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

If you have sold or transferred all your Shares, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee 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 or transferee.

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Jacobson Pharma Corporation Limited
雅各臣科研製藥有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock Code : 2633

**MAJOR TRANSACTION IN RELATION TO ACQUISITION OF
VICTOR LUCK LIMITED AND HAPPY ECHO LIMITED**

A letter from the Board is set out on pages 6 to 16 of this circular.

Capitalised terms used on this cover page should have the same meanings as those defined in the section headed "Definitions" in this circular.

There can be no assurance that any forward-looking statements regarding the business development of the Group set out in this circular and any of the matters set out herein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place any excessive reliance on the information disclosed herein. Any Shareholder or potential investor who is in doubt is advised to seek advice from professional advisors.

February 24, 2017

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DEFINITIONS

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

“Acquisition”	the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement
“Announcement”	the announcement of the Company dated December 13, 2016 in respect of the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks are open in Hong Kong during their normal business hours
“Company”	Jacobson Pharma Corporation Limited (雅各臣科研製藥有限公司), an exempted company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2633)
“Completion”	the completion of the Acquisition in accordance with the Sale and Purchase Agreement
“Completion Date”	January 16, 2017
“Condition”	has the meaning ascribed to it in the section headed “Conditions Precedent” of this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$568,000,000, being the total consideration payable by the Purchaser to the Sellers for the sale and purchase of the Sale Shares
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Deed of Acting in Concert”	the deed of acting in concert dated January 8, 2016 entered into between Kingshill, Longjin and Mr. Lau Wing Hung (one of the Company’s controlling Shareholders) whereby they confirmed the existence of their acting in concert arrangement, further particulars of which have been disclosed in the Company’s prospectus dated September 8, 2016

DEFINITIONS

“Deposit”	has the meaning ascribed to it in the section headed “Consideration” of this circular
“Director(s)”	the director(s) of the Company for the time being
“Encumbrances”	any security interest, pledge, mortgage, lien, charge, limitation, condition, equitable interest, option, easement, encroachment, right of first refusal or similar adverse claim or restriction, including any restriction on transfer or other assignment, as security or otherwise, of or relating to use, quiet enjoyment, voting, receipt of income or exercise of any other attribute of ownership
“Enlarged Group”	the Group and the Target Companies upon Completion
“Group” or “Jacobson”	the Company and its subsidiaries
“Happy Echo Group”	Happy Echo Limited and Ho Chai Kung Medicine Manufactory Limited 香港何濟公藥廠有限公司
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), that are third parties independent of the Group and its connected persons in accordance with the Listing Rules
“Kingshill”	Kingshill Development Limited, a company incorporated in the British Virgin Islands with limited liability
“Latest Practicable Date”	February 21, 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Long Stop Date”	March 31, 2017 or such other later date as may be mutually agreed by the Purchaser and the Sellers

DEFINITIONS

“Longjin”	Longjin Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“Material Adverse Effect”	any event, circumstance, occurrence, fact, condition, change or effect that is materially adverse to the business, operations, financial condition, management, properties, assets or liabilities of any of Target Companies
“OTC”	over-the-counter
“Party(ies)”	the named party(ies) to the Sale and Purchase Agreement and their respective successors and assigns
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Pre-Completion Accounts”	the unaudited consolidated balance sheet or statement of financial position of the Subsidiaries as at December 31, 2016 and the unaudited consolidated profit and loss account or statement of comprehensive income of the Subsidiaries for the period from April 1, 2016 to December 31, 2016 in substantially the form set out in the Sale and Purchase Agreement
“Property”	the Target Group’s production premises at 1/F and 17/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories and car parks at parking space No. 13 and No. 19, G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories
“Purchaser”	Concept One Inc., a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Remaining Consideration”	has the meanings ascribed to it in the section headed “Consideration” of this circular
“Sale and Purchase Agreement”	the sale and purchase agreement dated December 12, 2016 entered into between the Purchaser and the Sellers

DEFINITIONS

“Sale Shares”	all of the issued shares in the capital of the Target Companies, to which the entire amount of share capital of the Target Companies is attributable
“Seller(s)”	Ample Echo Limited (裕聲有限公司), an international business company incorporated in Seychelles, and Linker Centre Limited, an international business company incorporated in Seychelles
“Sellers’ Group”	the group of companies, comprising the Sellers, any holding company from time to time of the Sellers, and any subsidiary of the Sellers or of any such holding company but excluding the Target Companies and the Subsidiaries
“Sellers’ Representatives”	Sunrise Leader Limited 星夢有限公司, Heng Fung Development (Hong Kong) Company Limited, and Ever Linkage Limited, together, who shall receive the Deposit and the Remaining Consideration (as the case may be) in accordance with the terms of the Sale and Purchase Agreement; and “relevant Sellers’ Representative” shall be construed accordingly
“Share(s)”	ordinary share(s) of the Company with par value of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Share(s)
“Special Audit Accounts”	the consolidated audited accounts of the Target Group to be prepared by the Purchaser’s auditors at the cost of the Purchaser for the purposes of issuing the circular by the Company, in such form as prescribed by the Sale and Purchase Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	the subsidiaries of Victor Luck Limited as specified in the Sale and Purchase Agreement, being Karen Pharmaceutical Company Limited 嘉倫藥業有限公司 and Vincents Pharma Trading Company Limited 永生藥業有限公司, and the subsidiary of Happy Echo Limited as specified in the Sale and Purchase Agreement, being Ho Chai Kung Medicine Manufactory Limited 香港何濟公藥廠有限公司
“subsidiaries”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Target Company(ies)”	Victor Luck Limited, a company incorporated in the British Virgin Islands with limited liability, and Happy Echo Limited, an international business company incorporated in Seychelles
“Target Group”	the group of companies comprising the Target Companies and the Subsidiaries under the terms of the Sale and Purchase Agreement; and any “member of the Target Group” shall be construed accordingly
“Warranties”	the representations and warranties referred to in the Sale and Purchase Agreement
“Valuer”	CBRE Limited
“Victor Luck Group”	Victor Luck Limited and its subsidiaries
“%”	percent.



Jacobson Pharma Corporation Limited
雅各臣科研製藥有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock Code : 2633

Executive Directors:

Mr. Sum Kwong Yip, Derek
Mr. Yim Chun Leung
Ms. Pun Yue Wai

Non-executive Director:

Professor Lam Sing Kwong, Simon

Independent non-executive Directors:

Professor Chow Hee Lum, Albert
Dr. Lam Kwing Tong, Alan
Mr. Young Chun Man, Kenneth

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February 24, 2017

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO ACQUISITION OF
VICTOR LUCK LIMITED AND HAPPY ECHO LIMITED**

INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition. On December 12, 2016 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, and the Sellers entered into the Sale and Purchase Agreement pursuant to which the Purchaser agreed to purchase, and the Sellers agreed to sell, the Sale Shares at the consideration of HK\$568,000,000. Reference is also made to the announcement dated December 14, 2016 in relation to the written Shareholders' approval of the Acquisition and the announcement dated January 16, 2017 in relation to Completion.

LETTER FROM THE BOARD

As certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but below 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of, and is therefore subject to the reporting, announcement and Shareholders' approval requirements under, the Listing Rules.

The purpose of this circular is to provide you, for information purpose, with, among other things, (i) further information in relation to the Sale and Purchase Agreement and the transaction contemplated thereunder; (ii) a valuation report on 1/F and 17/F, Car Parking Space No. 13 and No. 19 on G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories as at December 12, 2016; (iii) financial information of the Target Companies; and (iv) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

December 12, 2016 (after the trading hours)

Parties

- (1) Purchaser: Concept One Inc., a wholly-owned subsidiary of the Company
- (2) Sellers: Ample Echo Limited
Linker Centre Limited

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Sellers, the Sellers' Representatives and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Assets to be acquired

The Sale Shares.

Upon Completion, each of the Target Companies will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Companies will be consolidated with those of the Company.

Consideration

The total price for the Sale Shares to be paid by the Purchaser to the Sellers is HK\$568,000,000.

LETTER FROM THE BOARD

The Consideration shall be paid by the Purchaser to the relevant Sellers' Representative(s) in the following manner:

- (a) a deposit in the sum of HK\$56,800,000, representing 10% of the Consideration, upon the execution of the Sale and Purchase Agreement shall be paid by way of a cheque drawn on a licensed bank in Hong Kong in favour of and to Sunrise Leader Limited, one of the Sellers' Representatives (the "Deposit"); and
- (b) the sum of HK\$511,200,000, representing the balance of the Consideration (the "Remaining Consideration"), on Completion shall be paid to the Seller's Representatives in accordance with the schedule set out in the Sale and Purchase Agreement.

The Consideration will be funded partly by the net proceeds from the initial public offering of the Company and partly by bank loans.

Basis of determining the Consideration

The Consideration was agreed between the Sellers and the Purchaser after arm's length negotiations with reference to, amongst other things, (1) the historical earnings of the Target Group; and (2) the prospective strategic value of the Target Group given the strong market presence of its products and its compatibility with the Group's principal business activities.

The Consideration comprised the consideration for acquiring the Property which was valued at HK\$90 million and the business of the Target Group at an aggregated premium of HK\$478 million.

Although the consideration for acquiring the business of the Target Group is higher than the Target Group's net asset value, a premium was paid to reflect the business value arising from the intangible value created by the long established brand of Ho Chai Kung, which cannot be reflected in the net asset value of the Target Group.

The Company noted that the decline in the annualized revenue of the Victor Luck Group and the decline in the annualized revenue and profits of Happy Echo Limited for the seven months ended October 31, 2016. The Company considers that there is no evidence which makes the Company believe that the declines are systematic or would continue for a pro-longed period affecting the revenue and profitability of the Target Group.

Given the combined net profits of the Target Group of approximately HK\$42.5 million for the year ended March 31, 2016, the Board considers the consideration of HK\$478 million for the business of the Target Group, representing a price-to-earnings ratio of approximately 12 times of the net profits of the Target Group for the year ended March 31, 2016, fair and reasonable and is determined in the interests of the Company and its shareholders as a whole.

LETTER FROM THE BOARD

The product portfolio owned by the Target Companies, especially products marketed under the brand name of Ho Chai Kung, is well received by the customers in Hong Kong and the PRC. The Company believes that those products will widen the existing proprietary medicine portfolio offered by the Group, deepen its product penetration and enhance its market position in the OTC market.

Conditions Precedent

Completion is conditional on the satisfaction (or waiver, if applicable) of the following conditions (each a “**Condition**”):

- (a) the passing of a resolution by the shareholders and/or the board of the Sellers, the Purchaser and the Company (where applicable), approving the sale and purchase of the Sale Shares contemplated by the Sale and Purchase Agreement in accordance with their respective articles of association and the applicable laws and regulations (including but not limited to the Listing Rules and the requests of the Stock Exchange);
- (b) the delivery to the Purchaser of all consents, approvals and clearances which are necessary or which the Purchaser has been advised that it is desirable to obtain (including from governmental or official authorities) in connection with the execution, delivery and performance of the Sale and Purchase Agreement and the consummation of the transactions contemplated herein;
- (c) the Warranties remaining true, accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion;
- (d) the Purchaser having notified the Sellers’ solicitors in writing that it is satisfied in reliance on the Warranties and upon inspection and investigation of the Target Group;
- (e) the preparation of the Special Audit Accounts having been completed or if it cannot be fully completed prior to Completion, the Purchaser’s auditors having prepared the Special Audit Accounts to such level as necessary to enable the Purchaser to ascertain the financial position of the Target Group for the purposes of Completion;
- (f) the Sellers having delivered to the Purchaser the Pre-Completion Accounts indicating that the consolidated total net asset value of the Target Group is not less than HK\$25,000,000 at December 31, 2016;
- (g) each of the Sellers having complied fully with the pre-Completion obligations and otherwise having performed all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;
- (h) there having been no material adverse change (as defined in the Sale and Purchase Agreement) since the date of the Sale and Purchase Agreement; and

LETTER FROM THE BOARD

- (i) no statute, regulation or decision which would reasonably be expected to prohibit, restrict or materially delay the execution, delivery or performance of the Sale and Purchase Agreement, the consummation of the transactions hereunder or the operation of the members of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority whether in Hong Kong or elsewhere.

Save for Conditions relating to approval from the Shareholders of the Company (where necessary), and any consents being granted by governmental or official authorities (where necessary) which shall not be waived, the Purchaser may at its sole discretion waive, in whole or in part, all or any of the Conditions at any time by notice in writing to the Sellers.

The Purchaser shall notify the Sellers in writing within two (2) Business Days after all Conditions have been fulfilled to the satisfaction of the Purchaser or waived.

In the event that any of the Conditions shall not have been fulfilled (or waived, if applicable) prior to the Long Stop Date, the Purchaser shall not be bound to proceed with the purchase of the Sale Shares and the Sale and Purchase Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach thereof. The Sellers shall in such event procure the relevant Sellers' Representative to return the Deposit to the Purchaser (without interest) within seven (7) Business Days of the Long Stop Date.

Completion

Completion shall take place on the Completion Date following two (2) Business Days' prior written notification by the Purchaser to the Sellers of the fulfilment to the satisfaction of the Purchaser (or waiver) of the Conditions. None of the Conditions was waived prior to Completion. As disclosed in the announcement of the Company dated January 16, 2017, Completion took place on January 16, 2017 in accordance with the terms and conditions of the Sale and Purchase Agreement.

Without prejudice to any other remedies available to the Purchaser, if the provisions of the Sale and Purchase Agreement in relation to Completion are not complied with by any of the Sellers in any respect on the Completion Date and the sale and purchase of the Sale Shares is not completed, the Purchaser shall not be obliged to complete the purchase of the Sale Shares or pay any of the Remaining Consideration and may in its absolute discretion (in addition and without prejudice to any other right or remedy available to it) by written notice to the Sellers:

- (a) waive all or any of the requirements contained or referred to in the Sale and Purchase Agreement in relation to the Vendors' obligations at Completion at its discretion and proceed to Completion so far as practicable and pay the Remaining Consideration to the Sellers; or
- (b) terminate the Sale and Purchase Agreement without liability on its part.

LETTER FROM THE BOARD

If the Sale and Purchase Agreement shall be terminated by reason of the Sellers not complying with its obligations at Completion, the Sale and Purchase Agreement shall cease to be of any effect. The Sellers shall in such event procure the relevant Sellers' Representative to return the Deposit to the Purchaser (without interest) within fourteen (14) Business Days from the date of receipt of written notice from the Purchaser.

Without prejudice to any other remedies available to the Sellers, if the provisions of the Sale and Purchase Agreement in relation to Completion are not complied with by the Purchaser in any respect on the Completion Date, the Sellers shall not be obliged to complete the sale of the Sale Shares and may in their absolute discretion (in addition and without prejudice to any other right or remedy available to them) by written notice to the Purchaser:

- (a) waive all or any of the requirements contained or referred to in the Sale and Purchase Agreement in relation to the Purchaser's obligations at Completion at their discretion and proceed to Completion so far as practicable; or
- (b) terminate the Sale and Purchase Agreement without liability on their part.

If the Sale and Purchase Agreement shall be terminated by reason of the Purchaser not complying with its obligations at Completion, the Deposit (together with all accrued interest) will be retained and forfeited by the Sellers, through the relevant Sellers' Representative (as compensation for the Purchaser's failure to complete the Sale and Purchase Agreement and not as penalty) immediately. The Sale and Purchase Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach thereof and no Party shall have any liability under the Sale and Purchase Agreement. The Sellers will thereby be at liberty to deal with the Sale Shares at their discretion, including but not limited to selling all or any part of the Sale Shares to any other party.

The Purchaser undertakes, and shall procure the Company to undertake, to the Sellers and its certain affiliates that the Purchaser shall use all reasonable endeavours to obtain the release of the personal guarantees (to the extent details of such personal guarantees have been disclosed to the Purchaser) provided by the Sellers' affiliates to the relevant banks as security for charges or otherwise mortgages created by the relevant member of the Target Group in respect of certain properties owned by it in favour of the banks. Pending the release of such personal guarantees, the Purchaser shall indemnify the Sellers against all amounts paid by them to any third party in respect of any liability of any member of the Target Group.

INFORMATION OF THE PARTIES

The Purchaser and the Group

The Purchaser is a wholly-owned subsidiary of the Company. It is a company incorporated in the British Virgin Islands and is an investment holding company.

The Group is principally engaged in the manufacturing, marketing and sale of generic drugs and proprietary medicines.

LETTER FROM THE BOARD

The Sellers

Ample Echo Limited is an international business company incorporated in Seychelles and its principal activity is investment holding.

Linker Centre Limited is an international business company incorporated in Seychelles and its principal activity is investment holding.

The Target Companies and the Target Group

Victor Luck Limited, a company incorporated in the British Virgin Islands, is principally engaged in investment holding.

Happy Echo Limited, an international business company incorporated in Seychelles, is principally engaged in investment holding.

Victor Luck Group is principally engaged in manufacturing, marketing and sales of generic drug as well as proprietary medicines under the brand name of Ho Chai Kung (何濟公). The proprietary medicines are mainly sales to Happy Echo Group.

Happy Echo Group is principally engaged in marketing and sales of proprietary medicines under the brand name of Ho Chai Kung (何濟公).

Trademarks of Ho Chai Kung are owned by the subsidiary of Happy Echo Limited, and are included in the scope of the Acquisition.

Majority of staff of the Target Group (except the directors) will be retained.

Goodwill of approximately HK\$28.4 million is allocated to Victor Luck Group's cash-generating unit in the generic drugs business. It comprises the experienced staff and technical know-how of the subsidiaries of Victor Luck Limited, which were not individually identified and separately recognized.

As Victor Luck Limited has not prepared consolidated financial statements, it has not consolidated its subsidiaries that had been acquired in past business combinations. Victor Luck Group adjusted the financial statements of the subsidiaries according to Hong Kong Financial Reporting Standards and calculated the deemed cost of goodwill as the difference between Victor Luck Limited's interest in the assets and liabilities of the subsidiaries at the beginning of the Relevant Periods (as defined on page IV-1 of this circular) and the cost in Victor Luck Limited's separate financial statements. The resulting goodwill is recorded in the consolidated statement of financial position at April 1, 2013 and is tested for impairment during the Relevant Periods.

