(2)	(5)	(7)
As at 31 December 2022 and 1 January 2023	35	122	157
Changes in the loss allowance:			
— Charged to consolidated profit or loss	39	166	205
Exchange realignment	(4)	(12)	(16)
As at 30 September 2023	70	276	346

	Allowance for ECL on other receivables *HK$'000*	Allowance for ECL on other deposit *HK$'000*
As at 1 January 2020	—	—
Changes in the loss allowance:	454	4
Exchange realignment	25	1
As at 31 December 2020 and 1 January 2021	479	5
Changes in the loss allowance:	975	6
Exchange realignment	33	—*
As at 31 December 2021 and 1 January 2022	1,487	11
(Reversal of)/provision for changes in the loss allowance:	(1,242)	2
Exchange realignment	(80)	—*
As at 31 December 2022 and 1 January 2023	165	13
Changes in the loss allowance:	491	1
Exchange realignment	(27)	—*
As at 30 September 2023	629	14

* *Less than HK$1,000*

Notes:

Other receivables, prepayments, deposits

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables, gross *(Note i)*	5,364	12,980	3,248	7,459
Less: allowance for ECL on other receivables	(479)	(1,487)	(165)	(629)
Other receivables, net	4,885	11,493	3,083	6,830
Prepayments — current *(Note ii)*	303	1,414	2,816	1,029
Other deposits	309	328	252	262
Less: allowance for ECL on other deposit	(5)	(11)	(13)	(14)
Other receivables, prepayments and deposits	5,492	13,224	6,138	8,107
Prepayments — non-current *(Note ii)*	140	4	20,503	16,612
	5,632	13,228	26,641	24,719

Note i: As at year ended 31 December 2020, 31 December 2021, 31 December 2022 and period ended 30 September 2023, the balance mainly represented other receivables for advances to business partner of approximately HK$1,949,000, HK$5,180,000, HK$1,434,000 and HK$3,352,000 respectively, advances to staff of approximately HK$13,000, HK$164,000, HK$174,000 and HK$1,579,000 respectively and the related party balances are set out in Note 32. The Controlling Shareholder has provided indemnity to the Target Group for any loss arisen uncollected amount of the other receivables.

Note ii: As at year ended 31 December 2020, 31 December 2021, 31 December 2022 and period ended 30 September 2023, the balance mainly represented prepayments for acquisition of property, plants and equipment of approximately HK$140,000, HK$4,000, HK$20,503,000 and HK$16,612,000 respectively, purchases of raw material of approximately HK$206,000, HK$448,000, HK$339,000 and HK$257,000 respectively and operating expenses of approximately HK$97,000, HK$977,000, HK$2,476,000 and HK$772,000 respectively.

20. CONTRACTS ASSETS

	For the year ended 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	–	502	293	409
Additions	502	223	138	157
Utilisations	–	(447)	—	(9)
Exchange realignment	–	15	(22)	(21)
At end of year/period	502	293	409	536

21. CASH AND CASH EQUIVALENTS

Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, bank balances of the Group denominated in RMB amounted to approximately HK$973,000, HK$693,000, HK$4,724,000 and HK$1,116,000 respectively. The conversion of RMB-denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

22. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	1,510	4,647	3,351	1,811
Other payables and accruals				
Accrued payroll and employee benefits	476	846	1,646	2,025
Other payables and other accruals	8,610	13,389	2,862	1,770
Total other payables and accruals	9,086	14,235	4,508	3,795
Total	10,596	18,882	7,859	5,606

The carrying amounts of trade and other payables and accruals approximate their fair values.

An ageing analysis of trade payables, as at the reporting date, based on invoice dates, is as follows:

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 60 days	1,479	3,823	3,135	1,101
61 to 120 days	—	—	—	136
More than 120 days	31	824	216	574
Total	1,510	4,647	3,351	1,811

23. CONTRACT LIABILITIES

Changes in contract liabilities under the skincare solutions and research and development service income during the year/period are as follows:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at beginning of the year/period	23	1,238	1,280	2,079
Increase due to receipts in advance from customers	1,172	864	1,611	3,706
Revenue recognised for the year/period	(23)	(863)	(688)	(3,900)
Exchange realignment	66	41	(124)	(101)
Carrying amount at end of year/period	1,238	1,280	2,079	1,784

24. BANK BORROWINGS

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings — secured Within one year or on demand *(Note)*	4,157	11,037	7,700	3,221

Note:

The secured bank borrowings due to Xiaoshan Rural Commercial Bank in Zhejiang Province (浙江省蕭山農村商業銀行) with effective interest rates ranging from 4.44% to 5.12% per annum and guaranteed by Hangzhou Xiaoshan Financing Guarantee Co., Ltd. (杭州蕭山融資擔保有限公司) ("**Xiaoshan Financing Guarantee Co.**"), which is a financial institution providing financing and guarantee services.

Dr. Li Yijia, the guarantor and a substantial shareholder holding 13.5% of equity interest in 杭州清大科瑞生物科技有限公司 (Hangzhou Qingda Kequi Biological Technology Company Limited, "**Qingda Kequi**") provided a pledge over his equity interest in Qingda Kequi to Xiaoshan Financing Guarantee Co. for the purpose of obtaining banking facilities in Xiaoshan Rural Commercial Bank not exceeding RMB3,000,000, with validity period from 5 August 2021 to 31 December 2030.

25. OTHER BORROWINGS

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Over one year and within two years *(Note)*	—	—	272	254
Total	—	—	272	254

Note:

The unsecured other borrowings mainly represented amount due to Mr. Guo Chen (郭晨), a former shareholder from a company of the Target Group of approximately RMB236,000 (equivalent to approximately HK$254,000) as at 30 September 2023, which was interest-free and payable on 31 December 2024 with repayable on demand clause.

26. LEASE LIABILITIES

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	952	1,463	354	1,261
Within a period of more than one year but not more than two years	2,150	758	304	143
	3,102	2,221	658	1,404
Less: portion classified as current liabilities	(952)	(1,463)	(354)	(1,261)
Non-current liabilities	2,150	758	304	143

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total lease payments	3,334	2,378	690	1,431
Less: future finance charges	(232)	(157)	(32)	(27)
Total lease obligations	3,102	2,221	658	1,404

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year/period are as follows:

Deferred tax liabilities

	Right-of-use assets *HK$'000*	Total *HK$'000*
At 1 January 2020	—	—
Deferred tax charged to the consolidated income statement during the year	221	221
Exchange realignment	13	13
As at 31 December 2020 and as at 1 January 2021	234	234
Deferred tax credited to the consolidated income statement during the year	(241)	(241)
Exchange realignment	7	7
As at 31 December 2021 and as at 1 January 2022	—	—
Deferred tax charged to the consolidated income statement during the year	8	8
Exchange realignment	1	1
As at 31 December 2022 and as at 1 January 2023	9	9
Deferred tax credited to the consolidated income statement during the year	(2)	(2)
Exchange realignment	(1)	(1)
As at 30 September 2023	6	6

Deferred tax assets

	Credit loss allowances *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2020	—	13	13
Deferred tax charged to the consolidated income statement during the year	—	(13)	(13)
Exchange realignment	—	—*	—*
As at 31 December 2020 and as at 1 January 2021	—	—	—
Deferred tax credited to the consolidated income statement during the year	—	14	14
Exchange realignment	—	5	5
As at 31 December 2021 and as at 1 January 2022	—	19	19
Deferred tax charged to the consolidated income statement during the year	—	(18)	(18)
Exchange realignment	—	—*	—*
As at 31 December 2022 and as at 1 January 2023	—	1	1
Deferred tax credited to the consolidated income statement during the year	14	15	29
Exchange realignment	—*	(1)	(1)
As at 30 September 2023	14	15	29

* *Less than HK$1,000*

As at years ended 31 December 2020, 31 December 2021, 31 December 2022 and period ended 30 September 2023, the Target Group has unused tax losses arose in the PRC, which will be expired in 5 years, were amounted to approximately HK$3,733,000, HK$8,029,000, HK$14,022,000 and HK$17,416,000 respectively. No deferred tax asset has been recognised due to unpredictability of future profit streams.

Withholding tax would be payable on the unremitted retained earnings of certain PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings from certain PRC subsidiaries, as the Target Company is in a position to control the dividend policy of these certain PRC subsidiaries and it has been determined that it is probable that undistributed profits of these certain PRC subsidiaries will not be distributed in the foreseeable future.

28. SHARE CAPITAL

	Share capital
	HK$'000
Paid-up capital	
At 1 January 2020	312
Capital injection	264
At 31 December 2020	576
Capital injection	464
At 31 December 2021	1,040
Capital injection	1,282
At 31 December 2022	2,322
Capital injection	3,381
Merger reserve arising from reorganisation	(5,703)
At 29 November 2022 (date of incorporation of the Target Company)	
Issue of share upon incorporation *(Note (ii))*	—*

* *Less than HK$1,000*

Notes:

(i) On 29 November 2022, the Target Company was incorporated in the BVI with authorised share capital of USD50,000, divided into 50,000 shares of par value of USD1 each.

(ii) On the date of incorporation, 1 share of the Target Company was allotted and issued at USD1 to the sole shareholder.