LETTER FROM THE BOARD

The sales of proprietary medicine from one of subsidiaries of Victor Luck Limited to a subsidiary of Happy Echo Limited were approximately HK\$19 million, HK\$17 million, HK\$25 million, HK\$16 million and HK\$15 million for the three years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016. The sales of generic drug from a subsidiary to other subsidiary of Victor Luck Limited were approximately HK\$1 million, HK\$4 million, HK\$5 million, HK\$3 million and HK\$0.4 million for the three years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016. The increase was primarily due to the increase in sales of Ho Chai Kung Tji Thung San (何濟公止痛退熱散) and Ho Chai Kung Analgesic Tablets (何濟公止痛退熱片).

Rental income from subsidiaries of Victor Luck Limited to a subsidiary of Happy Echo Limited for leasing motor vehicles and office premises were approximately HK\$0.4 million per year.

There are no new continuing connected transactions of the Group after the Completion of the Acquisition of the Target Group.

Financial Information of the Target Group

Set out below is certain financial information in relation to the Victor Luck Group and Happy Echo Group as extracted from the “Appendix IV — Accountants’ Report on Victor Luck Limited” and “Appendix V — Accountants’ Report on Happy Echo Limited” in this circular.

Victor Luck Group

	For the financial year ended March 31,			For the seven months ended
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Revenue	37,808	37,300	45,516	21,840
Profit before taxation	11,570	9,726	13,367	7,770
Profit for the year/ period and total comprehensive income	9,678	8,081	11,185	6,489

LETTER FROM THE BOARD

Happy Echo Group

	For the financial year ended March 31,			For the seven months ended October 31,
	2014	2015	2016	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	48,691	56,092	64,252	36,102
Profit before taxation	25,864	32,182	37,519	42,846
Profit for the year/ period and total comprehensive income	21,603	26,888	31,356	39,224

The net asset value of Victor Luck Group and Happy Echo Group as at October 31, 2016 amounted to approximately HK\$52.2 million and HK\$11.7 million respectively.

FINANCIAL EFFECTS TO THE GROUP OF THE TRANSACTION

After Completion, the Target Companies become indirect wholly-owned subsidiaries of the Company, and the financial results, assets and liabilities of the Target Companies are consolidated into the accounts of the Group. As set out in the "Appendix IV — Accountants' Report on Victor Luck Limited" and the "Appendix V — Accountants' Report on Happy Echo Limited" in this circular, the revenue of Victor Luck Group and Happy Echo Group for the year ended March 31, 2016 were approximately HK\$45.5 million and HK\$64.3 million respectively. Also, the profit for the year of Victor Luck Limited and Happy Echo Limited for the year ended March 31, 2016 were approximately HK\$11.2 million and HK\$31.4 million respectively. On this basis, it is expected that the consolidation of the Target Companies would have a positive effect on the Group's revenue and profit for the year after Completion.

As at September 30, 2016, the latest published unaudited consolidated total assets and liabilities of the Group amounted to approximately HK\$2,480 million and HK\$846 million respectively. Assuming Completion took place on September 30, 2016, the unaudited pro forma consolidated total assets and liabilities of the Enlarged Group would have increased to approximately HK\$2,548 million and HK\$919 million respectively as a result of the Acquisition.

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

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Target Group is a manufacturer of proprietary medicines under the heritage brand — Ho Chai Kung (何濟公). The Target Group offers a wide range of branded medicines under the Ho Chai Kung franchise in the OTC channel, notable ones include Ho Chai Kung Tji Thung San (何濟公止痛退熱散) and Ho Chai Kung Analgesic Tablets (何濟公止痛退熱片). The brand name of Ho Chai Kung was originated in the 1930's and has been enjoying a high brand awareness and a strong market position in the analgesics (pain-killer) category in the Hong Kong, China and South-East Asia markets.

The Acquisition reinforces Jacobson's strategy to acquire brands and businesses that provide a sound strategic fit and also complement well with the Group's product portfolios. This strategic acquisition brings together two distinctive businesses with complementary strengths, brands, customer network, and cultures. It accelerates the growth momentum for the Group's proprietary medicine business and helps create significant operational and financial synergies to the shareholders of the Company.

Ho Chai Kung is a well-known OTC brand that enjoys a strong market position and high brand awareness in the pain-killer segment thus offering Jacobson a viable platform to build a family of OTC products under the Ho Chai Kung brand. It also opens a new set of opportunities for Jacobson to expand its geographical reach and distribution network by leveraging its already strong market presence in the proprietary medicines portfolio through brands like Po Chai Pills (保濟丸), Tong Tai Chung Woodlok Oil (唐太宗活絡油), Contractubex Scar Gel (秀碧除疤膏) and Doan's Ointment (兜安氏藥膏).

The Group expects to enhance its financial profile by benefiting upon the earning visibility of the Target Group and to unlock cost synergies through consolidation of production capacities.

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION OF THE TRANSACTION

As certain applicable percentage ratios (as defined under the Listing Rules) of the Acquisition exceed 25% but are below 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Under Rule 14.44 of the Listing Rules, Shareholders' approval for the Sale and Purchase Agreement and the transactions contemplated thereunder may be obtained by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting in the event that a general meeting is convened for the approval of the transaction; and (b) written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at that general meeting to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Board, no Shareholder is required to abstain from voting at a general meeting of the Company to be convened for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder.

Kingshill is holding 850,684,000 Shares and Longjin is holding 157,050,000 Shares. Kingshill and Longjin in aggregate hold 1,007,734,000 Shares, representing approximately 55.50% of the total number of issued Shares as at the date of the Announcement. Each of Kingshill and Longjin has the right to attend and vote at a general meeting (if convened) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. As disclosed in the Company's prospectus dated September 8, 2016, pursuant to the Deed of Acting in Concert, Kingshill and Longjin agreed to act in concert with each other and adopt a consensus building approach to reach decisions on a unanimous basis in exercising their voting rights in respect of any resolution required to be passed by the Shareholders commencing from the date of incorporation of the Company and maintaining such acting-in-concert arrangement until the Deed of Acting in Concert is terminated. Accordingly, Kingshill and Longjin are a closely allied group of shareholders under Rule 14.45 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, in lieu of holding a general meeting, the Company has obtained written shareholders' approval from Kingshill, a Shareholder which is holding 850,684,000 Shares, and Longjin, a Shareholder which is holding 157,050,000 Shares. Kingshill and Longjin in aggregate hold 1,007,734,000 Shares, representing approximately 55.50% of the total number of the issued Shares as at the Latest Practicable Date. As (i) no Shareholder is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Acquisition; and (ii) the said written approval by the Controlling Shareholder has been obtained, no extraordinary general meeting will be convened for the purpose of approving the Acquisition pursuant to Rule 14.44 of the Listing Rules.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Jacobson Pharma Corporation Limited
SUM Kwong Yip, Derek
Chairman

1. FINANCIAL INFORMATION

Financial information of the Group for the years ended March 31, 2014, 2015 and 2016 are disclosed on pages 167 to 211 of the prospectus of the Company dated September 8, 2016 which is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website.

2. INDEBTEDNESS

As at the close of business on December 31, 2016, being the latest practicable date for ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the Enlarged Group had the following indebtedness:

	<i>HK\$'000</i>
Bank borrowings — secured	639,856
Bank borrowings — unsecured	23,581
Obligations under finance leases	559
	<hr/>
	663,996
	<hr/> <hr/>

Some of bank borrowings of the Enlarged Group were secured by charges over its trade receivables, land and buildings and certain machinery.

Save as aforesaid or as otherwise disclosed herein, and apart from intragroup liabilities, at the close of business on December 31, 2016, the Enlarged Group did not have any loan capital issued and outstanding, agreed to be issued, or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements in absence of unforeseen circumstances, that is for at least 12 months following the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

The Group adheres to deepening our market penetration in Hong Kong, Macau, China and other strategically selected markets in Asia Pacific region and globally by business or share acquisitions, joint ventures and intangible asset acquisitions.

The Acquisition reinforces our strategy to acquire brands and businesses that provide a sound strategic fit and also complement well with the Group's product portfolios. It accelerates the growth momentum for the Group's proprietary medicine business and helps create significant operational and financial synergies to the shareholders of the Company. It also opens a new set of opportunities for our Group to expand its geographical reach by leveraging its already strong market presence in the proprietary medicines portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS ON VICTOR LUCK GROUP

The following discussion and analysis should be read in conjunction with the “Appendix IV — Accountants’ Report on Victor Luck Limited” in this circular.

Liquidity, financial position and capital structure

For the three years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, Victor Luck Group is within the Target Group which is engaged in the manufacturing, marketing and sale of generic drugs and proprietary medicines. As of March 31, 2014, 2015 and 2016, and October 31, 2016, Victor Luck Group had cash and cash equivalents of HK\$12.0 million, HK\$17.9 million, HK\$27.0 million and HK\$7.4 million respectively. Victor Luck Group had bank borrowings of HK\$8.9 million, HK\$8.2 million, HK\$7.5 million and HK\$7.1 million as of March 31, 2014, 2015 and 2016, and October 31, 2016 respectively. Victor Luck Group’s net gearing ratio is calculated based on bank loans, overdrafts and other loans less cash and cash equivalents divided by total equity. As of March 31, 2014, 2015 and 2016, and October 31, 2016, Victor Luck Group was in net cash position and thus net gearing ratio is not applicable.

As at March 31, 2014, the current assets and current liabilities of Victor Luck Group were approximately HK\$24.7 million and HK\$50.4 million respectively. The current assets of Victor Luck Group as at March 31, 2014 mainly comprised inventories, cash and cash equivalents and an amount due from a company under Happy Echo Group. The current liabilities of Victor Luck Group as at March 31, 2014 mainly comprised an amount due to a controlling shareholder of HK\$38.3 million. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 0.49 as at March 31, 2014.

As at March 31, 2015, the current assets and current liabilities of Victor Luck Group were approximately HK\$31.6 million and HK\$48.2 million respectively. The increase in the current assets in the year ended March 31, 2015 was primarily due to the increase in cash and cash equivalents. The current assets of Victor Luck Group as at March 31, 2015 mainly comprised inventories, cash and cash equivalents and an amount due from a company under Happy Echo Group. The current liabilities of Victor Luck Group as at March 31, 2015 mainly comprised an amount due to a controlling shareholder of HK\$38.3 million. The current ratio was approximately 0.65 as at March 31, 2015.

As at March 31, 2016, the current assets and current liabilities of Victor Luck Group were approximately HK\$42.7 million and HK\$47.7 million respectively. The increase in the current assets in the year ended March 31, 2016 was primarily due to the increase in cash and cash equivalents. The current assets of Victor Luck Group as at March 31, 2016 mainly comprised inventories, cash and cash equivalents and an amount due from a company under Happy Echo Group. The current liabilities of Victor Luck Group as at March 31, 2016 mainly comprised an amount due to a controlling shareholder of HK\$38.3 million. The current ratio was approximately 0.89 as at March 31, 2016.

As at October 31, 2016, the current assets and current liabilities of Victor Luck Group were approximately HK\$23.9 million and HK\$10.5 million respectively. The decrease in the current assets in the period ended October 31, 2016 was primarily due to the decrease of HK\$19.6 million in cash and cash equivalents as a result of the settlement of the amount due to a controlling shareholder. The current liabilities of Victor Luck Group as at October 31, 2016 mainly comprised bank loans of HK\$7.1 million. The decrease in current liabilities was primarily due to the settlement and capitalization of the amount due to a controlling shareholder. The current ratio was approximately 2.28 as at October 31, 2016.

Revenue

Revenue for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$37.8 million, HK\$37.3 million, HK\$45.5 million, HK\$29.7 million and HK\$21.8 million respectively. Sales primarily comprised sales of generic drugs and proprietary medicines.

Cost of sales

Cost of sales for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$21.8 million, HK\$23.1 million, HK\$27.0 million, HK\$15.4 million and HK\$11.4 million respectively, which was largely in line with the corresponding trend in sales.

Gross profit and gross profit margin

Gross profit for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$16.0 million, HK\$14.2 million, HK\$18.5 million, HK\$14.3 million and HK\$10.4 million respectively. Gross profit margin for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016 were 42.3%, 38.1%, 40.6%, 48.2% and 47.8% respectively.

Other income

Other income primarily comprised interest income from bank deposits. The increase for the seven months ended October 31, 2016 was caused by the approval and receipt of insurance claims, being the reimbursement from an insurance company in relation to an employee claim comprising a sum of HK\$138,000. The Company noted that the claim is of one-off nature and did not result in any material adverse risk against Victor Luck's business.

Selling and distribution expenses

Selling and distribution expenses primarily comprised staff costs.

Administrative expenses

Victor Luck Group incurred administrative expenses of approximately HK\$3.3 million, HK\$3.5 million, HK\$3.8 million, HK\$2.3 million and HK\$2.2 million for the years ended March 31, 2014, 2015 and 2016, and seven months ended October 31, 2015 and 2016, respectively. The administrative expenses were comparable throughout the periods stated above.

Profit before taxation and profit for the year/period

Victor Luck Group achieved a profit before taxation of approximately HK\$11.6 million, HK\$9.7 million, HK\$13.4 million, HK\$11.3 million and HK\$7.8 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016 respectively. Victor Luck Group achieved a profit for the year/period of approximately HK\$9.7 million, HK\$8.1 million, HK\$11.2 million, HK\$9.5 million and HK\$6.5 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016, respectively.

Cash and cash equivalents

As at October 31, 2016, cash and cash equivalents were approximately HK\$7.4 million. The decrease in the period ended October 31, 2016 was primarily due to the settlement of the amount due to a controlling shareholder, amounting to HK\$26.5 million. The Board has taken this decrease in cash and cash equivalents into account in assessing the terms of the Acquisition.

Employment and remuneration policies

Victor Luck Group had 80, 84, 66 and 75 employees as at March 31, 2014, 2015 and 2016, and October 31, 2016, respectively. It incurred employee benefit expenses of approximately HK\$13.1 million, HK\$12.9 million, HK\$15.5 million, HK\$8.9 million and HK\$7.8 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016, respectively. Victor Luck Group remunerated its employees by reference to their qualifications, experiences, responsibilities and profitability of Victor Luck Group as well as the market conditions.

Significant investments held and future plans for material investments

As at March 31, 2014, 2015 and 2016, and October 31, 2016, Victor Luck Group did not have any significant investments. There is no immediate plan for material investments by Victor Luck Group.

Capital commitment and contingent liabilities

As at March 31, 2014, 2015 and 2016, and October 31, 2016, Victor Luck Group had no material capital commitments for the acquisition of fixed assets or intangible assets and had no contingent liabilities.

Financial risk factors

Please refer to note 19 of Section B in “Appendix IV — Accountants’ Report on Victor Luck Limited” for discussion on financial risk factors.

Acquisitions and disposals

There were no material acquisitions and disposals of subsidiaries, joint ventures and associates by Victor Luck Group during the years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016.

Charges on assets

At March 31, 2014, 2015 and 2016, and October 31, 2016, certain leasehold land, buildings and property, plant and equipment of Victor Luck Group with the aggregate carrying amount of approximately HK\$9.5 million, HK\$9.2 million, HK\$9.0 million and HK\$8.8 million respectively were pledged to secure bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS ON HAPPY ECHO GROUP

The following discussion and analysis should be read in conjunction with the “Appendix V — Accountants’ Report on Happy Echo Limited” in this circular.

Liquidity, financial position and capital structure

For the three years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, Happy Echo Group is principally engaged in the manufacturing, marketing and sale of proprietary medicines, under the brand name of Ho Chai Kung. As of March 31, 2014, 2015 and 2016, and October 31, 2016, Happy Echo Group had cash and cash equivalents of HK\$21.5 million, HK\$27.8 million, HK\$28.1 million and HK\$9.3 million respectively and Happy Echo Group did not have any bank borrowings as of these four dates. Happy Echo Group’s net gearing ratio is calculated based on bank loans, overdrafts and other loans less cash and cash equivalents divided by total equity. As of March 31, 2014, 2015 and 2016, and October 31, 2016, Happy Echo Group was in net cash position and thus net gearing ratio is not applicable.

As at March 31, 2014, the current assets and current liabilities of Happy Echo Group were approximately HK\$29.1 million and HK\$8.6 million respectively. The current assets of Happy Echo Group as at March 31, 2014 mainly comprised cash and cash equivalents. The current liabilities of Happy Echo Group as at March 31, 2014 mainly comprised amounts payable to a company under Victor Luck Group of HK\$6.6 million. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 3.39 as at March 31, 2014.

As at March 31, 2015, the current assets and current liabilities of Happy Echo Group were approximately HK\$35.0 million and HK\$8.5 million respectively. The increase in the current assets in the year ended March 31, 2015 was primarily due to the increase in cash and cash equivalents. The current assets of Happy Echo Group as at March 31, 2015 mainly comprised cash and cash equivalents. The current liabilities of Happy Echo Group as at March 31, 2015 mainly comprised amounts payable to a company under Victor Luck Group of HK\$6.8 million. The current ratio was approximately 4.13 as at March 31, 2015.

As at March 31, 2016, the current assets and current liabilities of Happy Echo Group were approximately HK\$41.4 million and HK\$10.1 million respectively. The increase in the current assets in the year ended March 31, 2016 was primarily due to the increase in inventories. The current assets of Happy Echo Group as at March 31, 2016 mainly comprised inventories of HK\$10.0 million and cash and cash equivalents of HK\$28.1 million. The current liabilities of Happy Echo Group as at March 31, 2016 mainly comprised amounts payable to a company under Victor Luck Group of HK\$8.8 million. The current ratio was approximately 4.10 as at March 31, 2016.

As at October 31, 2016, the current assets and current liabilities of Happy Echo Group were approximately HK\$26.3 million and HK\$14.6 million respectively. The decrease in the current assets in the period ended October 31, 2016 was primarily due to the decrease of HK\$18.8 million in cash and cash equivalents as a result of the accumulation of inventories and the distribution of dividends. The current liabilities of Happy Echo Group as at October 31, 2016 mainly comprised amounts payable to a company under Victor Luck Group of HK\$9.6 million. The current ratio was approximately 1.80 as at October 31, 2016.

Revenue

Revenue for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$48.7 million, HK\$56.1 million, HK\$64.2 million, HK\$34.2 million and HK\$36.1 million respectively. The increases were primarily due to the increases in sales of Ho Chai Kung Tji Thung San (何濟公止痛退熱散) and Ho Chai Kung Analgesic Tablets (何濟公止痛退熱片).