29. CAPITAL COMMITMENTS

As each of the reporting period ended, the Target Group have following material capital expenditures commitment:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditures contracted				
Property, plant and equipment	80	—	3,868	8,256

30. SUBSEQUENT FINANCIAL STATEMENTS

No consolidated financial statements of the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Relevant Periods.

31. RELATED PARTY TRANSACTIONS

The Target Group entered into the following material related party transactions. These transactions are made of terms mutually agreed by the related parties.

Related party relationship	Nature of transaction	For the year ended 31 December			Nine months ended	
		2020	2021	2022	30 September 2022	30 September 2023
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Associate	Purchases of goods	84	—	—	—	—
Related company	Acquired of property, plant and equipment	—	2,814	115	106	—
Related company	Sales of goods	199	658	106	98	1
Executive director of a subsidiary	Sales of goods	—	—	7	2	—
Related company	Provision of service	—	—	165	—	43

32. RELATED PARTY BALANCES

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

	As at 31 December 2020	Maximum amount outstanding during the year ended 31 December 2020	As at 31 December 2021	Maximum amount outstanding during the year ended 31 December 2021	As at 31 December 2022	Maximum amount outstanding during the year ended 31 December 2022	As at 30 September 2023	Maximum amount outstanding during the period ended 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from related companies included in trade receivables								
南京墨跡生物科技發展有限公司	—	—	98	—	—	—	537	—
北京紅石時尚信息科技發展有限公司	—	—	—	—	—	—	13	—
Amount due from related companies included in other receivables								
南京清瑞生物科技有限公司	390	—	318	—	—	—	—	—
南京紅河谷生物科技發展有限公司*	155	—	—	—	—	—	—	—
南京墨跡生物科技發展有限公司	125	—	3	—	—	—	27	—
北京紅石時尚信息科技發展有限公司	—	—	3	—	—	—	—	—
Amount due from director of the Target Company include in other receivables								
Ms. Zhang Meng (張萌)	35	35	—	37	27	4,348	210	1,054
Amount due from directors of Hangzhou Qingda Kerui include in other receivables								
Mr. Ding Tianjiao (丁天驕)	68	69	89	192	—	—	—	—
Ms. Hu Dongbing (胡冬冰)	24	24	59	78	160	216	132	151
Mr. Shang Xiaonan (賞效楠)	—	—	1,250	1,250	—	1,154	—	—
Amount due from director of Baijin Life Science include in other receivables								
Mr. Li Song (李松)	—	—	—	—	—	—	41	41

	As at 31 December 2020 HK$'000	Maximum amount outstanding during the year ended 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	Maximum amount outstanding during the year ended 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	Maximum amount outstanding during the year ended 31 December 2022 HK$'000	As at 30 September 2023 HK$'000	Maximum amount outstanding during the period ended 30 September 2023 HK$'000
Amount due from limited partner holding 16.6666% interest in Hangzhou Qingda Kerui LP include in other receivables								
Ms. Yu Wenying (余文赢)	2,394	2,394	2,539	2,539	—	2,344	—	—
Amount due from director of Beijing Baijin include in other receivables								
Dr. Su Yaoyao (蘇耀耀)	72	72	—	75	—	—	1	50
Amount due from Ultimate Beneficial Owners include in other receivables								
Ms. Jia Yinyin (賈銀銀)	95	112	2,940	2,940	6	—	—	—
Mr. Zhang Wenjin (張文錦)	—	—	83	83	—	76	—	—
Mr. Yin Guoliang (尹國亮)	—	—	—	—	—	—	108	108
Amount due from substantial shareholder of Hangzhou Qingda Kerui include in other receivables								
Dr. Li Yijia (李一佳)	—	—	—	—	627	1,810	—	594
Amount due to related companies included in trade payable								
杭州森茂生物科技有限公司	(89)	—	(92)	—	—	—	—	—
南京清瑞生物科技有限公司	—	—	(706)	—	—	—	—	—
南京墨跡生物科技發展有限公司	—	—	—	—	(2,101)	—	—	—
Amount due to related companies included in other payable								
Hangzhou Qingda Kerui LP	(5,998)	—	(9,663)	—	—	—	—	—
南京墨跡生物科技發展有限公司	—	—	(287)	—	—	—	—	—
南京紅河谷生物科技發展有限公司	—	—	(147)	—	—	—	—	—

	As at 31 December 2020 HK$'000	Maximum amount outstanding during the year ended 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	Maximum amount outstanding during the year ended 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	Maximum amount outstanding during the year ended 31 December 2022 HK$'000	As at 30 September 2023 HK$'000	Maximum amount outstanding during the period ended 30 September 2023 HK$'000
Amount due to directors of Beijing Baijin included in other payables								
Mr. Cao Yu (曹宇)	(6)	—	(6)	—	(232)	—	—	—
Amount due to director of the Target Company included in other payables								
Ms. Zhang Meng (張萌)	(301)	—	(827)	—	—	—	—	—
Amount due to substantial shareholder of Hangzhou Qingda Kerui include in other payables								
Dr. Li Yijia (李一佳)	(1,241)	—	(1,281)	—	—	—	—	—
Amount due to directors of Baijin Life Science included in other payables								
Mr. Li Song (李松)	—	—	—	—	—	—	(13)	—
Amount due to directors of Hangzhou Qingda Kerui included in other payables								
Mr. Ding Tianjiao (丁天驕)	—	—	(9)	—	—	—	—	—
Amount due to directors of Hangzhou Qingda Kerui included in other payables								
Ms. Hu Dongbing (胡冬冰)	—	—	(3)	—	—	—	—	—
Mr. Shang Xiaonan (賞效楠)	(374)	—	(426)	—	(454)	—	(430)	—
Amount due to Ultimate Beneficial Owners included in other payables								
Ms. Jia Yinyin (賈銀銀)	—	—	(25)	—	(6)	—	—	—
Mr. Zhang Wenjin (張文錦)	—	—	(4)	—	—	—	—	—
	(4,651)		(6,094)		(1,973)		626	

*Note** During years ended 31 December 2020 to 2022, 李松 was a director of the then related company, and ceased to be a director of the company as at 30 September 2023.

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Financial information of Hangzhou Qingda Kequi Biological Technology Company Limited which is a subsidiary of the Target Group which has a material non-controlling interest is summarised below. The amounts disclosed are before any inter-company elimination:

	As at 31 December 2020	As at 31 December 2021	As at 31 December 2022	As at 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NCI percentage	**26%**	**37%**	**34.30%**	**34.30%**
Current assets	12,000	15,803	11,943	13,102
Non-current assets	7,205	8,697	24,776	21,282
Current liabilities	15,286	25,606	11,330	12,324
Non-current liabilities	1,831	758	236	633
Net assets	2,089	(1,864)	25,154	21,426
Carrying amount of NCI	543	(690)	8,628	7,349
Revenue	1,759	10,562	12,582	4,563
(Loss)/profit for the year/ period	(1,144)	(3,952)	675	(2,721)
(Loss)/profit allocated to NCI	(354)	(1,462)	232	(933)
Dividend paid to NCI	—	—	—	—
Cash flows from operating activities	(545)	1,502	6,993	(1,921)
Cash flows from investing activities	(3,524)	(3,727)	(1,520)	(1,651)
Cash flows from financing activities	4,157	1,839	(2,265)	—

Financial information of Baijin (Hangzhou) Life Science Co., Ltd which is registered in the PRC on 10 April 2023 and a subsidiary of the Target Group which has a material non-controlling interest is summarised below. The amounts disclosed are before any inter-company elimination:

	As at 30 September 2023
	HK$'000
NCI percentage	**49%**
Current assets	3,671
Non-current assets	88
Current liabilities	343
Non-current liabilities	—
Net assets	3,416
Carrying amount of NCI	1,674
Revenue	3,659
Profit for the year	2,113
Total comprehensive income for the year	—
Profit allocated to NCI	2,113
Dividend paid to NCI	—
Cash flows used in operating activities	(865)
Cash flows used in investing activities	(82)
Cash flows from financing activities	1,481

The total comprehensive (loss)/income after target group consolidation adjustments of the Hangzhou Qingda Kequi Biological Technology Company Limited and Baijin (Hangzhou) Life Science Co., Ltd for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and nine-month ended 30 September 2023, were amounted to approximately (HK$2,599,000), (HK$5,779,000), HK$4,169,000 and HK$2,568,000 respectively, of which amounted to approximately (HK$438,000), (HK$1,140,000), HK$1,005,000 and HK$327,000 respectively were allocated to the non-controlling interests.

The net assets/(liabilities) after non-controlling interests and group consolidation adjustments of the Hangzhou Qingda Kequi Biological Technology Company Limited and Baijin (Hangzhou) Life Science Co., Ltd as at 31 December 2020, 31 December 2021, 31 December 2022 and nine-month ended 30 September 2023, were amounted to approximately HK$872,000, (HK$4,419,000), HK$24,425,000 and HK$30,766,000 respectively. The non-controlling interests of the Target Group were amounted to approximately HK$375,000, (HK$184,000), HK$9,389,000 and HK$10,108,000 respectively.

*Set out below is the management discussion and analysis of the Target Group for the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 (the "**Relevant Period**"). The following financial information is based on the audited financial information of the Target Group as set out in Appendix II to this circular.*

BUSINESS VIEW

Tonnett Julis Holdings Limited (the "**Target Company**") was incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 29 November 2022. The Target Company and its subsidiaries (together as "**Target Group**") are principally engaged in (i) provision of scientific and pharmaceutical research and development services (the "**R&D Services**"), (ii) sales of functional skincare products and provision of skincare related consultation services (the "**Skincare Solutions Business**") and (iii) provision of brand marketing and consulting services (the "**Brand Marketing and Consulting Services**"). Details of the business model of the Target Group are set out in the section headed "Information on the Target Group" in the "Letter from the Board" inclusive in this circular.

RESULTS OF OPERATIONS

Revenue

Revenue by Segments

During the Relevant Period, the Target Group generated revenue primarily from three business segments, namely R&D Services, Skincare Solutions Business and Brand Marketing and Consulting Services.

The following table sets forth the breakdown of the Target Group's revenue by segments for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2020		2021		2022		2022		2023	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
	(HK$ in thousands except for percentages)									
R&D Services										
Scientific research services	1,911	75.9	2,624	20.4	3,634	16.8	665	6.1	1,864	9.6
Small animal breeding services	215	8.5	780	6.1	1,616	7.5	826	7.6	798	4.1
Scientific research consulting services	—	—	737	5.7	2,310	10.7	1,296	12.0	929	4.8
Others[(1)]	—	—	393	3.1	—	—	—	—	—	—
Subtotal	2,126	84.4	4,534	35.3	7,560	35.0	2,787	25.7	3,591	18.5

	For the year ended 31 December						For the nine months ended 30 September			
	2020		2021		2022		2022		2023	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
	(HK$ in thousands except for percentages)									
Skincare Solutions Business										
Sales of skincare products	392	15.6	8,031	62.4	12,565	58.2	7,452	68.9	4,519	23.2
Skincare services(2)	—	—	304	2.4	572	2.6	583	5.4	—	—
Sales of raw materials(3)	—	—	—	—	443	2.1	—	—	562	2.9
Subtotal	392	15.6	8,335	64.8	13,580	62.9	8,035	74.3	5,081	26.1
Brand Marketing and Consulting Services										
Brand authorisation services	—	—	—	—	—	—	—	—	1,918	9.8
Consulting services	—	—	—	—	450	2.1	—	—	8,884	45.6
Subtotal	—	—	—	—	450	2.1	—	—	10,802	55.4
Total revenue	2,518	100.0	12,869	100.0	21,590	100.0	10,822	100.0	19,474	100.0

Notes:

(1) Others include one-off sales of ancillary equipment and chemical agents for scientific research to industry partners.

(2) Provision of skincare services represented the provision of skin medical beauty services in the beauty salons owned by the Target Group. To focus on brand building and product development and sales, the Target Group transferred the FO Beauty Salons to third parties in October 2022 and did not own any beauty clinics/salons afterwards.

(3) Sales of raw materials represented sales of processed animal umbilical cord extracts for the manufacturing of cosmetics and skincare products, to raw materials suppliers and skincare solutions companies.

(4) Figures may not sum to total due to rounding.

The Target Group's overall growth in revenue during the Relevant Period was primarily driven by (i) the steady growth in revenue in R&D Services; (ii) the significant growth in revenue in Skincare Solutions Business; and (iii) the growth in revenue in Brand Marketing and Consulting Services.

(a) R&D Services

The Target Group's revenue from R&D Services maintained a steady growth from 2020 to 2022, mainly attributable to the steady increase of revenue generated from scientific research services, small animal breeding services and scientific research consulting services. Revenue from R&D Services increased by 113.3% from HK$2.1 million in 2020 to HK$4.5 million in 2021, and further increased by 66.7% to HK$7.6 million in 2022, accounting for 84.4%, 35.3% and 35.0% of the Target Group's total revenue for the same periods, respectively. Such increase was resulted from full engagement of business since 2019 and continuous efforts in furnishing the Laboratory with sufficient labour and expertise, enhanced machineries and equipment and advanced technologies, so as to enhance its capacity to take on more R&D projects such as lyophilised powder of mesenchymal stem cell supernatant attenuates lung injury (治療特發性肺纖維化的人胎盤絨毛膜間充質乾細胞制劑研究). The number of completed projects with revenue recognised by the Target Group remained relatively stable at over 40 through out 2020 to 2022. The average contract value recognised by the Target Group increased by three times from 2020 to 2022.

The Target Group's revenue from R&D Services increased from HK$2.8 million in the nine months ended 30 September 2022 to HK$3.6 million in the nine months ended 30 September 2023. Such increase was resulted from the increase of number of completed projects with revenue recognised by the Target Group.

(b) Skincare Solutions Business

The Target Group's revenue from Skincare Solutions Business has significantly increased from 2020 to 2022, mainly attributable to the significant increase in revenue from sales of skincare products and commencement of sales of raw materials to raw materials suppliers and skincare solutions companies. Revenue from Skincare Solutions Business increased significantly from HK$0.4 million in 2020 to HK$8.3 million in 2021, and further increased to HK$13.6 million in 2022, accounting for 15.6%, 64.8% and 62.9% of the Target Group's total revenue for the same periods, respectively. Such increase was resulted from the increased number of customers and purchases as the Target Group enhanced marketing efforts and brand awareness.

The Target Group's revenue from Skincare Solutions Business decreased from HK$8.0 million in the nine months ended 30 September 2022 to HK$5.1 million in the nine months ended 30 September 2023. Such decrease was a result from commencement of selling FO Home Skincare Products to customers through Baijin Cloud Platform in May 2023 of which promotion bonus of 50% of the sales amount after successful purchases from the then customers were offered to the KOL/KOC through the Referral Programme.

(c) Brand Marketing and Consulting Services

Brand Marketing and Consulting Services recorded a revenue of HK$0.5 million in 2022, which was resulted from gradual engagement of provision of consulting services in 2022 as the Target Group gained experience and expertise in the beauty industry to assist Brand Partners with technical knowhow in business operations, skincare products and enhancement of marketing channels. The number of completed projects with revenue recognised by the Target Group was three in 2022.

The Target Group's revenue from Brand Marketing and Consulting Services increased from nil in the nine months ended 30 September 2022 to HK$10.8 million in the nine months ended 30 September 2023, accounting for nil and 55.4% of the Target Group's total revenue for the same periods, respectively. Such increase was resulted from the commencement of brand authorisation services and further growth in consulting services as a result of expanded connections and collaborations with market players, who valued the Target Group's insights in the industry and sought for advice and guidance. The number of completed projects with revenue recognised by the Target Group increased from nil for the nine months ended 30 September 2022 to 10 for the nine months ended 30 September 2023.

The following table sets forth the breakdown of the Target Group's number of completed projects with revenue recognised and average contract value recognised by the Target Group for the periods indicated:

	Number of completed projects with revenue recognised					Average contract value recognised by the Target Group (RMB)				
	For the year ended 31 December			For the nine months ended 30 September		For the year ended 31 December			For the nine months ended 30 September	
	2020	2021	2022	2022	2023	2020	2021	2022	2022	2023
R&D Services	43	53	44	22	46	44,000	71,000	148,000	107,000	70,000
Skincare Solutions Business	24	55	134	73	473	15,000	126,000	87,000	93,000	10,000
Brand Marketing and Consulting Services	—	—	3	—	10	—	—	129,000	—	1,712,000

Revenue by Sales Channel

During the Relevant Period, the Target Group generated revenue primarily from two sales channel, namely offline channels and online channels. For R&D Services and Brand Marketing and Consulting Services, the Target Group only sells its services through offline channels. For Skincare Solutions Business, the Target Group sells its products/services through offline and online channels, including engaging distributors/agents to sell its products/services to both the retailers (such as supermarkets and cosmetics stores, beauty salons, beauty clinics and business partners for corporate gifts) and individual customers; selling products/services directly to beauty salons/clinics by entering into sales agreements and/or receiving purchase orders from individual beauty salons/clinics; and selling through DTC Business Plan on a WeChat-based mini programme, and through social media and e-commerce platforms such as Tmall and JD.com.

Based on the representation of the Vendor, the breakdown of the Target Group's revenue by sales channel in absolute amounts and as a percentage of the Target Group's total revenue for the periods are as follows:

	For the year ended 31 December						For the nine months ended 30 September			
	2020		2021		2022		2022		2023	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
	(HK$ in thousands except for percentages)									
R&D Services										
Offline channels										
Sales to direct customers[(1)]	2,069	84.0	2,931	24.9	3,034	14.8	1,381	13.7	2,885	15.0
Sales to distributors/ agents	11	0.4	1,207	10.3	4,112	20.2	1,201	12.0	658	3.4
Subtotal	2,080	84.4	4,138	35.2	7,146	35.0	2,582	25.7	3,543	18.4
Skincare Solutions Business										
Offline channels										
Sales to distributors/ agents	101	4.1	7,122	60.6	11,168	54.7	7,180	71.6	1,832	9.6
Sales to beauty salons/ clinics	—	—	214	1.8	726	3.5	123	1.2	507	2.6
Sales to direct customers[(2)]	118	4.8	195	1.7	806	4.0	28	0.3	24	0.1
Subtotal	219	8.9	7,531	64.1	12,700	62.2	7,331	73.1	2,363	12.3
Online channels										
Sales through DTC Business Plan	—	—	—	—	—	—	—	—	2,616	13.6
Sales through e-commerce platforms	165	6.7	79	0.7	134	0.7	117	1.2	36	0.2
Subtotal	165	6.7	79	0.7	134	0.7	117	1.2	2,652	13.8
Brand Marketing and Consulting Services										
Sales to distributors/agents	—	—	—	—	425	2.1	—	—	5,265	27.4
Sales to beauty salons/ clinics	—	—	—	—	—	—	—	—	5,396	28.1
Subtotal	—	—	—	—	425	2.1	—	—	10,661	55.5
Total	2,464	100.0	11,748	100.0	20,405	100.0	10,030	100.0	19,219	100.0

Notes:

(1) Sales to direct customers represented R&D Services mainly provided to hospitals, universities, scientific research institutions and pharmaceutical companies.