Cost of sales

Cost of sales for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$19.9 million, HK\$20.8 million, HK\$23.1 million, HK\$12.8 million and HK\$12.8 million respectively, which was largely in line with the corresponding growth in sales. During the above periods, Happy Echo Group mainly sourced its products from a company under Victor Luck Group.

Gross profit and gross profit margin

Gross profit for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016, were HK\$28.8 million, HK\$35.3 million, HK\$41.1 million, HK\$21.4 million and HK\$23.3 million respectively. Gross profit margin for years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016 were 59.1%, 62.9%, 64.1%, 62.7% and 64.6% respectively.

Other income

Other income primarily comprised rental income and interest income from bank deposits. For the seven months ended Oct 31, 2016, there was gain on disposal of property, plant and equipment, investment property and leasehold land amounting to HK\$21.6 million.

Selling and distribution expenses

Selling and distribution expenses primarily comprised advertising and promotion expenses and staff costs.

Administrative expenses

Happy Echo Group incurred administrative expenses of approximately HK\$2.3 million, HK\$2.3 million, HK\$2.7 million, HK\$1.5 million and HK\$1.4 million for the years ended March 31, 2014, 2015 and 2016, and seven months ended October 31, 2015 and 2016, respectively. In the year ended March 31, 2016, the increase in administrative expenses was primarily due to an increase in depreciation of HK\$0.3 million. The administrative expenses were comparable throughout other periods stated above.

Profit before taxation and profit for the year/period

Happy Echo Group achieved a net profit before taxation of approximately HK\$25.9 million, HK\$32.2 million, HK\$37.5 million, HK\$19.5 million and HK\$42.8 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016 respectively. Happy Echo Group achieved a profit for the year/period of approximately HK\$21.6 million, HK\$26.9 million, HK\$31.4 million, HK\$16.2 million and HK\$39.2 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016, respectively.

Employment and remuneration policies

Happy Echo Group had 5, 5, 4 and 4 employees as at March 31, 2014, 2015 and 2016, and October 31, 2016, respectively. It incurred employee benefit expenses of approximately HK\$1.7 million, HK\$1.9 million, HK\$2.0 million, HK\$1.0 million and HK\$0.8 million for the years ended March 31, 2014, 2015 and 2016, and for the seven months ended October 31, 2015 and 2016, respectively. Happy Echo Group remunerated its employees by reference to their qualifications, experiences, responsibilities and profitability of Happy Echo Group as well as the market conditions.

Significant investments held and future plans for material investments

As at March 31, 2014, 2015 and 2016, and October 31, 2016, Happy Echo Group did not have any significant investments. There is no immediate plan for material investments by Happy Echo Group.

Capital commitment and contingent liabilities

As at March 31, 2014, 2015 and 2016, and October 31, 2016, Happy Echo Group had no material capital commitments for the acquisition of fixed assets or intangible assets and had no contingent liabilities.

Financial risk factors

Please refer to note 19 of Section B in “Appendix V — Accountants’ Report on Happy Echo Limited” for discussion on financial risk factors.

Acquisitions and disposals

There were no material acquisitions and disposals of subsidiaries, joint ventures and associates by Happy Echo Group during the years ended March 31, 2014, 2015 and 2016, and the seven months ended October 31, 2015 and 2016.

Charges on assets

There were no charges on assets as at March 31, 2014, 2015 and 2016, and October 31, 2016.

The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 24, 2017

The Directors
Jacobson Pharma Corporation Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Victor Luck Limited ("Victor Luck") and their subsidiaries (together "Victor Luck Group"), which comprises the consolidated statements of financial position of Victor Luck Group as at March 31, 2014, 2015 and 2016 and October 31, 2016 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the circular of Jacobson Pharma Corporation Limited (the "Company") dated February 24, 2017 (the "Circular") in connection with the acquisition of Victor Luck Group (the "Acquisition").

Victor Luck was incorporated in the British Virgin Islands on September 21, 2010 as a limited liability company under the BVI Business Companies Act, 2004.

As at the date of this report, no audited financial statements have been prepared for Victor Luck as Victor Luck is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

The audited financial statements of the entities comprising Victor Luck Group as of the date of this report for which there are statutory requirements have been prepared in accordance with Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The details of the statutory auditors of these companies are set out in note 1(a) of Section B.

All companies comprising Victor Luck Group have adopted March 31 as their financial year end date.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

The directors of Victor Luck have prepared the consolidated financial statements for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The Underlying Financial Statements for each of the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA under separate terms of engagement with Victor Luck.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of Victor Luck or the other entities comprising Victor Luck Group in respect of any period subsequent to October 31, 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of Victor Luck Group as at March 31, 2014, 2015 and 2016 and October 31, 2016 and of Victor Luck Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of Victor Luck Group comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the seven months ended October 31, 2015, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, 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.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

A CONSOLIDATED FINANCIAL INFORMATION OF VICTOR LUCK GROUP

1 Consolidated statements of profit or loss and other comprehensive income

	<i>Section B Note</i>	Year ended March 31,			Seven months ended October 31,	
		2014	2015	2016	2015	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)	
Revenue	2	37,808	37,300	45,516	29,736	21,840
Cost of sales		<u>(21,828)</u>	<u>(23,099)</u>	<u>(27,025)</u>	<u>(15,411)</u>	<u>(11,405)</u>
Gross profit		15,980	14,201	18,491	14,325	10,435
Other income	3	25	156	66	50	237
Selling and distribution expenses		(1,016)	(1,058)	(1,253)	(718)	(603)
Administrative and other operating expenses		<u>(3,306)</u>	<u>(3,464)</u>	<u>(3,828)</u>	<u>(2,299)</u>	<u>(2,240)</u>
Profit from operations		11,683	9,835	13,476	11,358	7,829
Finance costs	4(a)	<u>(113)</u>	<u>(109)</u>	<u>(109)</u>	<u>(69)</u>	<u>(59)</u>
Profit before taxation	4	11,570	9,726	13,367	11,289	7,770
Income tax	5(a)	<u>(1,892)</u>	<u>(1,645)</u>	<u>(2,182)</u>	<u>(1,809)</u>	<u>(1,281)</u>
Profit for the year/period and total comprehensive income		<u>9,678</u>	<u>8,081</u>	<u>11,185</u>	<u>9,480</u>	<u>6,489</u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

2 Consolidated statements of financial position

	<i>Section B Note</i>	As at March 31,			As at October 31,
		2014	2015	2016	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	8	9,530	8,683	8,215	8,033
Leasehold land	9	2,314	2,244	2,174	2,141
Goodwill	10	28,366	28,366	28,366	28,366
Deferred tax assets	16	272	345	357	398
		<u>40,482</u>	<u>39,638</u>	<u>39,112</u>	<u>38,938</u>
Current assets					
Inventories	11	4,104	4,008	4,236	4,555
Trade and other receivables	12	1,825	2,460	2,498	2,303
Amount due from a related party	21(b)	6,587	6,761	8,755	9,583
Current tax recoverable		182	415	131	–
Cash and cash equivalents	13	11,979	17,917	27,043	7,413
		<u>24,677</u>	<u>31,561</u>	<u>42,663</u>	<u>23,854</u>
Current liabilities					
Trade and other payables	14	2,099	1,432	1,234	1,600
Bank loans	15	8,936	8,246	7,548	7,136
Obligation under finance leases	15	–	200	117	–
Amount due to a controlling shareholder of Victor Luck Group	21(b)	38,271	38,271	38,271	–
Current tax payable		1,109	93	574	1,781
		<u>50,415</u>	<u>48,242</u>	<u>47,744</u>	<u>10,517</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

2 Consolidated statements of financial position (continued)

	<i>Section B Note</i>	As at March 31,			As at October 31,
		2014	2015	2016	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Net current					
(liabilities)/assets		(25,738)	(16,681)	(5,081)	13,337
		-----	-----	-----	-----
Total assets less					
current liabilities		14,744	22,957	34,031	52,275
		-----	-----	-----	-----
Non-current liabilities					
Obligation under					
finance leases	15	-	117	-	-
Deferred tax liabilities	16	49	64	70	54
		-----	-----	-----	-----
		49	181	70	54
		-----	-----	-----	-----
NET ASSETS		14,695	22,776	33,961	52,221
		=====	=====	=====	=====
CAPITAL AND RESERVES					
Share capital	17	1	1	1	1
Reserves		14,694	22,775	33,960	52,220
		-----	-----	-----	-----
TOTAL EQUITY		14,695	22,776	33,961	52,221
		=====	=====	=====	=====

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

3 Consolidated statements of changes in equity

	Share capital (Note 17) HK\$'000	Capital reserve (Note 18(a)) HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At April 1, 2013	1	–	5,016	5,017
Profit and total comprehensive income for the year	–	–	9,678	9,678
At March 31, 2014	<u>1</u>	<u>–</u>	<u>14,694</u>	<u>14,695</u>
At April 1, 2014	1	–	14,694	14,695
Profit and total comprehensive income for the year	–	–	8,081	8,081
At March 31, 2015	<u>1</u>	<u>–</u>	<u>22,775</u>	<u>22,776</u>
At April 1, 2015	1	–	22,775	22,776
Profit and total comprehensive income for the year	–	–	11,185	11,185
At March 31, 2016	<u>1</u>	<u>–</u>	<u>33,960</u>	<u>33,961</u>
At April 1, 2015	1	–	22,775	22,776
Profit and total comprehensive income for the period (Unaudited)	–	–	9,480	9,480
At October 31, 2015 (Unaudited)	<u>1</u>	<u>–</u>	<u>32,255</u>	<u>32,256</u>
At April 1, 2016	1	–	33,960	33,961
Capitalization of amount due to a controlling shareholder of Victor Luck Group (note 21(b))	–	11,771	–	11,771
Profit and total comprehensive income for the period	–	–	6,489	6,489
At October 31, 2016	<u>1</u>	<u>11,771</u>	<u>40,449</u>	<u>52,221</u>

The accompanying notes form part of the Financial Information.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

4 Consolidated cash flow statements

	<i>Section B Note</i>	Year ended March 31,			Seven months ended October 31,	
		2014	2015	2016	2015	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)	
Operating activities						
Profit before taxation		11,570	9,726	13,367	11,289	7,770
Adjustments for:						
Depreciation and amortization		1,810	1,533	1,115	637	514
Net (gain)/loss on disposals of property, plant and equipment	3	(3)	(91)	–	–	6
Finance costs	4(a)	113	109	109	69	59
Interest income from bank deposits	3	(15)	(58)	(44)	(30)	(12)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating profit before changes in working capital		13,475	11,219	14,547	11,965	8,337
(Increase)/decrease in inventories		(35)	96	(228)	(1,180)	(319)
Decrease/(increase) in trade and other receivables		1,789	(635)	(38)	431	195
Increase in amount due from a related party		(4,694)	(174)	(1,994)	(5,618)	(828)
(Decrease)/increase in trade and other payables		(396)	(667)	(198)	584	366
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash generated from operations		10,139	9,839	12,089	6,182	7,751
Income tax paid		(1,324)	(2,952)	(1,423)	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		8,815	6,887	10,666	6,182	7,751

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

4 Consolidated cash flow statements (continued)

	Section B Note	Year ended March 31,			Seven months ended October 31,	
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (Unaudited)	2016 HK\$'000
Investing activities						
Payment for purchase of property, plant and equipment		(471)	(216)	(577)	(552)	(305)
Proceeds from disposals of property, plant and equipment		3	91	-	-	-
Interest received		15	58	44	30	12
Net cash used in investing activities		<u>(453)</u>	<u>(67)</u>	<u>(533)</u>	<u>(522)</u>	<u>(293)</u>
Financing activities						
Capital element of finance lease rentals paid		-	(83)	(200)	(112)	(117)
Repayment of bank loans		(683)	(690)	(698)	(406)	(412)
Decrease in amount due to a controlling shareholder of Victor Luck Group		(700)	-	-	-	(26,500)
Borrowing costs paid		(113)	(109)	(109)	(69)	(59)
Net cash used in financing activities		<u>(1,496)</u>	<u>(882)</u>	<u>(1,007)</u>	<u>(587)</u>	<u>(27,088)</u>
Net increase/(decrease) in cash and cash equivalents		6,866	5,938	9,126	5,073	(19,630)
Cash and cash equivalents at the beginning of the year/period		<u>5,113</u>	<u>11,979</u>	<u>17,917</u>	<u>17,917</u>	<u>27,043</u>
Cash and cash equivalents at the end of the year/period	13	<u>11,979</u>	<u>17,917</u>	<u>27,043</u>	<u>22,990</u>	<u>7,413</u>

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Basis of presentation

Victor Luck Limited ("Victor Luck") was incorporated in the British Virgin Islands on September 21, 2010 as a limited liability company. The registered address of the office of Victor Luck Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal place of business of Victor Luck is Flat A-B, 1/F., & Flat B, 17/F., Success Industrial Building, 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong. The principal activity of Victor Luck is investment holding. Victor Luck and its subsidiaries ("Victor Luck Group") are principally engaged in manufacturing, marketing and sale of generic drugs and proprietary medicines.

As at the date of this report, Victor Luck has direct interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Company name	Place and date of incorporation	Particular of issued capital	Proportion of ownership interest held by Victor Luck	Principal activities	Name of statutory auditor
Karen Pharmaceutical Company Limited	Hong Kong, December 10, 1982	100,000 ordinary shares	100%	Manufacturing and sale of generic drugs and proprietary medicines	(i)
Vincents Pharma Trading Company Limited	Hong Kong, November 17, 1981	100,000 ordinary shares	100%	Marketing and sale of generic drugs and proprietary medicines	(i)

Note:

- (i) The statutory financial statements of this company for the years ended March 31, 2014, 2015 and 2016 were prepared in accordance with Hong Kong Financial Reporting Standard for Private Entities and were audited by K. W. Lam & Co. Certified Public Accountants.

(b) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Victor Luck Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning April 1, 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning April 1, 2016 are set out in note 24.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the seven months ended October 31, 2015 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(c) *Accounting judgments and estimates*

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 22.

(d) *Basis of measurement*

The Financial Information is presented in Hong Kong dollars (“HK\$”). It is prepared on the historical cost basis.

(e) *Subsidiaries*

Subsidiaries are entities controlled by Victor Luck Group. Victor Luck Group controls an entity when it is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether Victor Luck Group has power, only substantive rights (held by Victor Luck Group and other parties) are considered.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Changes in Victor Luck Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When Victor Luck Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(f) Goodwill

Victor Luck Limited has not prepared consolidated financial statements and thus has not consolidated its subsidiaries that had been acquired in past business combinations. Victor Luck Group adjusted the financial statement of the subsidiaries according to HKFRS and calculated the deemed cost of goodwill as the difference between the parent's interest in the assets and liabilities of the subsidiaries at the beginning of the Relevant Periods and the cost in the parent's separate financial statements. The resulting goodwill is recorded in the statement of financial position at April 1, 2013 and is tested for impairment during the Relevant Periods.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(i)(ii)).

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Machinery and equipment 5 years
- Furniture, fixtures and office equipment 5 years
- Motor vehicles 5 years
- Leasehold improvements Shorter of the lease term or 5 years

Where part of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Victor Luck Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to Victor Luck Group

Assets that are held by Victor Luck Group under leases which transfer to Victor Luck Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Victor Luck Group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where Victor Luck Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in the property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where Victor Luck Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

The cost of acquiring land held under an operating lease and land use rights are amortized on a straight-line basis over the period of the lease term, ranging from 40 to 50 years.

(i) *Impairment of assets*

(i) *Impairment of trade and other receivables*

Trade and other receivables stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Victor Luck Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition of these assets, where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors included within trade and other receivables, the recovery of which is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Victor Luck Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except to the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased.

- property, plant and equipment; and
- leasehold land.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognized.

(j) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fee payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) 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 that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Victor Luck Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(o) Employee benefits

Salaries, annual bonuses, staff welfare costs and contributions to defined contribution retirement schemes are accrued in the period in which the associated services are rendered by employees of Victor Luck Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. The employee benefits are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(p) *Income tax*

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Victor Luck Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Victor Luck Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Victor Luck Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when Victor Luck Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to Victor Luck Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized in profit or loss when goods are delivered and the related risks and rewards of ownership are passed to customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and sales returns. Accumulated experience is used to estimate and provide for sales returns at time of sales.

(ii) Interest income

Interest income is recognized in profit or loss as it accrues using the effective interest method.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(t) Related parties

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

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- (2) An entity is related to Victor Luck Group if any of the following conditions applies:
- (i) The entity and Victor Luck Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either Victor Luck Group or an entity related to Victor Luck Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (1).
 - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Victor Luck Group or to Victor Luck Group's parent.

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

2 Revenue

The principal activities of Victor Luck Group are manufacturing, marketing and sale of generic drugs and proprietary medicines.

Revenue represents the sales value of goods supplied to customers less returns and sales rebates and is after deduction of any trade discounts.

3 Other income

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
				(Unaudited)	
Interest income from bank deposits	15	58	44	30	12
Net gain/(loss) on disposal of property, plant and equipment	3	91	–	–	(6)
Others	7	7	22	20	231
	25	156	66	50	237
	25	156	66	50	237

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Year ended March 31,			Seven months ended October 31,	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
(a) Finance costs					
Interest on bank loans	113	105	99	63	53
Finance charges on obligation under finance leases	–	4	10	6	6
	<u>113</u>	<u>109</u>	<u>109</u>	<u>69</u>	<u>59</u>
(b) Staff costs					
Salaries, wages and other benefits	12,555	12,434	14,935	8,576	7,476
Contributions to defined contribution retirement schemes	501	486	589	339	289
	<u>13,056</u>	<u>12,920</u>	<u>15,524</u>	<u>8,915</u>	<u>7,765</u>

Victor Luck Group operates two Mandatory Provident Fund Schemes (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000 in and after June 2014 and HK\$25,000 prior to June 2014. Contributions to the plan vest immediately.

Victor Luck Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

	Year ended March 31,			Seven months ended October 31,	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
(c) Other items					
Amortization of leasehold land (note 9)	70	70	70	33	33
Depreciation (note 8)	1,740	1,463	1,045	604	481
Operating lease charges in respect of properties	852	1,368	1,368	798	798
Auditors’ remuneration	29	15	29	17	17
Cost of inventories [#] (note 11(b))	<u>21,828</u>	<u>23,099</u>	<u>27,025</u>	<u>15,411</u>	<u>11,405</u>

[#] Cost of inventories includes HK\$12,713,000, HK\$12,474,000, HK\$14,335,000, HK\$8,297,000 (unaudited) and HK\$7,182,000 for the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2015 and 2016, respectively, relating to staff costs, operating lease charges, depreciation and amortization, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

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5 Income tax

(a) *Income tax in the consolidated statements of profit or loss and other comprehensive income represents:*

	Year ended March 31,			Seven months ended	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Current tax					
Provision for the year/period	2,006	1,703	2,188	1,905	1,338
Deferred tax					
Origination and reversal of temporary differences	(114)	(58)	(6)	(96)	(57)
	<u>1,892</u>	<u>1,645</u>	<u>2,182</u>	<u>1,809</u>	<u>1,281</u>

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	Year ended March 31,			Seven months ended	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Profit before taxation	<u>11,570</u>	<u>9,726</u>	<u>13,367</u>	<u>11,289</u>	<u>7,770</u>
Notional tax on profit before taxation, calculated at 16.5%	1,909	1,605	2,206	1,863	1,282
Effect of non-deductible expenses	18	85	30	-	-
Effect of non-taxable income	(15)	(5)	(14)	(14)	(1)
Effect of tax concessions obtained	(20)	(40)	(40)	(40)	-
Actual tax expense	<u>1,892</u>	<u>1,645</u>	<u>2,182</u>	<u>1,809</u>	<u>1,281</u>

Note: The provision for Hong Kong Profits Tax for the period is calculated at 16.5% of the estimated assessable profit.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

6 Directors' remuneration

Directors' remuneration is disclosed as follows:

	Year ended March 31, 2014				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
	Directors				
Chen Hung	–	–	–	–	–
Ku Siu Ming	–	264	22	13	299
	–	264	22	13	299

	Year ended March 31, 2015				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
	Directors				
Chen Hung	–	–	–	–	–
Ku Siu Ming	–	384	32	18	434
	–	384	32	18	434

	Year ended March 31, 2016				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
	Directors				
Chen Hung	–	–	–	–	–
Ku Siu Ming	–	402	34	18	454
	–	402	34	18	454

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

Seven months ended October 31, 2015 (Unaudited)

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Directors					
Chen Hung	-	-	-	-	-
Ku Siu Ming	-	235	-	11	246
	-	235	-	11	246

Seven months ended October 31, 2016

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Directors					
Chen Hung	-	-	-	-	-
Ku Siu Ming	-	249	-	10	259
	-	249	-	10	259

During the Relevant Periods, there was no amount paid or payable by Victor Luck Group to the directors or any of the five highest paid individuals as set out in note 7 below as an inducement to join or upon joining Victor Luck Group or as compensation for loss of office. And there was no arrangement under which a director has waived or agreed to waive any remuneration during the Relevant Periods.

7 **Individuals with highest emoluments**

Of the five individuals with the highest emoluments, nil, 1, 1, 1 (unaudited) and 1 are directors for the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2015 and 2016 respectively whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
Salaries and other emoluments	3,135	2,921	3,137	1,667	2,045
Discretionary bonuses	211	195	206	-	-
Retirement scheme contributions	50	52	54	32	31
	3,396	3,168	3,397	1,699	2,076

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended March 31,			Seven months ended October 31,	
	2014	2015	2016	2015	2016
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i> (Unaudited)	<i>Number of individuals</i>
Nil – HK\$1,000,000	4	3	2	4	3
HK\$1,000,001 – HK\$1,500,000	1	1	2	–	1
	<u>1</u>	<u>1</u>	<u>2</u>	<u>–</u>	<u>1</u>

8 Property, plant and equipment

	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:						
At April 1, 2013	8,335	6,861	6,088	251	6,758	28,293
Additions	–	93	363	–	15	471
Disposals	–	(14)	–	–	–	(14)
	<u>8,335</u>	<u>6,940</u>	<u>6,451</u>	<u>251</u>	<u>6,773</u>	<u>28,750</u>
At March 31, 2014	8,335	6,940	6,451	251	6,773	28,750
	-----	-----	-----	-----	-----	-----
Accumulated depreciation:						
At April 1, 2013	1,003	5,911	4,933	251	5,396	17,494
Charge for the year	182	472	507	–	579	1,740
Written back on disposals	–	(14)	–	–	–	(14)
	<u>1,185</u>	<u>6,369</u>	<u>5,440</u>	<u>251</u>	<u>5,975</u>	<u>19,220</u>
At March 31, 2014	1,185	6,369	5,440	251	5,975	19,220
	-----	-----	-----	-----	-----	-----
Net book value:						
At March 31, 2014	<u>7,150</u>	<u>571</u>	<u>1,011</u>	<u>–</u>	<u>798</u>	<u>9,530</u>
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

	Buildings <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At April 1, 2014	8,335	6,940	6,451	251	6,773	28,750
Additions	-	-	135	481	-	616
Disposals	-	-	-	(251)	-	(251)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At March 31, 2015	8,335	6,940	6,586	481	6,773	29,115
	-----	-----	-----	-----	-----	-----
Accumulated depreciation:						
At April 1, 2014	1,185	6,369	5,440	251	5,975	19,220
Charge for the year	182	259	398	144	480	1,463
Written back on disposals	-	-	-	(251)	-	(251)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At March 31, 2015	1,367	6,628	5,838	144	6,455	20,432
	-----	-----	-----	-----	-----	-----
Net book value:						
At March 31, 2015	<u>6,968</u>	<u>312</u>	<u>748</u>	<u>337</u>	<u>318</u>	<u>8,683</u>

	Buildings <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At April 1, 2015	8,335	6,940	6,586	481	6,773	29,115
Additions	-	27	170	-	380	577
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At March 31, 2016	8,335	6,967	6,756	481	7,153	29,692
	-----	-----	-----	-----	-----	-----
Accumulated depreciation:						
At April 1, 2015	1,367	6,628	5,838	144	6,455	20,432
Charge for the year	182	219	375	144	125	1,045
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At March 31, 2016	1,549	6,847	6,213	288	6,580	21,477
	-----	-----	-----	-----	-----	-----
Net book value:						
At March 31, 2016	<u>6,786</u>	<u>120</u>	<u>543</u>	<u>193</u>	<u>573</u>	<u>8,215</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

	Buildings <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At April 1, 2016	8,335	6,967	6,756	481	7,153	29,692
Additions	-	-	175	-	130	305
Disposals	-	-	(661)	-	-	(661)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At October 31, 2016	8,335	6,967	6,270	481	7,283	29,336
	-----	-----	-----	-----	-----	-----
Accumulated depreciation:						
At April 1, 2016	1,549	6,847	6,213	288	6,580	21,477
Charge for the period	106	44	203	84	44	481
Written back on disposals	-	-	(655)	-	-	(655)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At October 31, 2016	1,655	6,891	5,761	372	6,624	21,303
	-----	-----	-----	-----	-----	-----
Net book value:						
At October 31, 2016	<u>6,680</u>	<u>76</u>	<u>509</u>	<u>109</u>	<u>659</u>	<u>8,033</u>

At March 31, 2014, 2015 and 2016 and October 31, 2016, certain buildings, machinery and equipment were pledged against bank loans granted to Victor Luck Group as disclosed in note 15(a)(i).

Victor Luck Group leases certain motor vehicles under finance leases expiring in 2 years. During the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2015 and 2016, Victor Luck Group entered into finance leases contracts in respect of certain motor vehicles with capital value at the inception of the contracts nil, HK\$400,000, nil, nil (unaudited) and nil, respectively. At March 31, 2014, 2015, 2016 and October 31, 2016, the net book value of assets held under finance leases amounted to nil, HK\$337,000, HK\$193,000 and nil, respectively.

9 Leasehold land

	As at March 31,			As at
	2014	2015	2016	October 31,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At April 1	<u>2,774</u>	<u>2,774</u>	<u>2,774</u>	<u>2,774</u>
At March 31/October 31	----- 2,774	----- 2,774	----- 2,774	----- 2,774
Accumulated amortization:				
At April 1	390	460	530	600
Charge for the year/period	<u>70</u>	<u>70</u>	<u>70</u>	<u>33</u>
At March 31/October 31	----- 460	----- 530	----- 600	----- 633
Net book value:				
At March 31/October 31	<u>2,314</u>	<u>2,244</u>	<u>2,174</u>	<u>2,141</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

At March 31, 2014, 2015, 2016 and October 31, 2016, certain bank borrowings were secured by certain leasehold land as disclosed in note 15(a)(i).

10 Goodwill

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Balance at March 31/October 31	28,366	28,366	28,366	28,366

Goodwill is allocated to Victor Luck Group's cash-generating unit ("CGU") in the generic drugs business.

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

Key assumptions used for value-in-use calculations:

	As at March 31,			As at
	2014	2015	2016	October 31,
				2016
Gross margin	45-52%	45-52%	45-52%	45-52%
Growth rate	3%	3%	3%	3%
Discount rate	14%	14%	14%	14%

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

11 Inventories

(a) *Inventories in the consolidated statements of financial position comprise:*

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Raw materials	2,140	1,831	1,369	1,417
Work in progress	1,227	1,119	1,528	1,520
Finished goods	737	1,058	1,339	1,618
	4,104	4,008	4,236	4,555

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

(b) *The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:*

	Year ended March 31,			Seven months ended October 31,	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Carrying amount of inventories sold	21,828	23,099	27,025	15,411	11,405

12 Trade and other receivables

	As at March 31,			As at October 31,
	2014	2015	2016	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	1,453	1,900	1,253	1,142
Deposits and prepayments	372	560	1,245	1,161
	<u>1,825</u>	<u>2,460</u>	<u>2,498</u>	<u>2,303</u>

At March 31, 2014, 2015, 2016 and October 31, 2016, the deposits and prepayments expected to be recovered after more than one year amounted to HK\$252,000, HK\$363,000, nil and HK\$364,000, respectively. The remaining trade and other receivables are expected to be recovered within one year.

Victor Luck Group normally allows a credit period of 0-30 days to its customers. Further details on Victor Luck Group's credit policy are set out in note 19(a).

(a) *Aging analysis*

As at the end of the reporting period, the aging analysis of trade receivables (which are included in trade and other receivables) based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at March 31,			As at October 31,
	2014	2015	2016	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Less than 1 month	681	945	528	642
1 to 6 months	772	955	725	500
	<u>1,453</u>	<u>1,900</u>	<u>1,253</u>	<u>1,142</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

(b) *Impairment of trade receivables*

As at March 31, 2014, 2015, 2016 and October 31, 2016, none of Victor Luck Group's trade receivables were determined to be impaired.

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Neither past due nor impaired	–	–	–	–
Less than 1 month past due	779	945	528	642
1 to 3 months past due	632	917	701	497
Over 3 months past due	42	38	24	3
	<u>1,453</u>	<u>1,900</u>	<u>1,253</u>	<u>1,142</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Victor Luck Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13 **Cash and cash equivalents**

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Cash at bank and in hand other than time deposits	7,951	6,831	14,024	7,413
Time deposits	4,028	11,086	13,019	–
	<u>11,979</u>	<u>17,917</u>	<u>27,043</u>	<u>7,413</u>
Cash and cash equivalents in the consolidated cash flow statements	<u>11,979</u>	<u>17,917</u>	<u>27,043</u>	<u>7,413</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

14 Trade and other payables

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Trade payables	567	160	44	110
Salary and bonus payables	1,049	1,123	1,075	1,154
Other payables and accruals	115	114	115	336
Receipts in advance	368	35	–	–
	<u>2,099</u>	<u>1,432</u>	<u>1,234</u>	<u>1,600</u>

All of the trade and other payables are expected to be settled within one year.

As at the end of reporting period, the aging analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Within 1 month	522	87	37	110
1 to 6 months	45	73	7	–
	<u>567</u>	<u>160</u>	<u>44</u>	<u>110</u>

15 Borrowings

An analysis of the carrying amount of borrowings is as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Current liabilities:				
Current portion of bank loans (<i>note 15(a)</i>)	691	698	708	713
Non-current portion of bank loans with repayable on demand clause (<i>note 15(a)</i>)	8,245	7,548	6,840	6,423
	<u>8,936</u>	<u>8,246</u>	<u>7,548</u>	<u>7,136</u>
Bank loans	8,936	8,246	7,548	7,136
Obligations under finance lease (<i>note 15(b)</i>)	–	200	117	–
	<u>8,936</u>	<u>8,446</u>	<u>7,665</u>	<u>7,136</u>
Non-current liabilities:				
Obligations under finance lease (<i>note 15(b)</i>)	–	117	–	–
	<u>8,936</u>	<u>8,563</u>	<u>7,665</u>	<u>7,136</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

(a) *Bank loans*

- (i) As at March 31, 2014, 2015, 2016 and October 31, 2016, the bank facilities were secured by the land and buildings and other property, plant and equipment of Victor Luck Group and guaranteed by personal guarantees of a controlling shareholder and certain directors of Victor Luck Group. These facilities amounted to HK\$8,936,000, HK\$8,246,000, HK\$7,548,000 and HK\$7,136,000 as of March 31, 2014, 2015, 2016 and October 31, 2016, respectively. These facilities were utilized to the extent of HK\$8,936,000, HK\$8,246,000, HK\$7,548,000 and HK\$7,136,000 as of March 31, 2014, 2015, 2016 and October 31, 2016, respectively.

The directors of Victor Luck Group have confirmed that the personal guarantees of a controlling shareholder and certain directors of Victor Luck Group will be released in February 2017.

The carrying value of assets pledged against bank loans as at the end of reporting period is analyzed as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2016
				<i>HK\$'000</i>
Property, plant and equipment	7,150	6,968	6,786	6,680
Leasehold land	2,314	2,244	2,174	2,141
	9,464	9,212	8,960	8,821

- (ii) As at March 31, 2014, 2015, 2016 and October 31, 2016, the bank loans were repayable within 1 year or on demand.

Notwithstanding the specified repayment schedules as stated in the facilities letters ("specific repayment terms") which allow the loans to be repaid over a period of more than one year, certain banking facilities granted to Victor Luck Group include a clause that gives the banks the unconditional rights to call the bank loans at any time ("repayment on demand clause"). These bank loans as at March 31, 2014, 2015, 2016 and October 31, 2016 were classified as current liabilities in the consolidated statements of financial position.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

However, management expects that the bank loans, overdrafts and other loans are to be repaid as follows based on the specific repayment terms:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Bank loans due for repayment within one year or on demand:				
Bank loans due for repayment within one year	691	698	708	713
	-----	-----	-----	-----
Bank loans due for repayment after one year (note):				
After 1 year but within 2 years	698	708	716	722
After 2 years but within 5 years	2,149	2,176	2,203	2,218
After 5 years	5,398	4,664	3,921	3,483
	-----	-----	-----	-----
	8,245	7,548	6,840	6,423
	-----	-----	-----	-----
	8,936	8,246	7,548	7,136
	=====	=====	=====	=====

Note: The amounts due are based on the specific repayment terms set out in the facilities letters and ignore the effect of any repayment on demand clause.

(b) Obligations under finance leases

As at March 31, 2014, 2015 and 2016 and October 31, 2016, Victor Luck Group had obligations under finance leases repayable as follows:

	2014		As at March 31,				As at October 31,	
			2015		2016		2016	
	Present value of the minimum lease payment HK\$'000	Total lease payments HK\$'000	Present value of the minimum lease payment HK\$'000	Total lease payments HK\$'000	Present value of the minimum lease payment HK\$'000	Total lease payments HK\$'000	Present value of the minimum lease payment HK\$'000	Total lease payments HK\$'000
Within 1 year	-	-	200	210	117	123	-	-
After 1 year but within 2 years	-	-	117	123	-	-	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
	-	-	317	333	117	123	-	-
	=====	=====	=====	=====	=====	=====	=====	=====
Less: Total future interest expense	-	-	(16)	(16)	(6)	(6)	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
Present value of lease obligations	-	-	317	317	117	117	-	-
	=====	=====	=====	=====	=====	=====	=====	=====

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

16 Deferred tax

Deferred tax liabilities/(assets) recognized

The components of deferred tax liabilities/(assets) recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Property, plant and equipment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2013	(80)	(29)	(109)
Credited to profit or loss	(99)	(15)	(114)
At March 31, 2014	<u>(179)</u>	<u>(44)</u>	<u>(223)</u>
At April 1, 2014	(179)	(44)	(223)
(Credited)/charged to profit or loss	(60)	2	(58)
At March 31, 2015	<u>(239)</u>	<u>(42)</u>	<u>(281)</u>
At April 1, 2015	(239)	(42)	(281)
Charged/(credited) to profit or loss	24	(30)	(6)
At March 31, 2016	<u>(215)</u>	<u>(72)</u>	<u>(287)</u>
At April 1, 2016	(215)	(72)	(287)
Credited to profit or loss	(5)	(52)	(57)
At October 31, 2016	<u>(220)</u>	<u>(124)</u>	<u>(344)</u>

Reconciliation to the consolidated statements of financial position

	As at March 31,			As at
	2014	2015	2016	October 31,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2016</i>
	<i>HK\$'000</i>			
Deferred tax assets recognized in the consolidated statements of financial position	(272)	(345)	(357)	(398)
Deferred tax liabilities recognized in the consolidated statements of financial position	<u>49</u>	<u>64</u>	<u>70</u>	<u>54</u>
	<u>(223)</u>	<u>(281)</u>	<u>(287)</u>	<u>(344)</u>

The directors are of the view that future taxable profits will probably be available to utilize the deferred tax assets.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

17 Share capital

	2014		As at March 31, 2015		2016		As at October 31, 2016	
	No. of shares	HK\$'000	No. of shares	HK\$'000	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorized:								
50,000 ordinary shares of US\$1.0 each	50,000	390	50,000	390	50,000	390	50,000	390
Issued and fully paid:								
100 ordinary shares of US\$1.0 each	100	1	100	1	100	1	100	1
	<u>100</u>	<u>1</u>	<u>100</u>	<u>1</u>	<u>100</u>	<u>1</u>	<u>100</u>	<u>1</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Victor Luck. All ordinary shares rank equally with regard to the Victor Luck's residual assets.

18 Reserves

(a) Capital reserve

The capital reserve represents the amount due to a controlling shareholder capitalized on October 31, 2016.