(2) Sales to direct customers represented the sales of skincare products as corporate gifts to corporate clients.

(3) The actual figures were in RMB and converted to HK$ based on the exchange rate of RMB1 to HK$1.1. Figures may not sum to total due to rounding.

The Target Group's overall growth in revenue during the Relevant Period was primarily derived from the Target Group's sales to distributors/agents in 2020 to 2022. The revenue contribution through online sales channel also demonstrated growth in 2023.

(a) R&D Services

The Target Group's revenue from sales to direct customers increased significantly from 2020 to 2021, and remained stable in 2022, mainly attributable to the increase in capabilities to take on larger and complex projects with higher contract value. The number of completed projects from direct customers with revenue recognised by the Target Group remained stable at around 40 for each of the years in 2020, 2021 and 2022, while the average contract value recognised by the Target Group increased from 2020 to 2022. The Target Group's revenue from R&D Services increased for the nine months ended 30 September 2022 and the nine months ended 30 September 2023 due to increase of number of completed projects from direct customers with revenue recognised.

(b) Skincare Solutions Business

The Target Group's revenue from sales to distributors/agents increased significantly throughout 2020 to 2022, mainly attributable to (i) the increased number of distributors/agents from 13 in 2020 to 114 in 2022, as the Target Group enhanced marketing efforts and brand awareness; and (ii) the increased demand of orders from beauty salons/clinics, of which their business operations gradually recovered from the COVID-19 pandemic in 2021 and travel restrictions were uplifted.

The Target Group's revenue from online sales channel demonstrated growth from the nine months ended 30 September 2022 to the nine months ended 30 September 2023, mainly attributable to (i) continuous efforts through sales to distributors/agents who broadened the customer base, leading to repeated orders placed by new and recurring customers through online channels; (ii) enhanced online marketing efforts; and (iii) the development of Baijin Cloud Platform, which fostered shorter sales cycle by providing additional reach to existing and untapped customers, easing customers' convenient shopping experiences.

(c) Brand Marketing and Consulting Services

The Target Group's revenue from sales to distributors/agents increased from 2022, mainly attributable to (i) the increased number of distributors/agents in 2023 who were attracted by the Target Group's solid knowledge and strong network and aimed to specialise in the beauty industry; and (ii) the increased demand of consulting services from beauty salons/clinics, of which their business operations gradually recovered from the COVID-19 pandemic in 2021 and travel restrictions were uplifted.

Cost of Revenue

During the Relevant Period, the Target Group's cost of revenue mainly consisted of purchase of raw materials and direct labour costs for R&D Services; mainly consisted of purchase of raw materials for Skincare Solutions Business; and mainly consisted of direct labour costs for Brand Marketing and Consulting Services.

The Target Group's overall fluctuation in cost of revenue during the Relevant Period was primarily driven by the increase/decrease in cost of revenue in R&D Services and Skincare Solutions Business. Cost of revenue increased from HK$1.4 million in 2020 to HK$5.7 million in 2021, and slightly increased to HK$6.0 million in 2022.

(a) R&D Services

During the Relevant Period, the Target Group's cost of revenue from R&D Services was primarily derived from scientific research services and was generally in line with the growth in revenue. Generally, cost of revenue varies between R&D projects, depending on the quantity and quality of raw materials used and labour needed.

Cost of revenue from R&D Services increased significantly from HK$1.3 million in 2020 to HK$3.3 million in 2021 and remained relatively stable at HK$2.9 million in 2022, accounting for 90.8%, 57.5% and 47.8% of the Target Group's total cost of revenue for the same periods, respectively. In 2022, the Target Group's cost of revenue as proportionated to total revenue decreased, mainly attributable to (i) more small animal breeding services being taken on which incurred less labour costs and equipment; and (ii) accumulation of extensive expertise and knowhow, combined with advanced technologies which demonstrated economies of scale, leading to wastage reduction and cost structure improvement.

The Target Group's cost of revenue increased from HK$1.3 million in the nine months ended 30 September 2022 to HK$1.9 million in the nine months ended 30 September 2023, accounting for 39.7% and 43.7% of the Target Group's total cost of revenue for the same periods, respectively. Such increase was mainly attributable to the same reasons as stated above.

(b) Skincare Solutions Business

During the Relevant Period, the Target Group's cost of revenue from Skincare Solutions Business was primarily derived from sales of skincare products and was generally in line with the growth in revenue. Generally, cost of revenue varies between products/services, depending on the quantity and quality of raw materials used.

Cost of revenue from Skincare Solutions Business increased significantly from HK$0.1 million in 2020 to HK$2.4 million in 2021 and further increased to HK$3.1 million in 2022, accounting for 9.2%, 42.5% and 51.5% of the Target Group's total cost of revenue for the same periods, which was generally in line with the growth in revenue.

The Target Group's cost of revenue decreased from HK$1.9 million in the nine months ended 30 September 2022 to HK$1.3 million in the nine months ended 30 September 2023, accounting for 60.3% and 30.7% of the Target Group's total cost of revenue for the same periods, respectively. The Target Group's cost of revenue of sales of skincare products as proportionated to its corresponding revenue decreased, mainly attributable to (i) optimisation of costs structure by the enhancement of product mix under FO Brand since 2022, such as sales of more sheet masks which involves less complex production process and requires less expensive and amount of ingredients; and (ii) the lower production cost of the new products sold by the Target Group in the nine months ended 30 September 2023.

(c) Brand Marketing and Consulting Services

During the Relevant Period, the Target Group's cost of revenue from Brand Marketing and Consulting Services was primarily derived from consulting services and was generally in line with the growth in revenue.

Cost of revenue from Brand Marketing and Consulting Services was HK$0.04 million in 2022, accounting for 0.7% of the Target Group's total cost of revenue for the same periods, respectively. Such increase was mainly attributable to the increase in staff costs to accommodate increased engagement of consulting services.

The Target Group's cost of revenue increased from nil in the nine months ended 30 September 2022 to HK$1.1 million in the nine months ended 30 September 2023, accounting for nil and 25.6% of the Target Group's total cost of revenue for the same periods, respectively. Such increase was mainly attributable to the increase in staff costs to accommodate increased engagement of consulting services and brand authorisation services.

Gross Profit and Gross Profit Margin

The Target Group's gross profit represents its revenue less cost of revenue, and the Target Group's gross profit margin represents its gross profit divided by its revenue, expressed as a percentage.

The Target Group's gross profit was HK$1.1 million, HK$7.2 million and HK$15.6 million in 2020, 2021 and 2022, respectively. The Target Group's gross profit margin was 43.4%, 55.6% and 72.3% in 2020, 2021 and 2022, respectively.

The Target Group's overall growth in gross profit throughout 2020 to 2022 was primarily driven by the growth in revenue, in particular from Skincare Solutions Business. Meanwhile, the Target Group's overall growth in gross profit margin throughout 2020 to 2022 was primarily driven by the enhancement of product mix under FO Brand in 2022 and increased R&D projects on track.

The Target Group's gross profit was HK$7.6 million and HK$15.2 million for the nine months ended 30 September 2022 and the nine months ended 30 September 2023, respectively. The Target Group's gross profit margin was 70.3% and 78.2% for the nine months ended 30 September 2022 and the nine months ended 30 September 2023, respectively. The Target Group's overall growth in gross profit for the nine months ended 30 September 2023 was primarily driven by the growth in revenue, in particular from Skincare Solutions Business and Brand Marketing and Consulting Services.

Selling Expenses

The Target Group's selling expenses primarily comprise (i) marketing and promotional expenses, (ii) office expenses, and (iii) rental and property management fees. During the Relevant Period, the Target Group's selling expenses amounted to HK$0.8 million, HK$3.3 million, HK$2.4 million and HK$2.1 million in 2020, 2021, 2022 and the nine months ended 30 September 2023, respectively, which accounted for 32.5%, 25.9%, 11.1% and 10.8% of the Target Group's total revenue for the respective periods.

The Target Group's recorded selling expenses of HK$3.3 million in 2021, mainly attributable to the devotion in promoting the Target Group's product and services, especially the FO Brand, including but not limited to participating sponsorships of events, beauty seminars, pop-up shop opening and other traditional advertising. The Target Group's selling expenses decreased from HK$3.3 million in 2021 to HK$2.4 million in 2022, mainly attributable to the Target Group's efforts to control expenditures and improve efficiency. The Target Group's selling expenses remained stable at HK$2.1 million for the nine months ended 30 September 2022 and 2023.