(b) Capital management

Victor Luck Group's primary objectives when managing capital are to safeguard Victor Luck Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Victor Luck Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Victor Luck Group is not subject to externally imposed capital requirements.

19 Financial risk management and fair values

Exposure to credit, liquidity and interest rate risks arises in the normal course of Victor Luck Group's business. Victor Luck Group's exposure to these risks and the financial risk management policies and practices used by Victor Luck Group to manage these risks are described below.

(a) Credit risk

Victor Luck Group's credit risk is primarily attributable to cash and cash equivalents, trade and other receivables. Cash and cash equivalents are normally placed at financial institutions that have sound credit ratings and Victor Luck Group considers the credit risk to be insignificant. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Victor Luck Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore concentrations of credit risk primarily arise when Victor Luck Group has significant exposure to individual customers. As at March 31, 2014, 2015, 2016 and October 31, 2016, 10.8%, 31.5%, 3.5% and 8.3% of the total trade and other receivables was due from Victor Luck Group's largest debtor and 26.6%, 73.9%, 8.7% and 15.6% was due from the five largest debtors respectively.

Further quantitative disclosures in respect of Victor Luck Group's exposure to credit risk arising from trade and other receivables are set out in note 12.

(b) Liquidity risk

Victor Luck Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given that bank loans subject to repayment on demand clause are classified as current liabilities as set out in note 15, the contractual undiscounted cash outflows of all the financial liabilities as at March 31, 2014, 2015, 2016 and October 31, 2016 are due within 1 year or on demand and equal their carrying value at the end of the reporting period except for the obligations under finance leases which are disclosed in note 15(b).

The following tables show the remaining contractual maturities at the end of the reporting period of Victor Luck Group's bank loans, which are based on contractual undiscounted cash outflows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period).

As the directors do not expect the banks would exercise the rights to demand repayment, the bank loans subject to repayment on demand clause are expected to be repayable based on the specific repayment terms. Hence, for these bank loans, the following tables show the contractual undiscounted cash outflows according to the specific repayment terms and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

	As at March 31, 2014						Carrying amount HK\$'000
	Contractual undiscounted cash outflow						
	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Bank loans subject to repayment on demand clauses: scheduled repayments	-	796	797	2,389	5,639	9,621	8,936
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	8,936	(796)	(797)	(2,389)	(5,639)	(685)	-
	<u>8,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,936</u>	<u>8,936</u>

	As at March 31, 2015						Carrying amount HK\$'000
	Contractual undiscounted cash outflow						
	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Bank loans subject to repayment on demand clauses: scheduled repayments	-	797	796	2,389	4,843	8,825	8,246
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	8,246	(797)	(796)	(2,389)	(4,843)	(579)	-
	<u>8,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,246</u>	<u>8,246</u>

	As at March 31, 2016						Carrying amount HK\$'000
	Contractual undiscounted cash outflow						
	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Bank loans subject to repayment on demand clauses: scheduled repayments	-	796	796	2,389	4,047	8,028	7,548
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	7,548	(796)	(796)	(2,389)	(4,047)	(480)	-
	<u>7,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,548</u>	<u>7,548</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

	As at October 31, 2016						Carrying amount HK\$'000
	Contractual undiscounted cash outflow						
	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total HK\$'000	
			HK\$'000	HK\$'000	HK\$'000		
Bank loans subject to repayment on demand clauses: scheduled repayments	-	796	796	2,389	3,582	7,563	7,136
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	7,136	(796)	(796)	(2,389)	(3,582)	(427)	-
	<u>7,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,136</u>	<u>7,136</u>

(c) **Interest rate risk**

Victor Luck Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose Victor Luck Group to cash flow interest rate risk and fair value interest rate risk respectively. Victor Luck Group's interest rate profile as monitored by management is set out in (i) below.

(i) **Interest rate profile**

The following table details the interest rate profile of Victor Luck Group's borrowings at the end of the reporting period:

	2014		As at March 31, 2015		2016		As at October 31, 2016	
	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000
Fixed rate borrowings:								
Obligations under finance leases	-	-	2.50%	317	2.50%	117	-	-
Variable rate borrowings:								
Bank loans	1.21% - 1.22%	<u>8,936</u>	1.21% - 1.25%	<u>8,246</u>	1.19% - 1.38%	<u>7,548</u>	1.22% - 1.34%	<u>7,136</u>
Total interest-bearing borrowings		<u>8,936</u>		<u>8,563</u>		<u>7,665</u>		<u>7,136</u>
Fixed rate borrowings as a percentage of total net borrowings		<u>0%</u>		<u>4%</u>		<u>2%</u>		<u>0%</u>

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

(ii) Sensitivity analysis

As at March 31, 2014, 2015, 2016 and October 31, 2016, it is estimated that a general increase/decrease of 10 basis points in interest rates with all other variables held constant, would have decreased/increased Victor Luck Group's profit after tax and retained earnings by approximately HK\$7,000, HK\$7,000, HK\$6,000 and HK\$6,000, respectively.

The sensitivity analysis above indicates the annualized impact on Victor Luck Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose Victor Luck Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as Victor Luck Group does not hold any fixed rate instruments which are measured at fair value in the Financial Information. The analysis is performed on the same basis for the Relevant Periods.

(d) Fair value measurement

The carrying amounts of Victor Luck Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at March 31, 2014, 2015, 2016 and October 31, 2016.

20 Operating lease commitments

The total future minimum lease payments of Victor Luck Group under non-cancellable operating leases in respect of land and buildings are payable as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016
				HK\$'000
Within 1 year	852	1,368	1,288	1,078
After 1 year but within 3 years	1,137	956	1,199	652
	<u>1,989</u>	<u>2,324</u>	<u>2,487</u>	<u>1,730</u>

Victor Luck Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

21 Material related party transactions

During the Relevant Periods, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with Victor Luck Group
Ms. Ku Siu Ming	Director and controlling shareholder
Ho Chai Kung Medicine Manufactory Limited	Held by Ms. Ku Siu Ming

APPENDIX IV ACCOUNTANTS' REPORT ON VICTOR LUCK LIMITED

In addition to the transactions and balances disclosed elsewhere in the Financial Information, particulars of significant transactions between Victor Luck Group and the above related parties during the Relevant Periods are as follows:

(a) *Transactions with a related party*

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
Sales to Ho Chai Kung Medicine Manufactory Limited	19,395	16,888	25,051	16,296	14,928
Purchase of inventories from Ho Chai Kung Medicine Manufactory Limited	1,331	3,825	5,493	2,872	371
Rental expenses to Ho Chai Kung Medicine Manufactory Limited	360	360	360	210	210
	<u>360</u>	<u>360</u>	<u>360</u>	<u>210</u>	<u>210</u>

(b) *Amounts due from/(to) related parties*

	As at March 31,			As at October 31,
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000
Amount due from Ho Chai Kung Medicine Manufactory Limited	6,587	6,761	8,755	9,583
Amount due to a controlling shareholder of Victor Luck Group	(38,271)	(38,271)	(38,271)	-
	<u>(38,271)</u>	<u>(38,271)</u>	<u>(38,271)</u>	<u>-</u>

The amount due from Ho Chai Kung Medicine Manufactory Limited is trade-related, interest-free, unsecured and repayable on demand.

The amounts due to a controlling shareholder are non-trade-related, interest-free, unsecured and repayable on demand. On October 31, 2016, the outstanding balance of HK\$11,771,000 is capitalized as a contribution from a controlling shareholder.

(c) *Key management personnel emoluments*

All members of key management personnel are directors of Victor Luck and their compensation is disclosed in note 6.

Total remuneration is included in "staff costs" (see note 4(b)).

22 Accounting judgments and estimates

Key sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) *Impairment of intangible assets*

In considering the impairment losses that may be required for Victor Luck Group's intangible assets (including goodwill), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgment relating to items such as the level of sales volume, selling price and amount of operating costs. Victor Luck Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

(ii) *Provision of contingency and product warranty*

In the normal course of business, Victor Luck Group is subject to contingencies, including legal proceedings and claims arising out of business that relate to a wide range of matters, including among others, product liability. Victor Luck Group records accruals for such contingency based upon the assessment of the probability of occurrence and, where determinable, an estimate of the liability. Victor Luck Group may consider many factors in making these assessments including past history and the specifics of each matter. Any increase or decrease in the provision would affect profit or loss in future years.

23 Immediate and ultimate controlling party

At March 31, 2014, 2015 and 2016, the directors consider both the immediate parent and ultimate controlling party of Victor Luck Group to be Ms. Ku Siu Ming. At October 31, 2016, they consider the immediate parent and ultimate controlling party to be Ample Echo Limited and Ms. Ku Siu Ming respectively. Neither the immediate parents nor the ultimate controlling parties have produced financial statements that are available for public use.

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant periods

Up to the date of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the period ended October 31, 2016 and which have not been adopted in the Financial Information. These include the following which may be relevant to Victor Luck Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	January 1, 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealized losses</i>	January 1, 2017
HKFRS 9, <i>Financial instruments</i>	January 1, 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
HKFRS 16, <i>Leases</i>	January 1, 2019

Victor Luck Group does not plan to early adopt any of the above new standards or amendments. Victor Luck Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Victor Luck Group's results of operations and financial position, except for the following.

HKFRS 9, *Financial instruments*

HKFRS 9 replaces the existing guidance in HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from HKAS 39. The directors anticipate that the application of HKFRS 9 in the future will not have significant impact on Victor Luck Group's results of operations and financial position.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including HKAS 18, *Revenue*, HKAS 11, *Construction contracts* and HK(IFRIC)-Int 13, *Customer Loyalty Programmes*. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The directors are in the process of the performing assessment on the impact of HKFRS 15. Under HKFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The directors do not identify this circumstance based on the current operation of Victor Luck Group and anticipate no material impact on the financial performance.

HKFRS 16, *Leases*

HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, HKFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases, subject to limited exceptions. It replaces HKAS 17, *Leases* and the related interpretations including HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*.

Based on the preliminary assessment, the directors are of the opinion that the leases of certain properties by Victor Luck Group which are currently classified as operating leases under HKAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with HKFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognized on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognized under HKAS 17. Apart from the effects as outlined above, it is not expected that HKFRS 16 will have a significant impact on Victor Luck Group's results of operations and financial position upon adoption. The new standard is not expected to apply until the financial year ending March 31, 2020.

C SUBSEQUENT EVENTS

There were no material events affecting Victor Luck Group subsequent to October 31, 2016 and at the date of approval of the Financial Information.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by Victor Luck and its subsidiaries comprising Victor Luck Group in respect of any period subsequent to October 31, 2016. No dividend or distribution has been declared or made by any companies comprising Victor Luck Group in respect of any period subsequent to October 31, 2016.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 24, 2017

The Directors
Jacobson Pharma Corporation Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the combined financial information relating to Happy Echo Limited (the "Happy Echo") and Ho Chai Kung Medicine Manufactory Limited ("Ho Chai Kung") (together the "Happy Echo Group"), which comprises the combined statements of financial position of Happy Echo Group as at March 31, 2014, 2015 and 2016 and October 31, 2016 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements, for each of the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the circular of Jacobson Pharma Corporation Limited (the "Company") dated February 24, 2017 (the "Circular") in connection with the acquisition of Happy Echo Group (the "Acquisition").

Happy Echo was incorporated in Seychelles on September 5, 2016 as an international business company under the Republic of Seychelles International Business Companies Act, 1994. Pursuant to a reorganization (the "Reorganization") completed in November 2016, Happy Echo became the holding company of Ho Chai Kung Medicine Manufactory Limited, details of which are set out in note 1(a) of Section B below.

As at the date of this report, no audited financial statements have been prepared for Happy Echo as Happy Echo is newly incorporated.

The audited financial statements of Ho Chai Kung have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The details of the statutory auditor are set out in note 1(a) of Section B.

All companies now comprising Happy Echo Group have adopted March 31 as their financial year end date.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

The directors of Happy Echo have prepared the combined financial statements for the Relevant Periods (the "Underlying Financial Statements") on the same basis as used in the Financial Information as set out in Section B below. The Underlying Financial Statements for each of the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA under separate terms of engagement with Happy Echo.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with the HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of Happy Echo or the other entities comprising Happy Echo Group in respect of any period subsequent to October 31, 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of preparation set out in note 1(a) of Section B below, a true and fair view of the financial position of Happy Echo Group as at March 31, 2014, 2015 and 2016 and October 31, 2016 and of Happy Echo Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of Happy Echo Group comprising the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the seven months ended October 31, 2015, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, 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.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

A COMBINED FINANCIAL INFORMATION OF HAPPY ECHO GROUP

1 Combined statements of profit or loss and other comprehensive income

	<i>Section B Note</i>	Year ended March 31,			Seven months ended October 31,	
		2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
					(Unaudited)	
Revenue	2	48,691	56,092	64,252	34,233	36,102
Cost of sales		<u>(19,901)</u>	<u>(20,802)</u>	<u>(23,078)</u>	<u>(12,783)</u>	<u>(12,768)</u>
Gross profit		28,790	35,290	41,174	21,450	23,334
Other income	3	403	451	455	281	21,816
Selling and distribution expenses		(1,042)	(1,257)	(1,408)	(758)	(914)
Administrative and other operating expenses		<u>(2,287)</u>	<u>(2,302)</u>	<u>(2,702)</u>	<u>(1,460)</u>	<u>(1,390)</u>
Profit before taxation	4	25,864	32,182	37,519	19,513	42,846
Income tax	5(a)	<u>(4,261)</u>	<u>(5,294)</u>	<u>(6,163)</u>	<u>(3,293)</u>	<u>(3,622)</u>
Profit for the year/ period and total comprehensive income		<u>21,603</u>	<u>26,888</u>	<u>31,356</u>	<u>16,220</u>	<u>39,224</u>

The accompanying notes form part of the Financial Information.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

2 Combined statements of financial position

	<i>Section B Note</i>	2014 <i>HK\$'000</i>	As at March 31, 2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	As at October 31, 2016 <i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	9	858	798	1,539	50
Investment property	10	727	694	662	–
Leasehold land	11	801	777	753	–
		<u>2,386</u>	<u>2,269</u>	<u>2,954</u>	<u>50</u>
Current assets					
Inventories	12	4,828	3,908	9,996	14,255
Trade and other receivables	13	2,810	3,259	3,274	2,836
Amount due from a related party	21(b)	–	–	–	1
Cash and cash equivalents	14	21,488	27,840	28,103	9,255
		<u>29,126</u>	<u>35,007</u>	<u>41,373</u>	<u>26,347</u>
Current liabilities					
Other payables	15	841	687	546	536
Amount due to a related party	21(b)	6,587	6,761	8,755	9,583
Current tax payable		1,175	1,034	798	4,529
		<u>8,603</u>	<u>8,482</u>	<u>10,099</u>	<u>14,648</u>
Net current assets		<u>20,523</u>	<u>26,525</u>	<u>31,274</u>	<u>11,699</u>
Total assets less current liabilities		<u>22,909</u>	<u>28,794</u>	<u>34,228</u>	<u>11,749</u>
Non-current liabilities					
Deferred tax liabilities	16	35	32	110	1
NET ASSETS		<u>22,874</u>	<u>28,762</u>	<u>34,118</u>	<u>11,748</u>
CAPITAL AND RESERVES					
Combined capital	17	1,000	1,000	1,000	1,001
Reserves		21,874	27,762	33,118	10,747
TOTAL EQUITY		<u>22,874</u>	<u>28,762</u>	<u>34,118</u>	<u>11,748</u>

The accompanying notes form part of the Financial Information.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

3 Combined statements of changes in equity

	Combined capital (Note 17) HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At April 1, 2013	1,000	15,971	16,971
Profit and total comprehensive income for the year	–	21,603	21,603
Dividend declared in respect of current year	–	(15,700)	(15,700)
	<u>1,000</u>	<u>21,874</u>	<u>22,874</u>
At March 31, 2014	<u>1,000</u>	<u>21,874</u>	<u>22,874</u>
At April 1, 2014	1,000	21,874	22,874
Profit and total comprehensive income for the year	–	26,888	26,888
Dividend declared in respect of current year	–	(21,000)	(21,000)
	<u>–</u>	<u>(21,000)</u>	<u>(21,000)</u>
At March 31, 2015	<u>1,000</u>	<u>27,762</u>	<u>28,762</u>
At April 1, 2015	1,000	27,762	28,762
Profit and total comprehensive income for the year	–	31,356	31,356
Dividend declared in respect of current year	–	(26,000)	(26,000)
	<u>–</u>	<u>(26,000)</u>	<u>(26,000)</u>
At March 31, 2016	<u>1,000</u>	<u>33,118</u>	<u>34,118</u>
At April 1, 2015	1,000	27,762	28,762
Profit and total comprehensive income for the period (Unaudited)	–	16,220	16,220
	<u>–</u>	<u>16,220</u>	<u>16,220</u>
At October 31, 2015 (Unaudited)	<u>1,000</u>	<u>43,982</u>	<u>44,982</u>
At April 1, 2016	1,000	33,118	34,118
Share capital issuance for the incorporation of Happy Echo	1	–	1
Profit and total comprehensive income for the period	–	39,224	39,224
Dividend declared in respect of current period	–	(40,000)	(40,000)
Deemed distribution arising from disposals of property, plant and equipment, investment property and leasehold land (note 21(a))	–	(21,595)	(21,595)
	<u>–</u>	<u>(21,595)</u>	<u>(21,595)</u>
At October 31, 2016	<u>1,001</u>	<u>10,747</u>	<u>11,748</u>

The accompanying notes form part of the Financial Information.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

4 Combined cash flow statements

	<i>Section B Note</i>	Year ended March 31,			Seven months ended October 31,	
		2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(Unaudited)						
Operating activities						
Profit before taxation		25,864	32,182	37,519	19,513	42,846
Adjustments for:						
Depreciation and amortization		136	126	455	120	97
Net loss/(gain) on disposals of property, plant and equipment, investment property and leasehold land	3	–	–	13	13	(21,581)
Interest income from bank deposits	3	(43)	(91)	(107)	(83)	(23)
		<u>25,957</u>	<u>32,217</u>	<u>37,880</u>	<u>19,563</u>	<u>21,339</u>
Operating profit before changes in working capital						
(Increase)/decrease in inventories		(2,763)	920	(6,088)	(5,851)	(4,259)
(Increase)/decrease in trade and other receivables		(1,039)	(449)	(15)	924	438
Increase/(decrease) in other payables		144	(154)	(141)	534	(10)
Increase in amount due to a related party		4,694	174	1,994	5,618	828
		<u>4,694</u>	<u>174</u>	<u>1,994</u>	<u>5,618</u>	<u>828</u>
Cash generated from operations		26,993	32,708	33,630	20,788	18,336
Income tax paid		(3,597)	(5,438)	(6,321)	–	–
		<u>(3,597)</u>	<u>(5,438)</u>	<u>(6,321)</u>	<u>–</u>	<u>–</u>
Net cash generated from operating activities		23,396	27,270	27,309	20,788	18,336
		<u>23,396</u>	<u>27,270</u>	<u>27,309</u>	<u>20,788</u>	<u>18,336</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

4 Combined cash flow statements (continued)

	<i>Section B Note</i>	Year ended March 31,			Seven months ended October 31,	
		2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Investing activities						
Payment for purchase of property, plant and equipment		(11)	(9)	(1,153)	(1,153)	(6)
Proceeds from disposals of property, plant, investment property and equipment and leasehold land		–	–	–	–	2,799
Interest received		43	91	107	83	23
Net cash generated from / (used in) investing activities		<u>32</u>	<u>82</u>	<u>(1,046)</u>	<u>(1,070)</u>	<u>2,816</u>
Financing activities						
Dividends paid		<u>(15,700)</u>	<u>(21,000)</u>	<u>(26,000)</u>	–	<u>(40,000)</u>
Net cash used in financing activities		<u>(15,700)</u>	<u>(21,000)</u>	<u>(26,000)</u>	–	<u>(40,000)</u>
Net increase/(decrease) in cash and cash equivalents		7,728	6,352	263	19,718	(18,848)
Cash and cash equivalents at the beginning of the year/period		<u>13,760</u>	<u>21,488</u>	<u>27,840</u>	<u>27,840</u>	<u>28,103</u>
Cash and cash equivalents at the end of the year/period	14	<u>21,488</u>	<u>27,840</u>	<u>28,103</u>	<u>47,558</u>	<u>9,255</u>

The accompanying notes form part of the Financial Information.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Basis of preparation and presentation

Happy Echo Limited ("Happy Echo") was incorporated in Seychelles on September 5, 2016 as an international business company. The registered address of the office of Happy Echo is Global Gateway 8, Rue de la Perle, Providence, Mahe, Seychelles. The principal place of business of Happy Echo is Flat A-B, 1/F., & Flat B, 17/F., Success Industrial Building, 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong. The principal activity of Happy Echo is investment holding. Happy Echo and Ho Chai Kung Medicine Manufactory Limited ("Ho Chai Kung") (together "Happy Echo Group") are principally engaged in marketing and sale of proprietary medicines, under the brand name of Ho Chai Kung.

Pursuant to a reorganization completed in November 2016 (the "Reorganization"), Happy Echo acquired the entire equity interests in Ho Chai Kung at a consideration of HK\$1,000,000 and became the holding company of Ho Chai Kung. As Happy Echo and Ho Chai Kung was controlled by the same equity holder, Ms. Ku Siu Ming, before and after the Reorganization and therefore there were no changes in the economic substance of the ownership and the business of Happy Echo Group. The Reorganization only involved inserting a newly formed entity with no substantive operations as the new holding company of Ho Chai Kung. Accordingly, the reorganization has been accounted for using a principle similar to that for a reverse acquisition with Ho Chai Kung treated as the acquirer for accounting purposes. The Financial Information has been prepared and presented as a continuation of the financial statements of Ho Chai Kung with assets and liabilities of Ho Chai Kung recognized and measured at their historical carrying amounts prior to the Recognition. The consideration payable of HK\$1,000,000 was recorded as a deemed distribution to Ms. Ku Siu Ming in November 2016. As further detailed in note 21(b), in November 2016, the consideration payable to Ms. Ku Siu Ming of HK\$1,000,000 was set off with the amount due to a related party of HK\$1,000 and the remaining net amount due to Ms. Ku Siu Ming was capitalized as deemed contribution from shareholder.

The Financial Information has been prepared on a combined basis to present the combined financial information of the Happy Echo Group during the Relevant Periods. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined cash flow statements of Happy Echo Group as set out in Section A include the results of the entities comprising Happy Echo Group for the Relevant Periods (or where the entity was incorporated at a date later than April 1, 2014, for the period from the date of incorporation to October 31, 2016). The combined statements of financial position of Happy Echo Group as at March 31, 2014, 2015 and 2016 and October 31, 2016 as set out in Section A have been prepared to present the combined state of affairs of the entities comprising Happy Echo Group.

Intra-company balances and transactions among the combining entities are eliminated in full in preparing the Financial Information.

As at the date of this report, Happy Echo has direct interests in the following subsidiary, which is a private company, particulars of which are set out below:

Company name	Place and date of incorporation	Particular of issued capital	Proportion of ownership interest held by Happy Echo	Principal activities	Name of statutory auditor
Ho Chai Kung Medicine Manufactory Limited	Hong Kong, September 23, 1966	10,000 ordinary shares	100%	Marketing and sale of proprietary medicines	(i)

Note:

- (i) The statutory financial statements of this company for the years ended March 31, 2014, 2015 and 2016 were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by Poon & Co. Certified Public Accountants.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

(b) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Happy Echo Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning April 1, 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning April 1, 2016 are set out in note 24.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the seven months ended October 31, 2015 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(c) Accounting judgments and estimates

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 22.

(d) Basis of measurement

The Financial Information is presented in Hong Kong dollars (“HK\$”). It is prepared on the historical cost basis.

(e) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Furniture, fixtures and office equipment 5 years
- Motor vehicles 5 years

Where part of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

(f) *Investment property*

Investment property is defined as property held to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property. Investment property is stated at cost less accumulated depreciation and accumulated impairment losses (see note 1(h)(ii)). The cost of investment property comprises its purchase price and any directly attributable expenditure. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of shorter of 40 years or remaining lease term.

The carrying amounts of investment properties are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an investment property exceeds its recoverable amount. The recoverable amount of an investment property is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the investment property. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Both the useful life of an investment property and its residual value, if any, are reviewed annually.

(g) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Happy Echo Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to Happy Echo Group*

Assets that are held by Happy Echo Group under leases which transfer to Happy Echo Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Happy Echo Group are classified as operating leases.

(ii) *Operating lease charges*

Where Happy Echo Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

The cost of acquiring land held under an operating lease and land use rights are amortized on a straight-line basis over the period of the lease term, ranging from 40 to 50 years.

(h) *Impairment of assets*

(i) *Impairment of trade and other receivables*

Trade and other receivables stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Happy Echo Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition of these assets, where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors included within trade and other receivables, the recovery of which is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Happy Echo Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except to the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased.

- property, plant and equipment;
- investment property; and
- leasehold land.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

– Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognized.

(i) *Inventories*

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(j) *Trade and other receivables*

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) *Other payables*

Other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) *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 that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Happy Echo's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statements.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

(n) *Employee benefits*

Salaries, annual bonuses, staff welfare costs and contributions to defined contribution retirement schemes are accrued in the period in which the associated services are rendered by employees of Happy Echo. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. The employee benefits are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(o) *Income tax*

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Happy Echo controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Happy Echo Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Happy Echo Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when Happy Echo Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to Happy Echo Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized in profit or loss when goods are delivered and the related risks and rewards of ownership are passed to customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and sales returns. Accumulated experience is used to estimate and provide for sales returns at time of sales.

(ii) Interest income

Interest income is recognized in profit or loss as it accrues using the effective interest method.

(r) Related parties

(1) A person, or a close member of that person's family, is related to Happy Echo Group if that person:

- (i) has control or joint control over Happy Echo Group;
- (ii) has significant influence over Happy Echo Group; or
- (iii) is a member of the key management personnel of Happy Echo Group or Happy Echo Group's parent.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

- (2) An entity is related to Happy Echo Group if any of the following conditions applies:
- (i) The entity and Happy Echo Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either Happy Echo or an entity related to Happy Echo Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (1).
 - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Happy Echo Group or to Happy Echo Group's parent.

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

2 Revenue

The principal activities of Happy Echo Group are marketing and sale of proprietary medicines under the brand name of "Ho Chai Kung".

Revenue represents the sales value of goods supplied to customers less returns and sales rebates and is after deduction of any trade discounts.

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3 Other income

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
				(Unaudited)	
Interest income from bank deposits	43	91	107	83	23
Rental income	360	360	360	210	210
Net (loss)/gain on disposal of property, plant and equipment, investment property and leasehold land (<i>note 21(a)</i>)	–	–	(13)	(13)	21,581
Others	–	–	1	1	2
	<u>403</u>	<u>451</u>	<u>455</u>	<u>281</u>	<u>21,816</u>

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
				(Unaudited)	
<i>(a) Staff costs</i>					
Salaries, wages and other benefits	1,673	1,898	1,996	964	791
Contributions to a defined contribution retirement scheme	<u>29</u>	<u>35</u>	<u>36</u>	<u>21</u>	<u>21</u>
	<u>1,702</u>	<u>1,933</u>	<u>2,032</u>	<u>985</u>	<u>812</u>

Happy Echo Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 in and after June 2014 and HK\$25,000 prior to June 2014. Contributions to the plan vest immediately.

Happy Echo Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

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	Year ended March 31,			Seven months ended	
	2014	2015	2016	October 31,	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(b) Other items				(Unaudited)	
Amortization of leasehold land <i>(note 11)</i>	24	24	24	14	–
Depreciation	112	102	431	106	97
Operating lease charges in respect of properties	55	42	296	156	252
Auditors' remuneration	27	27	28	16	16
Cost of inventories <i>(note 12(b))</i>	19,901	20,802	23,078	12,783	12,768
	19,901	20,802	23,078	12,783	12,768

5 Income tax

(a) *Income tax in the combined statements of profit or loss and other comprehensive income represents:*

	Year ended March 31,			Seven months ended	
	2014	2015	2016	October 31,	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Current tax					
Provision for the year/period	4,273	5,307	6,105	3,088	3,731
Over-provision in prior years	(10)	(10)	(20)	–	–
	4,263	5,297	6,085	3,088	3,731
Deferred tax					
Origination and reversal of temporary differences	(2)	(3)	78	205	(109)
	4,261	5,294	6,163	3,293	3,622

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(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	Year ended March 31,			Seven months ended	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Profit before taxation	<u>25,864</u>	<u>32,182</u>	<u>37,519</u>	<u>19,513</u>	<u>42,846</u>
Notional tax on profit before taxation, calculated at 16.5%	4,268	5,310	6,190	3,220	7,070
Effect of non-deductible expenses	3	–	73	73	–
Effect of non-taxable income	–	(6)	(80)	–	(3,448)
Over-provision in prior years	<u>(10)</u>	<u>(10)</u>	<u>(20)</u>	<u>–</u>	<u>–</u>
Actual tax expense	<u>4,261</u>	<u>5,294</u>	<u>6,163</u>	<u>3,293</u>	<u>3,622</u>

Note: The provision for Hong Kong Profits Tax for the period is calculated at 16.5% of the estimated assessable profit.

6 Directors' remuneration

Directors' remuneration is disclosed as follows:

	Year ended March 31, 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors					
Chen Hung	–	617	113	15	745
Chen Yue Sing	–	360	60	–	420
Mark Shiu Ling	–	–	–	–	–
	<u>–</u>	<u>977</u>	<u>173</u>	<u>15</u>	<u>1,165</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

	Year ended March 31, 2015				
	Directors'	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	fees	kind	bonuses	contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors					
Chen Hung	–	664	116	18	798
Chen Yue Sing	–	372	62	–	434
Mark Shiu Ling	–	–	–	–	–
	–	1,036	178	18	1,232
	<u>–</u>	<u>1,036</u>	<u>178</u>	<u>18</u>	<u>1,232</u>

	Year ended March 31, 2016				
	Directors'	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	fees	kind	bonuses	contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors					
Chen Hung	–	752	125	18	895
Chen Yue Sing (passed away on January 31, 2016)	–	325	65	–	390
Ku Siu Ming (appointed on March 1, 2016)	–	35	–	2	37
Mark Shiu Ling	–	–	–	–	–
	–	1,112	190	20	1,322
	<u>–</u>	<u>1,112</u>	<u>190</u>	<u>20</u>	<u>1,322</u>

	Seven months ended October 31, 2015 (Unaudited)				
	Directors'	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	fees	kind	bonuses	contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors					
Chen Hung	–	390	–	11	401
Chen Yue Sing	–	228	–	–	228
Mark Shiu Ling	–	–	–	–	–
	–	618	–	11	629
	<u>–</u>	<u>618</u>	<u>–</u>	<u>11</u>	<u>629</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

	Seven months ended October 31, 2016				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
Directors					
Chen Hung	–	420	–	11	431
Ku Siu Ming	–	263	–	10	273
Mark Shiu Ling	–	–	–	–	–
	<u>–</u>	<u>683</u>	<u>–</u>	<u>21</u>	<u>704</u>

During the Relevant Periods, there was no amount paid or payable by Happy Echo Group to the directors or any of the five highest paid individuals as set out in note 7 below as an inducement to join or upon joining Happy Echo Group or as compensation for loss of office. And there was no arrangement under which a director has waived or agreed to waive any remuneration during the Relevant Periods.

7 Individuals with highest emoluments

Of the individuals with the emoluments, 2, 2, 3, 2 (unaudited) and 2 are directors for the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2015 and 2016 respectively whose emoluments are disclosed in note 6, except for the emoluments to an individual before the appointment of the director on March 1, 2016 for the year ended March 31, 2016. The aggregate of the emoluments in respect of the remaining individuals, including the emoluments to the individual before the appointment of the director on March 1, 2016 for the year ended March 31, 2016, are as follows:

	Year ended March 31,			Seven months ended October 31,	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000
Salaries and other emoluments	440	574	577	346	108
Discretionary bonuses	83	110	117	–	–
Retirement scheme contributions	14	17	16	10	–
	<u>537</u>	<u>701</u>	<u>710</u>	<u>356</u>	<u>108</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

The emoluments of the above individuals with the emoluments, including the individual before the appointment of the director on March 1, 2016 for the year ended March 31, 2016, are within the following bands:

	Year ended March 31,			Seven months ended October 31,	
	2014	2015	2016	2015	2016
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
				(Unaudited)	
Nil - HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>

8 Dividends

During the years ended March 31, 2014, 2015 and 2016 and the seven months ended October 31, 2015 and 2016, Ho Chai Kung declared and paid dividends of HK\$15,700,000, HK\$21,000,000, HK\$26,000,000, nil (unaudited) and HK\$40,000,000 respectively to its then shareholder.

The rates for dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

9 Property, plant and equipment

	Buildings <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At April 1, 2013	1,256	934	705	2,895
Additions	<u>–</u>	<u>11</u>	<u>–</u>	<u>11</u>
At March 31, 2014	<u>1,256</u>	<u>945</u>	<u>705</u>	<u>2,906</u>
Accumulated depreciation:				
At April 1, 2013	543	752	674	1,969
Charge for the year	<u>30</u>	<u>39</u>	<u>10</u>	<u>79</u>
At March 31, 2014	<u>573</u>	<u>791</u>	<u>684</u>	<u>2,048</u>
Net book value:				
At March 31, 2014	<u>683</u>	<u>154</u>	<u>21</u>	<u>858</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

	Buildings <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At April 1, 2014	1,256	945	705	2,906
Additions	-	9	-	9
	<u>1,256</u>	<u>954</u>	<u>705</u>	<u>2,915</u>
At March 31, 2015	1,256	954	705	2,915
	-----	-----	-----	-----
Accumulated depreciation:				
At April 1, 2014	573	791	684	2,048
Charge for the year	30	33	6	69
	<u>603</u>	<u>824</u>	<u>690</u>	<u>2,117</u>
At March 31, 2015	603	824	690	2,117
	-----	-----	-----	-----
Net book value:				
At March 31, 2015	<u>653</u>	<u>130</u>	<u>15</u>	<u>798</u>

	Buildings <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At April 1, 2015	1,256	954	705	2,915
Additions	-	62	1,091	1,153
Disposals	-	-	(705)	(705)
	<u>1,256</u>	<u>1,016</u>	<u>1,091</u>	<u>3,363</u>
At March 31, 2016	1,256	1,016	1,091	3,363
	-----	-----	-----	-----
Accumulated depreciation:				
At April 1, 2015	603	824	690	2,117
Charge for the year	31	39	329	399
Written back on disposals	-	-	(692)	(692)
	<u>634</u>	<u>863</u>	<u>327</u>	<u>1,824</u>
At March 31, 2016	634	863	327	1,824
	-----	-----	-----	-----
Net book value:				
At March 31, 2016	<u>622</u>	<u>153</u>	<u>764</u>	<u>1,539</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

	Buildings <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At April 1, 2016	1,256	1,016	1,091	3,363
Additions	–	6	–	6
Disposals	<u>(1,256)</u>	<u>(940)</u>	<u>(1,091)</u>	<u>(3,287)</u>
At October 31, 2016	–	82	–	82
Accumulated depreciation:				
At April 1, 2016	634	863	327	1,824
Charge for the period	–	97	–	97
Written back on disposals	<u>(634)</u>	<u>(928)</u>	<u>(327)</u>	<u>(1,889)</u>
At October 31, 2016	–	32	–	32
Net book value:				
At October 31, 2016	<u>–</u>	<u>50</u>	<u>–</u>	<u>50</u>

10 Investment property

	2014 <i>HK\$'000</i>	As at March 31, 2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	As at October 31, 2016 <i>HK\$'000</i>
Cost:				
At April 1	1,208	1,208	1,208	1,208
Disposals	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,208)</u>
At March 31/October 31	1,208	1,208	1,208	–
Accumulated depreciation:				
At April 1	448	481	514	546
Charge for the year/period	33	33	32	–
Written back on disposals	<u>–</u>	<u>–</u>	<u>–</u>	<u>(546)</u>
At March 31/October 31	481	514	546	–
Net book value:				
At March 31/October 31	<u>727</u>	<u>694</u>	<u>662</u>	<u>–</u>
Fair value:				
At March 31/October 31	<u>5,350</u>	<u>6,420</u>	<u>6,240</u>	<u>–</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

Fair value measurement

Fair value of the investment property was categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The fair value measurement for investment properties had been categorised as Level 3 fair value and the fair value was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which was publicly available.