Administrative Expenses

The Target Group's administrative expenses primarily comprise (i) staff costs, (ii) rental and property management fees, (iii) offices expenses, (iv) intermediary fees, (v) business entertainment expenses, and (vi) depreciation and amortisation expenses. During the Relevant Period, the Target Group's administrative expenses amounted to HK$4.1 million, HK$8.4 million, HK$12.0 million and HK$8.8 million in 2020, 2021, 2022 and the nine months ended 30 September 2023, respectively, which accounted for 164.8%, 65.3%, 55.7% and 45.4% of the Target Group's total revenue for the respective periods.

The Target Group's overall increase in administrative expenses during the Relevant Period was primarily driven by the increase in staff costs, rental and property management fees and offices expenses.

The Target Group's administrative expenses increased from HK$4.1 million in 2020 to HK$8.4 million in 2021, and further increased to HK$12.0 million in 2022, mainly attributable to the increase in rental and property management fees and office expenses as the Target Group rented more office space, and the increase in administrative personnel from 25 to 33 to cope with the Target Group's expansion. The Target Group's administrative expenses remained stable at HK$8.5 million for the nine months ended 30 September 2022 and HK$8.8 million for the same period in 2023.

Other Gains/(losses), Net

The Target Group's other gains/(losses) primarily comprise (i) government grants, (ii) special subsidies, (iii) other income/(loss), (iv) other levy, (v) fair value losses on financial assets measured at fair value through profit or loss, (vi) gain on disposal of financial assets, (vii) gain on disposal of a subsidiary and (viii) sundry income/(expenses). The Target Group recorded other gains of HK$2.1 million, HK$0.1 million, HK$0.7 million and HK$0.3 million in 2020, 2021, 2022 and the nine months ended 30 September 2023, respectively.

The Target Group's overall decrease in other gains during the Relevant Period was primarily driven by the decrease in government grants and special subsidies, which mainly represented the grants obtained from Hangzhou Xiaoshan District Finance Bureau under the "5213 Talent Plan" implemented by the Xiaoshan government, and special subsidies provided by Yangtze Delta Region Institute of Tsinghua University, Zhejiang. There are no unfulfilled conditions or contingencies attaching to these grants. The Target Group's government grants remained relatively stable at HK$0.3 million for the nine months ended 30 September 2022 and HK$0.4 million for the same period in 2023.

Income Tax Expenses

Pursuant to the rules and regulations of the BVI, the Target Group is not subject to income tax in that jurisdiction. The Target Group has not made any provision for Hong Kong profits tax, as the Target Group's subsidiary incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong profits tax during the Relevant Period. The provision for current income tax in the PRC is based on a statutory tax rate 25% of the assessable profits of the Target Group's operation subsidiaries in the PRC as determined in accordance with the Enterprise Income Tax Law of the PRC, which imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they are qualified for preferential tax treatments.

During the Relevant Period, the Target Group recorded income tax credit of HK$240,000 for the year ended 31 December 2021, and income tax expenses of HK$234,000, HK$149,000 and HK$342,000 for the years ended 31 December 2020 and 2022, and the nine months ended 30 September 2023, respectively, which was generally in line the Target Group's revenue growth.

(Loss)/profit for the Year/Period

The Target Group's loss increased from HK$2.6 million in 2020 to HK$5.7 million 2021, turned to a profit of HK$2.3 million in 2022, and turned from a loss of HK$3.8 million for the nine months ended 30 September 2022 to a profit of HK$3.4 million for the same period in 2023, for the reasons mentioned above.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

The Target Group had net assets of HK$0.9 million, HK$24.4 million and HK$30.8 million as at 31 December 2020, 31 December 2022 and 30 September 2023, respectively, and net liabilities of HK$4.4 million as at 31 December 2021.

Net Current Assets/Liabilities

The Target Group's net current liabilities of HK$3.4 million as at 31 December 2020 increased to HK$11.4 million as at 31 December 2021, primarily due to an increase in bank borrowings and other payables and accruals during the period. The Target Group's net current liabilities decreased from HK$11.4 million as at 31 December 2021 to HK$1.4 million as at 31 December 2022, primarily due to a decrease in other receivables, prepayments and deposits during the period.

The Target Group recorded net current assets of HK$7.4 million as at 30 September 2023, primarily due to an increase in trade receivables and other receivables, prepayments and deposits; and a decrease in trade payables and bank borrowings during the period.

Property, Plant and Equipment

The Target Group's property, plant and equipment primarily consisted of plant and machinery and leasehold improvements.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, property, plant and equipment amounted to HK$3.6 million, HK$5.9 million, HK$4.8 million and HK$5.6 million, respectively, representing 17.9%, 20.3%, 11.1% and 12.9% of the Target Group's total assets, respectively.

The Target Group's property, plant and equipment increased from HK$3.6 million as at 31 December 2020 to HK$5.9 million as at 31 December 2021. Such increase was mainly attributable to the increase of leasehold improvements arising from the renovation of the Laboratory and offices, and purchases of machinery and equipment for establishing and furnishing the Laboratory. The Target Group's property, plant and equipment then decreased to HK$4.8 million as at 31 December 2022, mainly attributable to accumulated depreciation. The Target Group's property, plant and equipment remained stable at HK$5.6 million as at 30 September 2023.

Inventories

The Target Group's inventories consisted of raw materials, work in progress and finished goods. The Target Group had inventories of HK$5.0 million, HK$4.9 million, HK$3.3 million and HK$2.7 million as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. The Target Group's inventories slightly decreased primarily due to the decrease in the finished goods as a result of available immediate delivery of raw materials and finished goods on hand, offset by the increase in work in progress of the skincare products that were going through refinement processes. The Target Group's inventories remained relatively stable as at 30 September 2023, primarily due to optimisation of inventory management, with a systematic improvement of production and stockpile scheduling.

Trade Receivables

The Target Group's trade receivables mainly comprise the payments for the Target Group's products from distributors/agents, beauty salons/clinics and online retailing platforms.

The Target Group generally grant credit term of 0 to 180 days for its customers. The Target Group seeks to maintain control over the Target Group's outstanding trade receivables to minimise credit risk. Its management closely monitors the credit quality of trade receivables. The Target Group does not hold any collateral or other credit enhancements over the Target Group's trade receivable balances and the Target Group's trade receivables are non-interest bearing.

The Target Group's trade receivables increased from HK$0.1 million as at 31 December 2020 to HK$1.0 million as at 31 December 2021, and further increased to HK$2.4 million as at 31 December 2022, which was generally in line with the increase in our sales of products and services. The Target Group's trade receivables increased from HK$2.4 million as at 31 December 2022 to HK$7.0 million as at 30 September 2023, primarily due to agreed extension of payments for certain customers amid the COVID-19 pandemic and/or for maintaining amicable commercial relationship.

Other Receivables, Prepayments and Deposits

The following table sets forth the breakdown of the Target Group's other receivables prepayments and deposits for the periods indicated:

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables, gross	5,364	12,980	3,248	7,459
Less: allowance for ECL on other receivables	(479)	(1,487)	(165)	(629)
Other receivables, net	4,885	11,493	3,083	6,830
Prepayments	443	1,418	23,319	17,641
Other deposits	309	328	252	262
Less: allowance for ECL on other deposit	(5)	(11)	(13)	(14)
	5,632	13,228	26,641	24,719

The Target Group's other receivables, prepayments and deposits mainly comprise advances to third parties, advances to staff, related party balances, the prepayments for acquisition of property, plant and equipment and deposits for rental of the Laboratory.

The Target Group's other receivables, prepayments and deposits increased from HK$5.6 million as at 31 December 2020 to HK$13.2 million as at 31 December 2021 primarily due to increase in advances to staff to support them during the difficult times arising from the outbreak of COVID-19 pandemic, advances to third parties and related party balances. The subsequent increase to HK$26.6 million as at 31 December 2022 was a combined effect of reduction of advances to third parties and related party balances, and increase in prepayment for machineries and equipment for enhancement and furnishing of the Laboratory. The decrease to HK$24.7 million as at 30 September 2023 was primarily due to realisation of the abovementioned prepayments.

Trade Payables

The Target Group's trade payables mainly comprise amounts payable to the Target Group's suppliers, from whom it purchased raw materials for its products and services.

The Target Group's trade payables are non-interest-bearing and are generally settled within 60 days. The Target Group's trade payables increased from HK$1.5 million as at 31 December 2020 to HK$4.6 million as at 31 December 2021, and further decreased to HK$3.4 million as at 31 December 2022. Such increase from 2020 to 2021 was generally in line with the progressive development of the Target Group's business development, leading to increase purchases of raw materials for production of skincare products and R&D Services, and the subsequent decrease from 2021 to 2022 is mainly attributable to decrease purchases of raw materials in light of sufficient stockpiled inventories. The Target Group's trade payables decreased from HK$3.4 million as at 31 December 2022 to HK$1.8 million as at 30 September 2023, primarily due to the partial settlement of the purchase of raw materials from the Target Group's suppliers.

Other Payables and Accruals

The Target Group's other payables and accruals mainly comprise (i) accrued payroll and employee benefits and (ii) other payables and other accruals, representing retention money for businesses.