The valuation was carried out by an independent firm of surveyors who had among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. Management had discussion with the surveyors on the valuation assumptions and valuation results when the valuation was performed.

11 Leasehold land

	As at March 31,			As at October 31,
	2014	2015	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At April 1	1,213	1,213	1,213	1,213
Disposals	-	-	-	(1,213)
At March 31/October 31	1,213	1,213	1,213	-
Accumulated amortization:				
At April 1	388	412	436	460
Charge for the year/period	24	24	24	-
Written back on disposals	-	-	-	(460)
At March 31/October 31	412	436	460	-
Net book value:				
At March 31/October 31	801	777	753	-

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

12 Inventories

(a) *Inventories in the combined statements of financial position comprise:*

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016
Packaging materials	1,068	1,310	1,555	2,147
Finished goods	3,760	2,598	8,441	12,108
	<u>4,828</u>	<u>3,908</u>	<u>9,996</u>	<u>14,255</u>

(b) *The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:*

	Year ended March 31,			Seven months ended	
	2014	2015	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Carrying amount of inventories sold	<u>19,901</u>	<u>20,802</u>	<u>23,078</u>	<u>12,783</u>	<u>12,768</u>

13 Trade and other receivables

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016
Trade receivables	2,783	3,235	3,174	2,697
Deposits and prepayments	27	24	100	139
	<u>2,810</u>	<u>3,259</u>	<u>3,274</u>	<u>2,836</u>

At March 31, 2014, 2015, 2016 and October 31, 2016, the deposits and prepayments expected to be recovered after more than one year amounted to HK\$27,000, HK\$24,000, HK\$100,000 and HK\$87,000, respectively. The remaining trade and other receivables are expected to be recovered within one year.

Happy Echo Group normally allows a credit period of 0-30 days to its customers. Further details on Happy Echo Group's credit policy are set out in note 19(a).

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

(a) *Aging analysis*

As at the end of the reporting period, the aging analysis of trade receivables (which are includes in trade and other receivables) based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at March 31,			As at
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	October 31, 2016 HK\$'000
Less than 1 month	2,783	3,141	2,823	1,297
1 to 6 months	–	94	351	1,400
	<u>2,783</u>	<u>3,235</u>	<u>3,174</u>	<u>2,697</u>

(b) *Impairment of trade receivables*

As at March 31, 2014, 2015, 2016 and October 31, 2016, none of Happy Echo Group's trade receivables were determined to be impaired.

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at March 31,			As at
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	October 31, 2016 HK\$'000
Neither past due nor impaired	145	1,451	1,413	1,131
Less than 1 month past due	2,638	1,690	1,410	1,041
1 to 3 months past due	–	94	351	525
	<u>2,783</u>	<u>3,235</u>	<u>3,174</u>	<u>2,697</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Happy Echo Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

14 **Cash and cash equivalents**

	As at March 31,			As at
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	October 31, 2016 HK\$'000
Cash at bank and in hand	21,488	27,840	28,103	9,255
Cash and cash equivalents in the combined cash flow statements	<u>21,488</u>	<u>27,840</u>	<u>28,103</u>	<u>9,255</u>

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

15 Other payables

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Salary and bonus payables	507	463	166	166
Other payables and accruals	86	87	88	60
Receipts in advance	248	137	292	310
	<u>841</u>	<u>687</u>	<u>546</u>	<u>536</u>

All of the other payables are expected to be settled within one year.

16 Deferred tax

Deferred tax liabilities recognized

The components of deferred tax liabilities recognized in the combined statements of financial position and the movements during the Relevant Periods are as follows:

	Property, plant and equipment HK\$'000
At April 1, 2013	37
Credited to profit or loss	<u>(2)</u>
At March 31, 2014	<u>35</u>
At April 1, 2014	35
Credited to profit or loss	<u>(3)</u>
At March 31, 2015	<u>32</u>
At April 1, 2015	32
Charged to profit or loss	<u>78</u>
At March 31, 2016	<u>110</u>
At April 1, 2016	110
Credited to profit or loss	<u>(109)</u>
At October 31, 2016	<u>1</u>

17 Combined capital

Combined capital for the purposes of this Financial Information represents the combined share capital of Happy Echo and Ho Chai Kung during the Relevant Periods.

18 Reserves*Capital management*

Happy Echo Group's primary objectives when managing capital are to safeguard Happy Echo Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Happy Echo Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Happy Echo Group is not subject to externally imposed capital requirements.

19 Financial risk management and fair values

Exposure to credit and liquidity risks arises in the normal course of Happy Echo's business. Happy Echo's exposure to these risks and the financial risk management policies and practices used by Happy Echo to manage these risks are described below.

(a) Credit risk

Happy Echo's credit risk is primarily attributable to cash and cash equivalents, trade and other receivables. Cash and cash equivalents are normally placed at financial institutions that have sound credit ratings and Happy Echo considers the credit risk to be insignificant. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Happy Echo's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore concentrations of credit risk primarily arise when Happy Echo has significant exposure to individual customers. As at March 31, 2014, 2015, 2016 and October 31, 2016, 16.0%, 6.7%, 21.3% and 17.7% of the total trade and other receivables was due from Happy Echo's largest debtor and 3.7%, 17.2%, 53.8% and 53.6% was due from the five largest debtors respectively.

Further quantitative disclosures in respect of Happy Echo's exposure to credit risk arising from trade and other receivables are set out in note 13.

(b) Liquidity risk

Happy Echo Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves to meet its liquidity requirements in the short and longer term.

The contractual undiscounted cash outflows of all the financial liabilities as at March 31, 2014, 2015, 2016 and October 31, 2016 are due within 1 year or on demand and equal their carrying value at the end of the reporting period.

(c) Fair value measurement

The carrying amounts of Happy Echo's financial instruments carried at cost or amortized cost are not materially different from their fair values as at March 31, 2014, 2015, 2016 and October 31, 2016.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

20 Operating lease commitments

The total future minimum lease payments of Happy Echo under non-cancellable operating leases in respect of land and buildings are payable as follows:

	As at March 31,			As at
	2014	2015	2016	October 31,
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000
Within 1 year	30	16	359	360
After 1 year but within 3 years	–	–	83	82
	30	16	442	442
	30	16	442	442

Happy Echo Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

21 Material related party transactions

During the Relevant Periods, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with Happy Echo Group
Ms. Ku Siu Ming	Director and shareholder
Karen Pharmaceutical Company Limited	Controlled by Ms. Ku Siu Ming
Vincent's Pharma Trading Company Limited	Controlled by Ms. Ku Siu Ming

In addition to the transactions and balances disclosed elsewhere in the Financial Information, particulars of significant transactions between Happy Echo Group and the above related party during the Relevant Periods are as follows:

(a) Transactions with related parties

	Year ended March 31,			Seven months ended	
	2014	2015	2016	October 31,	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to Vincent's Pharma Trading Company Limited	1,331	3,825	5,493	2,872	371
Purchase of inventories from Karen Pharmaceutical Company Limited	19,395	16,888	25,051	16,296	14,928
Rental income from Karen Pharmaceutical Company Limited	240	240	240	140	140
Rental income from Vincent's Pharma Trading Company Limited	120	120	120	70	70
	120	120	120	70	70
	120	120	120	70	70

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Apart from the transactions above, during the seven months ended October 31, 2016, Happy Echo Group disposed of certain property, plant and equipment, investment property and leasehold land ("Disposed Assets") for a consideration of which was equivalent to the carrying value of the Disposed Assets at October 18, 2016 to Ms. Ku Siu Ming. The fair value of the Disposed Assets, determined by an independent valuer, based on the transaction price of similar assets, amounted to HK\$23,630,000. The difference between the fair values and the carrying values of the Disposed Assets was recognized as gain on disposal of property, plant and equipment, investment property and leasehold land under "other income". The difference between the fair value and the consideration received on the disposal of property, plant and equipment, investment property and leasehold land was recorded as a deemed distribution in the combined statement of changes in equity.

(b) *Amounts due from/(to) related parties*

	As at March 31,			As at October 31,
	2014	2015	2016	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from a shareholder of Happy Echo Group	-	-	-	1
Amount due to Karen Pharmaceutical Company Limited	(6,587)	(6,761)	(8,755)	(9,583)

The amount due from a shareholder of Happy Echo Group of HK\$1,000 as at October 31, 2016 is non-trade-related, interest-free, unsecured and repayable on demand. The balance was subsequently offset with the amount due to the shareholder of HK\$1,000,000 arising from the acquisition of the entire equity interests in Ho Chai Kung in November 2016. The net amount due to the shareholder of HK\$999,000 was capitalized as a contribution from a shareholder in November 2016.

The amount due to Karen Pharmaceutical Company Limited is trade-related, interest-free, unsecured and repayable on demand.

(c) *Key management personnel emoluments*

All members of key management personnel are directors of Happy Echo and their compensation is disclosed in note 6.

Total remuneration is included in "staff costs" (see note 4(a)).

22 Accounting judgments and estimates

Key source of estimation uncertainty

Key source of estimation uncertainty is as follows:

(i) *Provision of contingency and product warranty*

In the normal course of business, Happy Echo Group is subject to contingencies, including legal proceedings and claims arising out of business that relate to a wide range of matters, including among others, product liability. Happy Echo Group records accruals for such contingency based upon the assessment of the probability of occurrence and, where determinable, an estimate of the liability. Happy Echo Group may consider many factors in making these assessments including past history and the specifics of each matter. Any increase or decrease in the provision would affect profit or loss in future years.

23 Immediate and ultimate controlling party

At March 31, 2014 and 2015, the directors of Ho Chai Kung consider both the immediate parent and ultimate controlling party of Ho Chai Kung to be Mr. Chen Yue Sing. At March 31, 2016 and October 31 2016, they consider both the immediate parent and ultimate controlling party to be Ms Ku Siu Ming.

At October 31, 2016, the directors of Happy Echo consider the immediate parent and ultimate controlling party of Ho Chai Kung to be Linker Centre Limited and Ms. Ku Siu Ming respectively.

Neither the immediate parents nor the ultimate controlling parties have produced financial statements that are available for public use.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant periods

Up to the date of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the period ended October 31, 2016 and which have not been adopted in the Financial Information. These include the following which may be relevant to Happy Echo Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	January 1, 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealized losses</i>	January 1, 2017
HKFRS 9, <i>Financial instruments</i>	January 1, 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
HKFRS 16, <i>Leases</i>	January 1, 2019

Happy Echo Group does not plan to early adopt any of the above new standards or amendments. Happy Echo Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Happy Echo Group's results of operations and financial position, except for the following.

HKFRS 9, *Financial instruments*

HKFRS 9 replaces the existing guidance in HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from HKAS 39. The directors anticipate that the application of HKFRS 9 in the future will not have significant impact on Happy Echo Group's results of operations and financial position.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including HKAS 18, *Revenue*, HKAS 11, *Construction contracts* and HK(IFRIC)-Int 13, *Customer Loyalty Programmes*. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The directors are in the process of the performing assessment on the impact of HKFRS 15. Under HKFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The directors do not identify this circumstance based on the current operation of Happy Echo Group and anticipate no material impact on the financial performance.

HKFRS 16, *Leases*

HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, HKFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases, subject to limited exceptions. It replaces HKAS 17, *Leases* and the related interpretations including HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*.

Based on the preliminary assessment, the directors are of the opinion that the leases of certain properties by Happy Echo Group which are currently classified as operating leases under HKAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with HKFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognized on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognized under HKAS 17. Apart from the effects as outlined above, it is not expected that HKFRS 16 will have a significant impact on Happy Echo Group's results of operations and financial position upon adoption. The new standard is not expected to apply until the financial year ending March 31, 2020.

APPENDIX V ACCOUNTANTS' REPORT ON HAPPY ECHO LIMITED

C SUBSEQUENT EVENTS

Save as disclosed in Section B of the Financial Information, there were no material events affecting Happy Echo Group subsequent to October 31, 2016 and at the date of approval of the Financial Information.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by Happy Echo and the entity comprising Happy Echo Group in respect of any period subsequent to October 31, 2016. No dividend or distribution has been declared or made by any companies comprising Happy Echo Group in respect of any period subsequent to October 31, 2016.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group, being the Group together with Victor Luck Limited, Happy Echo Limited and their subsidiaries (“Target Group”), is prepared by the directors of the Company to illustrate the effect of the acquisition of the Target Group (the “Acquisition”) as if the Acquisition had been completed on September 30, 2016 (the “unaudited pro forma consolidated statement of assets and liabilities”). Details of the Acquisition are set out in the section headed “Letter from the Board” contained in this circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared 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”).

The unaudited pro forma financial information of the Enlarged Group is based upon the Group’s financial position as at September 30, 2016, which has been extracted from the interim report of the Company for the six months ended September 30, 2016 after making certain pro forma adjustments that are (i) directly attributable to the Acquisition and not relating to other future events or decisions and (ii) factually supportable. The unaudited pro forma financial information was prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future date.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group set out in the interim report of the Company for the six months ended September 30, 2016, the accountants’ reports on the financial information of Victor Luck Group and Happy Echo Group as set out in Appendices IV and V to this circular respectively and other financial information contained in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND
LIABILITIES

	Consolidated statement of assets and liabilities of the Group as at September 30, 2016 <i>Note 1</i> <i>HK\$'000</i>	Consolidated statement of assets and liabilities of Victor Luck Group as at October 31, 2016 <i>Note 2</i> <i>HK\$'000</i>	Combined statement of assets and liabilities of Happy Echo Group as at October 31, 2016 <i>Note 2</i> <i>HK\$'000</i>	Other pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group <i>HK\$'000</i>
				<i>Note 3</i> <i>HK\$'000</i>	<i>Note 4</i> <i>HK\$'000</i>	<i>Note 5</i> <i>HK\$'000</i>	
Assets							
Non-current assets							
Property, plant and equipment	829,910	8,033	50	-	60,746	-	898,739
Leasehold land	50,166	2,141	-	-	20,433	-	72,740
Intangible assets	429,017	28,366	-	-	485,187	-	942,570
Non-current assets	30,904	-	-	-	-	-	30,904
Deferred tax assets	2,480	398	-	877	-	-	3,755
	<u>1,342,477</u>	<u>38,938</u>	<u>50</u>	<u>877</u>	<u>566,366</u>	<u>-</u>	<u>1,948,708</u>
Current assets							
Inventories	202,588	4,555	14,255	(5,315)	-	-	216,083
Trade and other receivables	229,067	2,303	2,836	-	-	-	234,206
Amount due from a related party	-	9,583	1	(9,584)	-	-	-
Current tax recoverable	6,321	-	-	-	-	-	6,321
Cash and cash equivalents	699,372	7,413	9,255	-	(568,000)	(5,553)	142,487
	<u>1,137,348</u>	<u>23,854</u>	<u>26,347</u>	<u>(14,899)</u>	<u>(568,000)</u>	<u>(5,553)</u>	<u>599,097</u>
Total assets	<u>2,479,825</u>	<u>62,792</u>	<u>26,397</u>	<u>(14,022)</u>	<u>(1,634)</u>	<u>(5,553)</u>	<u>2,547,805</u>

APPENDIX VI

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	Consolidated	Consolidated	Combined	Other pro forma adjustments			Unaudited
	statement of	statement of	statement of				pro forma
	assets and	assets and	assets and				consolidated
	liabilities of	liabilities of	liabilities of				statement of
the Group as	Victor Luck	Happy Echo				assets and	
at September	Group as at	Group as at				liabilities of	
30, 2016	October	October				the Enlarged	
Note 1	31, 2016	31, 2016	Note 3	Note 4	Note 5	Group	
HK\$'000	Note 2	Note 2	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	HK\$'000	HK\$'000					
Liabilities							
Current liabilities							
Trade and other payables	126,601	1,600	536	-	-	-	128,737
Amount due to a related party	-	-	9,583	(9,583)	-	-	-
Bank loans	643,957	7,136	-	-	-	-	651,093
Obligations under finance leases	152	-	-	-	-	-	152
Current tax payable	22,367	1,781	4,529	-	-	-	28,677
	<u>793,077</u>	<u>10,517</u>	<u>14,648</u>	<u>(9,583)</u>	<u>-</u>	<u>-</u>	<u>808,659</u>
Non-current liabilities							
Obligations under finance leases	448	-	-	-	-	-	448
Deferred tax liabilities	52,001	54	1	-	57,896	-	109,952
	<u>52,449</u>	<u>54</u>	<u>1</u>	<u>-</u>	<u>57,896</u>	<u>-</u>	<u>110,400</u>
Total liabilities	<u>845,526</u>	<u>10,571</u>	<u>14,649</u>	<u>(9,583)</u>	<u>57,896</u>	<u>-</u>	<u>919,059</u>
Net assets	<u>1,634,299</u>	<u>52,221</u>	<u>11,748</u>	<u>(4,439)</u>	<u>(59,530)</u>	<u>(5,553)</u>	<u>1,628,746</u>

C. NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

- (1) The consolidated statement of assets and liabilities of the Group is extracted from the published interim report of the Group for the six months ended September 30, 2016.
- (2) The statements of the assets and liabilities of Victor Luck Group and Happy Echo Group as at October 31, 2016 are derived from the accountants' reports on the financial information of Victor Luck Group and Happy Echo Group as set out in Appendices IV and V to this circular respectively.
- (3) This adjustment represents the eliminations of inter group balances and unrealized profits arising from transactions between Victor Luck Group and Happy Echo Group as at October 31, 2016.

This adjustment also includes the effect of offsetting the amount due from the shareholder in Happy Echo Limited of HK\$1,000 with the amount due to the shareholder of HK\$1,000,000 arising from the acquisition of the entire equity interests in Ho Chai Kung Medicine Manufactory Limited in November 2016. The net amount due to the shareholder of HK\$999,000 was capitalized as a contribution from a shareholder in November 2016.

- (4) Upon the completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 3 (Revised) "Business Combinations".

For the purpose of the unaudited pro forma financial information of the Enlarged Group and for illustrative purpose only, the allocation of the purchase price is determined based on (i) the carrying amount of the Target Group's identifiable assets and liabilities as at October 31, 2016, (ii) an estimated fair value adjustment on the Target Group's production premise and car parks at 1/F and 17/F, Success Industrial Building, No.7 Kin Fat Street, Tuen Mun, New Territories and car parking space No. 13 and No. 19, G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories (the "Property") and (iii) provisional estimated fair values of identifiable material intangible assets as at October 31, 2016. As a result, except for these fair value adjustments, the unaudited pro forma financial information does not include adjustments for the fair value of other identifiable assets and liabilities of the Target Group and recognition of additional intangible assets, if any.