The Target Group's other payables and accruals increased from HK$9.1 million as at 31 December 2020 to HK$14.2 million as at 31 December 2021 and decreased to HK$4.5 million as at 31 December 2022, primarily due to increased amounts due to related parties in 2021 and repayment of amounts due to related parties in 2022. The Target Group's other payables and accruals decreased from HK$4.5 million as at 31 December 2022 to HK$3.8 million as at 30 September 2023, primarily due to the accrued payroll and employee benefits under the remuneration policy of the Target Group.

Contract Liabilities

The Target Group's contract liabilities represent the advance payments from the Target Group's customers while the underlying goods are yet to be provided. The Target Group's contract liabilities are relatively stable as at 31 December 2020 and 2021, being HK$1.2 million and HK$1.3 million, and subsequently increased to HK$2.1 million as at 31 December 2022. Such increase was mainly attributable to slight delay in working progress of R&D Services and thus, delayed recognition of revenue. The Target Group's contract liabilities remained stable at HK$1.8 million as at 30 September 2023, mainly attributable to better project management under the R&D Services, leading to timely completion and the respective contract liabilities were recognised as revenue.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2023, the Target Group had HK$1.1 million in cash and cash equivalents. During the Relevant Period, the Target Group principally financed its working capital and other liquidity requirements through bank borrowings and cash generated from its operating activities. For further details on the cash and cash equivalent of the Target Group, please refer to Note 21 of the Accountants' Report of the Target Group included in Appendix II to this circular.

The Target Group's operating cash outflow was HK$0.4 million, HK$2.5 million and HK$0.1 million for the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2023, respectively. The Target Group's operating cash inflow was HK$3.2 million for the year ended 31 December 2022.

The Target Group's bank borrowings are denominated in RMB. For the details on the bank borrowings of the Target Group. Please refer to Note 4(e) of the Accountants' Report of the Target Group included in Appendix II to this circular.

Cash Flows

Net Cash Flows (Used in)/Generated from Operating Activities

The Target Group's cash from operating activities consists primarily of profit before income tax from the Target Group's sales of skincare products, sales of raw materials, scientific research services and consulting services, as adjusted by (i) non-cash and other items and (ii) movements in working capital.

The Target Group's net cash used in operating activities was HK$0.4 million, HK$2.5 million and HK$0.1 million in 2020, 2021 and for the nine months ended 30 September 2023, respectively, and the Target Group's net cash generated from operating activities was HK$3.2 million in 2022, which was mainly impacted by fluctuations in trade and other receivables, deposits and prepayments and trade and other payables and accruals.

Net Cash Flows (Used in)/Generated from Investing Activities

The Target Group's net cash flows used in investing activities were HK$3.4 million, HK$3.5 million and HK$20.0 million in 2020, 2021 and 2022, respectively. The aforementioned net cash flows used in investing activities mainly comprised payments to acquire of property, plant and equipment, purchase of financial assets at fair value through profit or loss and increase in prepayment to acquire property, plant and equipment.

In the nine months ended 30 September 2023, the Target Group's net cash flows used in investing activities were HK$1.1 million, primarily attributable to increase in prepayment to acquire property, plant and equipment.

Net Cash Flows Generated from/(Used in) Financing Activities

The Target Group's net cash flows generated from financing activities were HK$3.9 million, HK$5.8 million and HK$20.1 million in 2020, 2021 and 2022, respectively. The aforementioned net cash flows generated from financing activities mainly comprised proceeds from borrowings and capital injection.

In the nine months ended 30 September 2023, the Target Group's net cash flows used in financing activities were HK$1.3 million, primarily due to repayment of borrowings and the partial offset by the proceeds from borrowings and capital injection.

CAPITAL EXPENDITURES

For the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023, the Target Group's capital expenditure was HK$2.2 million, HK$3.7 million, HK$1.5 million and HK$50,000, respectively. The Target Group's capital expenditures during the Relevant Period were primarily related to the Target Group's additions of property, plant and equipment. The Target Group funded the Target Group's capital expenditure requirements during the Relevant Period primarily from cash generated from the Target Group's business operations.

COMMITMENTS

Capital Commitments

During the Relevant Period, the Target Group's capital commitment represented capital expenditures contracted for property, plant and equipment. As at 30 September 2023, the capital expenditures commitment amounted to HK$8.3 million. See Note 29 to the Accountants' Report included in Appendix II to this circular.

INDEBTEDNESS

Contingent Liabilities

As at 31 December 2020, 2021, 2022 and 30 September 2023, the Target Group did not have any material contingent liabilities.

Indebtedness Statement

As at the close of business on 30 November 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Target Group has total outstanding indebtedness as follows:

	At 30 November 2023 *HK$'000*
Current	
Bank borrowings — secured and guaranteed *(Note 1)*	5,516
Lease liabilities *(Note 2)*	1,837
	7,353
Non-current	
Lease liabilities *(Note 2)*	1,842
Total indebtedness	9,195

Notes:

1. The secured bank borrowings due to Xiaoshan Rural Commercial Bank in Zhejiang Province (浙江省蕭山農村商業銀行) of approximately RMB5,000,000 (equivalent to approximately HK$5,516,000) effective interest rates ranging from 4.44% to 5.12% per annum and guaranteed by Hangzhou Xiaoshan Financing Guarantee Co., Ltd. (杭州蕭山融資擔保有限公司) ("**Guarantee Co.**"), which is a financial institution providing financing and guarantee services. Dr. Li Yijia (李一佳) (who is a Guarantor and a substantial shareholder holding 13.5% of equity interest in 杭州清大科瑞生物科技有限公司 (for transliteration purpose only, Hangzhou Qingda Kerui Biological Technology Co., Limited, "**Qingda Kerui**")) provided a pledge over his equity interest in Qingda Kequi to Guarantee Co. for the purpose of obtaining banking facilities in Xiaoshan Rural Commercial Bank not exceeding RMB3,000,000, with validity period from 5 August 2021 to 31 December 2030.

   The Guarantee Co. do not require additional security for the RMB2,000,000 (equivalent to approximately HK$2,207,000) in the second bank borrowing.

2. The Target Group entered into of several lease agreements with lessors for leasing office premises with lease terms ranging from 1 to 3 years. The Target Group recognised right-of-use assets and lease liabilities for these leases. The estimated incremental borrowing rate of the leases is at 4.75% per annum.

Save as aforesaid, and apart from intra-group liabilities and normal trade payable in the ordinary course of the business, as at the close of business on 30 November 2023, the Target Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Target Group's Directors have confirmed that there was no material change in the Target Group's indebtedness since 30 November 2023 and up to the Latest Practicable Date.

Gearing Ratio

The gearing ratio was not applicable as at 31 December 2021 because of its net liabilities position. The gearing ratio decreased from 4.8% as at 31 December 2020 to 0.3% as at 31 December 2022 and further decreased to 0.1% as at 30 September 2023. Such decrease was mainly attributable to the increase in net assets and decrease in bank borrowing for the year and period.

FUNDING AND TREASURY POLICY

The Target Group primarily finances its operations from bank borrowings and capital injection. The Target Group adopts a prudent funding and treasury policy towards its overall business operation with an aim to minimise financial risks, by ensuring sufficiency of liquidity and fulfilment of financing requirements within acceptable financing costs. As at the Latest Practicable Date, the Target Group did not use financial instruments for hedging purposes.

FOREIGN CURRENCY MANAGEMENT

All of the operations of the Target Group are carried out in the PRC and all of the transactions are denominated in RMB, as such the Target Group considered the foreign exchange risk was not material and thus does not have any foreign exchange hedging policies and did not conduct any hedging activities throughout the Relevant Period.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, the Target Group had 33, 47, 50 and 60 employees, respectively in the PRC. The Target Group recruited, employed, promoted and remunerated its employees based on their qualifications, experiences, skills, performances and contributions. Remuneration was also determined with reference to, among others, the market trend. The Target Group had implemented various programs for staff training and development.

SIGNIFICANT INVESTMENTS HELD

During the Relevant Period, save for the PRC Subsidiaries acquired pursuant to the restructuring of the Target Group, the Target Group did not have any material acquisitions, disposals or significant investment.

FUTURE PLANS AND PROSPECTS

Details of the future plans and prospects of the Target Group are set out in the paragraphs headed ''VIII. Information on the Target Group'' and ''IX. Financial and Trading Prospects of Enlarged Group'' under the ''Letter from the Board'' inclusive in this circular.

The information set forth in this appendix does not form part of the accountants' report received from Moore CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix II to this circular, and is included herein for illustrative purposes only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the accountants' report set forth in Appendix II to this circular.

* All capitalised terms used herein have the same meaning as those defined in the Circular, unless otherwise indicated.

A. INTRODUCTION

The following unaudited pro forma financial information of the Company and its subsidiaries (collectively referred to as the "**Group**") and the Target Group (collectively referred to as the "**Enlarged Group**") (the "**Unaudited Pro Forma Financial Information**") is prepared by the directors of the Company (the "**Directors**"), in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the effect of the acquisition of entire issued share capital of the Target Company, at the consideration of HK$42.0 million, which shall be satisfied as to (i) HK$10.5 million by the allotment and issue of the Consideration Shares by the Company; and (ii) HK$31.5 million by the issue of the Convertible Bond by the Company. (the "**Acquisition**").

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2023, which has been extracted from the published interim report of the Group for the six months ended 30 September 2023; and the audited statement of financial position of the Target Group as at 30 September 2023, which has been extracted from the accountants' report thereon set out in Appendix II of the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as if the Acquisition had been completed on 30 September 2023.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the financial position of the Enlarged Group that would have been attained had the transactions been completed on 30 September 2023, nor purport to predict the future financial position of the Enlarged Group.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group As at 30 September 2023	The Target Group As at 30 September 2023	Total	Pro forma adjustment		As at 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)					(unaudited pro forma)
	Note 1	*Note 2*		*Note 3*	*Note 5*	
Non-current assets						
Property, plant and equipment	108	5,577	5,685			5,685
Right-of-use assets	376	1,338	1,714			1,714
Goodwill	—	—	—	45,125		45,125
Intangible assets	—	—	—	10,877		10,877
Investment in an associate	—	—	—			—
Financial assets at fair value through other comprehensive income	—	—	—			—
Prepayment	—	16,612	16,612			16,612
Deferred tax assets	—	29	29			29
	484	23,556	24,040			80,042
Current assets						
Inventories	42,983	2,718	45,701			45,701
Costs to fulfil contracts	—	253	253			253
Trade and other receivables, deposits and prepayments	13,748	15,147	28,895			28,895
Contract assets	—	536	536			536
Cash and cash equivalents	41,231	1,116	42,347			42,347
	97,962	19,770	117,732			117,732
Current liabilities						
Trade payables	19,801	1,811	21,612			21,612
Other payables and accruals	—	3,795	3,795		3,010	6,805
Contract liabilities	—	1,784	1,784			1,784
Bank borrowings	—	3,221	3,221			3,221
Other borrowings	3,000	254	3,254			3,254
Tax payable	—	285	285			285
Lease liabilities	302	1,261	1,563			1,563
	23,103	12,411	35,514			38,524
Net current assets	74,859	7,359	82,218			79,208
Total assets less current liabilities	75,343	30,915	106,258			159,250

	The Group As at 30 September 2023	The Target Group As at 30 September 2023	Total	Pro forma adjustment		As at 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities						
Lease liabilities	84	143	227			227
Convertible bond	—	—	—	56,040		56,040
Deferred tax liabilities	—	6	6	2,719		2,725
	84	149	233			58,992
NET ASSETS	75,259	30,766	106,025			100,258

Notes to the Unaudited Pro Forma Financial Information:

(1) The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2023 as set out in the published interim report of the Company for the six months ended 30 September 2023.

(2) The balances were extracted from the audited consolidated statement of financial position of the Target Group as at 30 September 2023 as set out in Appendix II to the Circular.

(3) Pursuant to the Sale and Purchase Agreement dated 29 June 2023, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company, at the consideration of HK$42.0 million, which shall be satisfied as to (i) HK$10.5 million by the allotment and issue of the Consideration Shares by the Company; and (ii) HK$31.5 million by the issue of the Convertible Bond by the Company. There is an Accumulated Profit Guarantee of HK$21.05 million, provided by 26 Ultimate Beneficial Owners, with details and relevant Compensation Amount under compensation mechanism for failing to achieve the Accumulated Profit Guarantee which are disclosed in Letter From the Board contained in this circular.

For pro forma purpose, there are fair value adjustments for Consideration Shares, non-controlling interest and intangible assets which mainly presented the signed contracts with customers and trademarks owned by the Target Group. Further, the Convertible Bond have been revalued to fair value of approximately HK$56,040,000, which valuation contains the considerations of Accumulated Profit Guarantee and the discount between the conversion price and share closing price as at 30 September 2023.

The adjustment represents the recognition of goodwill of approximately HK$45,125,000 arising from the Acquisition and is calculated as below:

	HK$'000
Consideration satisfied by Consideration Shares	15,434
Consideration satisfied by Convertible Bond *(Note 4)*	56,040
	71,474
Net asset value of the Target Group	30,766
Less: Non-controlling interest	(12,575)
Add: Fair value adjustment on intangible assets *(Note 4)*	10,877
Less: Deferred tax liabilities on fair value adjustment	(2,719)
	26,349
Goodwill	45,125

(4) *Valuation of the Convertible Bond*

Valuation of Convertible Bond is conducted by binomial tree model, a standard valuation model commonly used for valuation of financial derivative instruments. The model incorporates both contractual terms from the Convertible Bond issuance documents, as well as valuation parameters observed from market sources and the consideration of the Accumulated Profit Guarantee based on valuation. Key parameters adopted in the Convertible Bond valuation model are summarised as follows:

Maturity date: 28 February 2027

Share price: HK$0.740 per share, representing the Company's quoted price as at 30 September 2023

Risk free rate: 3.98%, sourced from yield of HKMA Exchange Fund Notes with similar remaining maturity with the Convertible Bond

Credit spread: 1.53%, sourced from US corporate index option-adjusted spread

Volatility: 98.98%, calculated from historical share price of the Company

The value of Convertible Bond is closely related to the share price of the Company. As the Company's share price as at 30 September 2023, HK$0.740 per share has shown a significant increase than the price adopted for the Consideration Shares as at 29 June 2023, HK$0.345 per share, which resulted the value of the Convertible Bond as at 30 September 2023 having a significant upward adjustment. The independent valuer has considered such change to be reasonable and explainable from valuation perspective.

Fair value adjustment on intangible assets

Regarding the intangible assets when preparing the pro forma financial statements, the independent valuer has referred to relevant requirements under HKFRS 3, *Business Combinations* and HKAS 38, *Intangible Assets*.

HKFRS 3 requires all identifiable assets and liabilities to be recognised in business combinations, including both previously recognised assets or liabilities as well as those previously unrecognised.

In this assessment, two types of intangible assets were identified by the Group, which are existing backlog contracts and trademarks. The existing backlog contracts were measured by the independent valuer and not previously recognised by the Target Group, and the trademarks have been fully impaired.

Existing backlog contracts were assessed by multi-period excess earning method, and trademark was assessed by relief from royalty method. Both methods are commonly seen and widely adopted for assessing intangible assets.

Existing backlog contracts represents ongoing sales contracts with existing customers. Trademarks represents registered trademarks owned by the Target Group.

The key parameters involved in existing backlog contracts (multi-period excess earning methods) include:

Contributory charge for fixed assets: 6.39%

Contributory charge for working capital: 4.35%

Contributory charge for work force: 17.5%

Discount rate for existing backlog contracts: 19.5%

The key parameters involved in valuing trademark (relief from royalty method) include:

General long term growth rate: 2.0%

Royalty rate: 7.0% on revenue

Discount rate for trademarks: 19.5%

The mentioned intangible assets are identifiable assets that were previously unrecognised or fully impaired. Thus, when they are recognised under fair value adjustments, the net asset value of the Target Group increased accordingly. The independent valuer has considered such change is reasonable and explainable from valuation perspective.

The independent valuer has also scrutinised all other identifiable assets and liabilities of the Target Group during the process of preparing the pro forma financial information. As at 30 September 2023, the Target Group does not own any assets or liabilities that is sensitive to fair value. Other than the Convertible Bond and intangible assets discussed above, no material upward or downward adjustment was made for other identifiable assets and liabilities.

The fair value of the identifiable assets acquired and liabilities recognised at the date assuming the Acquisition had been completed as at 30 September 2023 were determined on a provisional basis and by reference to valuations conducted by an independent valuer.

Upon completion of the Acquisition, the Directors will engage an independent qualified professional valuer to carry out the valuations of the Consideration Shares, Convertible Bond and Accumulated Profit Guarantee as at the date of completion of the Acquisition, based on the facts and circumstances existing as at that date. The valuation of these items may be significantly different from the assumed valuation used for the purpose of the Unaudited Pro Forma Financial Information.

(5) For the purpose of the Unaudited Pro Forma Financial Information, the direct expenses and other professional services related to the Acquisition are estimated to be approximately HK$3,010,000 according to respective quotations from the professional parties, which should be charged to the profit or loss.

(6) Apart from the Acquisition, no other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 September 2023.

(7) Subsequent to 30 September 2023, the directors of the Target Group or its subsidiaries have not recommended any dividend.

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

MOORE

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會計師事務所有限公司
大華馬施雲

TO THE DIRECTORS OF AFFLUENT PARTNERS HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Affluent Partners Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") consists of the unaudited pro forma statement of consolidated assets and liabilities of the Group attributable to equity holders of the Company as at 30 September 2023 and related notes as set out on pages IV-1 to IV-6 of Appendix IV of the Company's circular dated 25 January 2024 (the "**Circular**") issued by the Company in connection with the acquisition of the one issued share of the Tonnett Julis Holdings Limited, a company incorporated in the British Virgin Islands with limited liability (the "**Target Company**"), representing the entire issued share capital of the Target Company by Eminent Affluent Limited, a company incorporated in the British Virgin Islands with limited liability, which is also a wholly-owned subsidiary of the Company (the "**Purchaser**") from Ketto Inform Limited, a company incorporated in Hong Kong with limited liability (the "**Vendor**") pursuant to the formal sale and purchase agreement dated 29 June 2023 (the "**Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's consolidated assets and liabilities attributable to equity holders of the Company as at 30 September 2023 as if the Acquisition had taken place on 30 September 2023. As part of this process, information about the Group's condensed consolidated financial position as at 30 September 2023 has been extracted by the Directors from unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2023 as set out in the published interim report.

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 Management

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

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

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

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

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 September 2023 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled 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.

Moore CPA Limited
Certified Public Accountants

Leung Yu Ngong
Practising Certificate Number: P06734

Hong Kong, 25 January 2024

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue and allotment of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares); and (iii) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bond (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares and there is no adjustment made to the Convertible Bond) will be as follows:

(i) As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.02 each	200,000,000.00
Issued and fully paid or credited as fully paid:		*HK$*
639,297,928	Shares of HK$0.02 each	12,785,958.56

(ii) Immediately after the issue and allotment of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares)

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.02 each	200,000,000.00

Issued and fully paid or credited as fully paid:		*HK$*
639,297,928	Shares of HK$0.02 each	12,785,958.56
39,954,338	Consideration Shares to be allotted and issued	799,086.76
679,252,266	Total	13,585,045.32

(iii) Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bond (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares and there is no adjustment made to the Convertible Bond)

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.02 each	200,000,000.00

Issued and fully paid or credited as fully paid:		*HK$*
639,297,928	Shares of HK$0.02 each	12,785,958.56
39,954,338	Consideration Shares to be allotted and issued	799,086.76
119,863,013	Conversion Shares to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bond in full	2,397,260.26
799,115,279	Total	15,982,305.58

All the Shares in issue rank *pari passu* with each other in all respects, including the rights as to dividends, voting and return of capital. The Consideration Shares and the Conversion Shares to be allotted and issued will, when issued and fully paid, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Consideration Shares and the Conversion Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Hong Kong Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Consideration Shares or the Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DISCLOSURE OF INTEREST

(i) Directors' and chief executive's interests

To the best knowledge, information and belief of the Company, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors had any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(ii) Substantial Shareholders' interests and short position in Shares, underlying shares and debentures

Save as disclosed below, as at the Latest Practicable Date, so far as it was known to the Directors and chief executive of the Company, no other persons had an interest or a short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO, or who(other than a member of the Group was) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in Shares as at the Latest Practicable Date:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares/ underlying Shares held/ interested in	Approximately percentage of total issued share capital *(Note 1)*
Pacific Wish Limited *(Note 2)*	Beneficial owner	84,088,691	13.15%
Mr. Chan Vincent Wing Sing *(Note 2)*	Interest in a controlled corporation	84,088,691	13.15%
Ms. Hui Ka Man Emily *(Note 2)*	Interest in a controlled corporation	84,088,691	13.15%

Notes:

1. The percentage figures are based on the number of Shares in issue as at the Latest Practicable Date (i.e., 639,297,928 Shares).

2. These 84,088,691 shares were directly owned by Pacific Wish Limited, which was legally and beneficially owned by Mr. Chan Vincent Wing Sing as to 50% and Ms. Hui Ka Man Emily as to 50%. As at the Latest Practicable Date, the board of directors of Pacific Wish Limited comprised Mr. Chan Vincent Wing Sing and Ms. Hui Ka Man Emily.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. SERVICE CONTRACTS

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associate(s) (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

7. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS TO THE GROUP

As at the Latest Practicable Date,

(i) none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2023, 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 Group or were proposed to be acquired or disposed of by or leased to any member of the Group; and

(ii) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group as a whole.

8. MATERIAL CONTRACTS

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

(i) the underwriting agreement dated 28 January 2022 entered into between the Company and Kingston Securities Limited in relation to the underwriting of 319,648,964 rights shares regarding the rights issue (the "**Rights Issue**") proposed by the Company on the basis of one rights share for every one existing Share by issuing 319,648,964 rights shares to the qualifying shareholders. The Rights Issue completed on 19 April 2022;

(ii) the deed of variation dated 29 June 2022 and the notice dated on 24 October 2022 entered into amongst the investor (i.e., Full Wealth Investment Hong Kong Limited, a wholly owned subsidiary of the Company), the issuer and the guarantors to amend the terms of the investment agreement dated 10 November 2017, among other things, the extension of the repayment date for the loan notes with the outstanding principal amount of British pound sterling 3,500,000 and the amendment of the default interest rate. Details of which was set out in the announcement of the Company dated 18 January 2023;

(iii) the memorandum of understanding dated 11 August 2022 entered into among the Company and the vendors in relation to the possible Acquisition;

(iv) the supplemental memorandum of understanding dated 10 November 2022 entered into among the Company and the vendors in relation to, among other things, the extension of the exclusive period for the discussions and negotiations regarding the possible Acquisition; and

(v) the Sale and Purchase Agreement.

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Moore CPA Limited	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)

As at the Latest Practicable Date, the above expert had no shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, direct or indirect, in any assets which have been, since 31 March 2023 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report (as the case may be) and references to its name in the form and context in which it appears.

The letter or report (as the case may be) from the above expert is given as at the date of this circular for incorporation therein.

10. GENERAL

(i) Unless otherwise stated, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

(ii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(iii) The principal place of business of the Company in Hong Kong is situated at Room 906, 9/F., Wings Building, 110–116 Queen's Road Central, Central, Hong Kong.

(iv) The principal share registrar of the Company is Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

(vi) The company secretary of the Company is Mr. Cheung Sze Ming ("**Mr. Cheung**"), an executive Director. Mr. Cheung is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://affluent-partners.com) for a period of fourteen (14) days from the date of this circular (both days inclusive):

(i) Sale and Purchase Agreement;

(ii) Memorandum;

(iii) the accountant's report on the historical financial information of the Target Group, the text of which is set out in the Appendix II to this circular;

(iv) the independent reporting accountant's assurance report on the compilation of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in the Appendix IV to this circular; and

(v) the written consent referred to in the paragraph headed "Expert and Consent" in this Appendix.

AFFLUENT PARTNERS HOLDINGS LIMITED
錢唐控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1466)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Affluent Partners Holdings Limited (the "**Company**") will be held at Units 5906–12, 59/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Thursday, 8 February 2024 at 11:00 a.m., or any adjournment thereof, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company. Capitalised terms defined in the circular dated 25 January 2024 issued by the Company (the "**Circular**") of which this notice forms part shall have the same meanings when used herein unless otherwise specified:

ORDINARY RESOLUTION

"**THAT**:

(a) the Sale and Purchase Agreement (a copy of which has been produced to the meeting and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder including the issue of the Consideration Shares, the Convertible Bond (including the Conversion Shares), be and are hereby approved, confirmed and ratified;

(b) conditional upon the Listing Committee of the Hong Kong Stock Exchange granting the approval of the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be issued by the Company in satisfaction of the Consideration payable by the Purchaser under the Sale and Purchase Agreement, the Directors be and are hereby granted the specific mandate to allot and issue the Consideration Shares and the Conversion Shares and take all such steps and do all such acts as may be necessary or expedient in order to give effect to the same; and

* *for identification purpose only*

(c) any one Director (or one Director and the secretary of the Company or any two Directors or such other person or persons (including a Director) as the Board may appoint, in case of execution of documents under seal) be and is hereby authorised to sign, execute and deliver all such documents and to do all such acts or things which he/she/they consider(s) necessary, desirable or expedient to implement, or to give effect to the transactions contemplated under the Sale and Purchase Agreement."

By order of the Board
AFFLUENT PARTNERS HOLDINGS LIMITED
Cheng Chi Kin
Chairman

Hong Kong, 25 January 2024

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Room 906, 9/F.
Wings Building
110–116 Queen's Road Central
Central, Hong Kong

Notes:

1. The resolution set out in this notice of EGM will be taken by poll (except where the chairman decides to allow a resolution which relates to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Listing Rules. The results of the poll will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.affluent-partners.com in accordance with the Listing Rules.

2. Any Shareholder entitled to attend and vote at the EGM is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it and a proxy so appointed shall have the same right as the Shareholder to speak at the meeting. A proxy need not be a Shareholder. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the EGM. If more than one proxy is appointed, the number of Shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy. On a poll, votes may be given either personally (or in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy.

3. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 25 January 2024. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be).

4. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof (i.e. not later than 11:00 a.m. on Tuesday, 6 February 2024). Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish. If you attend and vote at the EGM in person, the form of proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any Shares, any one of such holder may vote at the EGM (or any adjournment thereof), either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto, but if more than one of such joint registered holders are present at the EGM in person or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of the joint holding shall alone be entitled to vote in respect of such Share.

6. The register of members of the Company will be closed from Monday, 5 February 2024 to Thursday, 8 February 2024 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the EGM, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 2 February 2024.

7. If typhoon signal no. 8 or above, or a "black" rainstorm warning or extreme conditions caused by super typhoons is hoisted or remains hoisted in Hong Kong after 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will publish an announcement on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.affluent-partners.com to notify the Shareholders of the date, time and place of the rescheduled meeting as and when appropriate.

8. A circular containing further details concerning items set out in the notice will be sent to the all Shareholders.

9. Reference to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the Board comprises Mr. Cheng Chi Kin (Chairman), Mr. Cheung Sze Ming and Mr. Dong Peng as executive Directors; Mr. Zhu Yongjun as non-executive Director; Mr. Wong Siu Keung Joe, Mr. Chang Chunyu and Mr. Lee Ka Leung Daniel as independent non-executive Directors.