Goodwill represents the excess of the consideration transferred over the net fair value of the Target Group's identifiable assets and liabilities measured at the date of acquisition.

Goodwill is estimated as follows:

	HK\$'000
Consideration	568,000
Carrying amount of Victor Luck Group's net assets as at October 31, 2016, excluding goodwill of HK\$28,366,000	23,855
Carrying amount of Happy Echo Group's net assets as at October 31, 2016	11,748
Eliminations of inter group balances and unrealized profits arising from transactions between Victor Luck Group and Happy Echo Group as at October 31, 2016	(4,439)
Carrying amount of the Target Group's net assets as at October 31, 2016, excluding goodwill of HK\$28,366,000	31,164
Estimated fair value adjustment on the Property	81,179
Provisional estimated fair values of identified material intangible assets, including trademarks and customer relationship	290,139
Deferred tax liabilities arising from fair value adjustments on the Property and identified material intangible assets	(57,896)
Goodwill (included as intangible assets)	<u>223,414</u>

Pursuant to the terms of the Sale and Purchase Agreement, the total consideration for the Acquisition amounts to HK\$568,000,000. Consideration amounting to HK\$56,800,000 was paid in cash by the Group upon the execution of the Sale and Purchase Agreement in December 2016, and the remaining part of the total consideration of HK\$511,200,000 was settled at the date of completion of the Acquisition in January 2017.

The amounts of goodwill and fair value of the identifiable assets and liabilities of the Target Group on the date of completion are subject to (i) the completion of the valuation of the fair value of the identifiable assets and liabilities of the Target Group on the date of completion and (ii) the financial position of the Target Group on the date of completion. In addition, intangible assets of the Target Group which were not otherwise recognized in the historical financial information may be recognized at their fair value upon completion of the Acquisition. Therefore, the amounts of goodwill, assets and liabilities of the Target Group may be materially different from the estimated amounts used in the preparation of the unaudited pro forma financial information presented above.

According to the Group's accounting policies, internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, leasehold land and intangible assets may be impaired or, except to the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment indicator in respect of the goodwill and other intangible assets expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment, the Directors consider that there is no impairment indicator on the goodwill with assumed values set out above.

- (5) This adjustment represents accrual for incidental costs of HK\$5,553,000 incurred in connection with the Acquisition, which include stamp duty, legal and professional fees, etc. It is assumed that the incidental costs has been settled by cash on or before the completion of the Acquisition.
- (6) No other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to September 30, 2016 and October 31, 2016 respectively.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 24, 2017

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF JACOBSON PHARMA CORPORATION LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Jacobson Pharma Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at September 30, 2016 and related notes as set out in Parts A to C of Appendix VI to the circular dated February 24, 2017 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Parts A to C of Appendix VI to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Acquisition of Victor Luck Limited, Happy Echo Limited and their subsidiaries ("Target Group") (the "Acquisition") on the Group's financial position as at September 30, 2016 as if the Acquisition had taken place at September 30, 2016. As part of this process, information about the Group's financial position as at September 30, 2016 has been extracted by the Directors from the interim report of the Company for the six months ended September 30, 2016, on which no review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at September 30, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the 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 pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

The following is the text of a letter and valuation certificate prepared for inclusion in this document, received from the Valuer, in connection with their valuations as of 12 December 2016 of certain properties owned by the Target Companies.

CBRE

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地產代理(公司)牌照號碼
Estate Agent's Licence No: C-004065

18 January 2017

Jacobson Pharma Corporation Limited
Unit 2313-18, 23/F,
Tower 1, Millennium City 1
388 Kwun Tong Road, Kwun Tong
Kowloon, Hong Kong

Dear Sir,

Re: 1/F and 17/F, Success Industrial Building, No.7 Kin Fat Street, Tuen Mun, New Territories & Car parking space No. 13 and No. 19, G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories

We refer to an instruction from Jacobson Pharma Corporation Limited (the "Instructing Party") for us to carry out a valuation of the captioned property (the "Property") for public circular purpose. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 12 December 2016.

Valuation Basis, Assumptions and Methodology

This valuation is prepared in accordance with the "HKIS Valuation Standards (2012 Edition)" published by the Hong Kong Institute of Surveyors. In addition to the above, this valuation has been prepared in accordance with the RICS Valuation – Professional Standards of Royal Institution of Chartered Surveyors and is complied with International Valuation Standards (IVS).

We have valued the Property on the basis of market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

In valuing the property interests, we have made reference to comparable sales evidence as available in the market. Our valuation has been made on the assumption that the Property will be sold on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the value of the Property.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Saleable Area is defined as the floor area exclusively allocated to the property unit and is measured to the exterior of the enclosing walls of the unit. Enclosing wall separating the unit from the common areas is deemed an external wall and is full thickness has been included. Besides, the area is measured to the centre line of the party wall separating the subject unit from the adjacent unit, if any. Common areas are excluded from our Saleable Area calculation.

The following staff has provided professional assistance to the person signing this report:

Mr. Aaron So

Source of Information

We have relied to a considerable extent on information provided by the Instructing Party, particularly in respect to matters such as occupancy/tenancies, statutory notice and all other relevant matters. No on-site measurement has been taken.

Whilst we have taken every reasonable care both whilst examining the information provided to us and in making relevant enquiries, we have not scrutinised the original documents to verify the correctness of the information or to ascertain any subsequent amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information which is material to this valuation. Furthermore, we have assumed that no material facts have been omitted from the information provided to us.

We have undertaken searches at the Land Registry. We have not scrutinised the original documents to verify ownership and encumbrances or to ascertain any subsequent amendments which may not appear on the copies handed to us.

We have inspected the exterior of the Property on 13 December 2016. However, we advise that we have not carried out a structural survey nor tested any of the services or facilities and are therefore unable to state that these are free from defect. We advise that we have not inspected the interior of the Property and are therefore unable to state that these are free from rot, infestation, asbestos or other hazardous material. We have, however, viewed the general state of repair of the Property and advised that we did not notice any obvious signs of structural defect or dilapidations. Furthermore, the Property appears to be in reasonable condition having regard to its age and use unless otherwise stated. No structural survey has been made nor any tests were carried out on any of the building services. Therefore, we are not able to report that the structures are or are not free from rot, infestation or any other structural defect.

No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are based on or measured from the information provided by the Instructing Party or documents obtained from various government departments and are only approximations.

Valuer's Interest

We hereby certify that the valuers are suitably qualified and authorised to practise as a valuer; does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the Property (including the parties with whom our client is dealing, including the lender or selling agent, if any); accepts instructions to value the Property only from the Instructing Party.

Confidentiality and Disclaimers

This report and valuation shall be used only in its entirety and no part shall be used without making reference to the whole report. They may not be used for any purposes other than the intended purpose mentioned above. Possession of this report or any copy thereof does not carry with it the right of copying. Neither the whole nor any part of the report nor any reference to our name, our valuation and our report may be included in any document, circular or statement nor published without our prior written consent to the form and context in which they may appear.

The liability of CBRE and its directors and employees is limited to the Addressee of this report only. No accountability, obligation or liability to any third parties is accepted.

The Instructing Party agrees to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subjects in connection with this engagement. Your obligation for indemnification and reimbursement shall extend to any controlling person of CBRE, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to three times of the amount of fees we received for this engagement. This valuation report is provided subject to the assumptions, disclaimers, limitations and qualifications detailed throughout this report and to those included within the Assumptions, Disclaimers, Limitations & Qualifications section of this report.

We enclose herewith our valuation certificate.

Yours faithfully,

For and on behalf of

CBRE Limited

Janice Yau MHKIS, RPS(GP)

Director

Valuation & Advisory Services

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of Occupancy	Market Value as at 12 December 2016
1/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong	Completed in 1979, Success Industrial Building consists of 24 floors on top of ground floor. The Property comprises two carparks on G/F and two floors of the building.	According to the Instructing Party, the Property is currently for the owner's self-use for manufacturing of pharmaceutical products.	HK\$90,000,000 (HONG KONG DOLLARS NINETY MILLION)
17/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong	All 30 parking spaces are located on G/F of the factory building. The Property is held under Government Lease for a term of 99 years commencing from 01 July 1898, and has been	statutorily extended for a term until 30 June 2047.	
Carpark No.13 and No. 19 on the Ground Floor of Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong	The current government rent payable is 3% of the rateable value of the Property.		
60/660 undivided share of the lot of Tuen Mun Town Lot No. 85			

Notes:

- i. The registered owner of the property of factory Unit A on 1/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong is Karen Pharmaceutical Company Ltd via an Assignment dated 15 November 2006 registered vide Memorial No. 06120200430051.

The registered owner of the property of factory Unit B on 1/F, flat roof on 1/F, car parking space No. 13 on G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong is Vincents Pharma Trading Company Limited via an Assignment dated 15 November 2006 registered vide Memorial No. 06120200430076.

The registered owner of the property of factory Flat A on 17/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong is Karen Pharmaceutical Company Ltd via an Assignment date 30 October 2009 registered vide Memorial No. 09111700380017.

The registered owner of the property of factory Flat B on 17/F, Flat C on 17/F, car parking space No. 19 on G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong is Vincents Pharma Trading Company Limited via an Assignment date 30 October 2009 registered vide Memorial No. 09111700380031.

- ii. The following encumbrances are registered in the land registry against the property of Factory Unit A on 1/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong:
- a) Car Park Layout Plan dated 11 August 1977 registered vide Memorial No. TM187352;
 - b) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM194348;
 - c) Approved Revised Parking Layout Plan dated 12 December 1980 registered vide Memorial No. TM200929;
 - d) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM211490;
 - e) Attested Copy Certificate of Compliance dated 23 May 1979 registered vide Memorial TM288146;
 - f) Agreement for Sales & Purchase in favor of Karen Pharmaceutical Company Limited dated 15 September 2006 vide Memorial No. 06092100280094; and
 - g) Legal Charge/Mortgage in favour of Citic Bank International Limited dated 28 April 2011 registered vide Memorial No. 11051601660050.
- iii. The following encumbrances are registered in the land registry against the property of Factory Unit B and Flat Roof on 1/F and Car Parking Space No. 13 on G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong:
- a) Car Park Layout Plan dated 11 August 1977 registered vide Memorial No. TM187352;
 - b) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM194348;
 - c) Approved Revised Parking Layout Plan dated 12 December 1980 registered vide Memorial No. TM200929;
 - d) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM211490;
 - e) Attested Copy Certificate of Compliance dated 23 May 1979 registered vide Memorial TM288146;
 - f) Agreement for Sales & Purchase in favor of Vincents Pharma Trading Company Limited dated 15 September 2006 vide Memorial No. 06092100280104; and
 - g) Legal Charge/Mortgage in favour of Citic Bank International Limited dated 28 April 2011 registered vide Memorial No. 11051700950027.
- iv. The following encumbrances are registered in the land registry against the property of Factory Flat A on 17/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong:
- a) Car Park Layout Plan dated 11 August 1977 registered vide Memorial No. TM187352;
 - b) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM194348;
 - c) Approved Revised Parking Layout Plan dated 12 December 1980 registered vide Memorial No. TM200929;
 - d) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM211490;

- e) Attested Copy Certificate of Compliance dated 23 May 1979 registered vide Memorial TM288146;
 - f) Agreement for Sales & Purchase in favor of Karen Pharmaceutical Company Limited dated 18 September 2009 vide Memorial No. 09092300490031;
 - g) Legal Charge/Mortgage in favour of Citic Bank International Limited dated 28 April 2011 registered vide Memorial No. 11051601660071; and
 - h) Order No. UBCS/02-06/0008/10 by the Building Authority under Section 24 (1) of the Building Authority dated 20 November 2012 registered vide Memorial No. 13032100730278.
- v. The following encumbrances are registered in the land registry against the property of Factory Flat B and C on 17/F and Car Park No. 19 on G/F, Success Industrial Building, No. 7 Kin Fat Street, Tuen Mun, New Territories, Hong Kong:
- a) Car Park Layout Plan dated 11 August 1977 registered vide Memorial No. TM187352;
 - b) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM194348;
 - c) Approved Revised Parking Layout Plan dated 12 December 1980 registered vide Memorial No. TM200929;
 - d) Deed of Mutual Covenant dated 25 July 1979 registered vide Memorial No. TM211490;
 - e) Attested Copy Certificate of Compliance dated 23 May 1979 registered vide Memorial TM288146;
 - f) Agreement for Sales & Purchase in favor of Vincents Pharma Trading Company Limited dated 18 September 2009 vide Memorial No. 09092300490129; and
 - g) Legal Charge/Mortgage in favour of Citic Bank International Limited dated 28 April 2011 registered vide Memorial No. 11051700950046.

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. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long Positions in Ordinary Shares of the Company

Name of Director	Number of Shares Held	Note	Capacity	Percentage of Issued Share Capital
Sum Kwong Yip, Derek	1,294,180,000	(1)(2)	Interest of corporation controlled by the director Settlor of trusts Beneficiary of trusts	71.28%
Yim Chun Leung	9,000,000		Beneficiary owner	0.50%
Pun Yue Wai	1,220,000		Beneficiary owner	0.07%
Lam Kwong Tong, Alan	364,000	(3)	Interest of spouse	0.02%

Notes:

- (1) Sum Kwong Yip, Derek (“**Mr. Sum**”) is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the Shares under the share incentive scheme conditionally adopted by our Company on August 30, 2016. Queenshill Development Limited (“**Queenshill**”) is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 24,696,000 Shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.
- (2) UBS Trustees (B.V.I.) Limited, the trustee of The Kingshill Trust (defined below), holds the entire issued share capital of Kingshill Development Group Inc. through its nominee, UBS Nominees Limited. Kingshill Development Group Inc. holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 Shares in our Company. “**The Kingshill Trust**” is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries (directly and through “**The Queenshill Trust**”, which is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries.). By virtue of the SFO, Mr. Sum, as the settlor and a discretionary beneficiary of The Kingshill Trust and The Queenshill Trust, is deemed to be interested in the 850,684,000 Shares held by Kingshill.
- (3) Lam Kwong Tong, Alan is deemed to be interested in the 364,000 Shares held by his spouse, Lau So Kuen.

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

(b) Interests of substantial shareholders

So far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were 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 member of the Group, or held any option in respect of such capital:

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Queenshill Development Limited (1)	Beneficial owner Settlor of a trust	286,446,000	15.78%
Kingshill Development Group Inc. (2)	Trust holding company	1,007,734,000	55.50%
Kingshill Development Limited (3)	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%
Lau Wing Hung (3)	Interest of corporation controlled by the substantial shareholder	1,007,734,000	55.50%
Longjin Investments Limited (3)	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%
UBS Trustees (B.V.I.) Limited (2)	Trustee	1,007,734,000	55.50%
Mr. Sum (1)(2)	Interest of corporation controlled by the substantial shareholder Settlor of trust	1,294,180,000	71.28%

Notes:

- (1) Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the Shares under the share incentive scheme conditionally adopted by our Company on August 30, 2016. Queenshill is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 24,696,000 Shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.

- (2) UBS Trustees (B.V.I.) Limited, the trustee of The Kingshill Trust, holds the entire issued share capital of Kingshill Development Group Inc. through its nominee, UBS Nominees Limited. Kingshill Development Group Inc. holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 Shares in our Company. The Kingshill Trust is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries (directly and through The Queenshill Trust, which is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries.). By virtue of the SFO, Mr. Sum, as the settlor and a discretionary beneficiary of The Kingshill Trust and The Queenshill Trust, is deemed to be interested in the 850,684,000 Shares held by Kingshill.
- (3) These Shares were directly held by Longjin Investments Limited, which is a company controlled by Lau Wing Hung under the SFO. Kingshill Development Limited and Longjin Investments Limited are parties acting in concert pursuant to the Deed of Acting in Concert and hence each of them is deemed to be interested in the Shares held by each other. Kingshill Development Limited is wholly owned by Kingshill Development Group Inc. under a discretionary trust established by Mr. Sum (as the settlor).

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executive of the Company had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were 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 member of the Group, or held any option in respect of such capital.

Save as disclosed above, none of the Directors was a director or an employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since March 31, 2016, the date to which the latest published audited accounts of the Company were made up.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, the Group is not engaged in any litigation, claim or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and/or members of the Group and are or may be material:

- (a) the share swap agreement dated March 18, 2016, entered into Kingshill Development Limited, Queenshill Development Limited, Longjin Investments Limited and our Company, the shares transfer agreement in respect of the shares of Po Chai Herbal Technology Limited dated March 16, 2016, entered into between Bio System Technology Limited, Karen Lee, PCHT Herbal Sciences Limited and our Company, details of which are disclosed in the Company's prospectus dated September 8, 2016;
- (b) the deed of non-competition entered into between the Controlling Shareholders and the Company dated August 30, 2016 in respect of certain non-competition undertakings given by the Controlling Shareholders in favor of the Group;
- (c) the underwriting agreement dated September 7, 2016 relating to the Hong Kong public offering and entered into among the Company, Controlling Shareholders, BOCI Asia Limited and the underwriter of the Hong Kong public offering, details of which are disclosed in the Company's prospectus dated September 8, 2016;
- (d) a cornerstone investment agreement dated September 2, 2016 entered into among the Company, New Heritage Healthcare Limited and BOCI Asia Limited, details of which are disclosed in the Company's prospectus dated September 8, 2016;
- (e) a cornerstone investment agreement dated September 2, 2016 entered into among the Company, Hong Kong Wing Wah Medicine Group Limited and BOCI Asia Limited, details of which are disclosed in the Company's prospectus dated September 8, 2016;
- (f) the deed of indemnity dated August 30, 2016, granted by Kingshill Development Limited, Longjin Investments Limited, Sum Kwong Yip, Derek, Lau Wing Hung and Kingshill Development Group Inc. to give certain joint and several indemnities in favor of the Company; details of which are disclosed in the Company's prospectus dated September 8, 2016;

- (g) the sale and purchase agreement dated October 11, 2016 entered into between Universal Pharmaceutical Laboratories, Limited, an indirect wholly-owned subsidiary of the Company and Pharmakon International Laboratory Limited relating to the sale of the entire issued share capital in Cawah Holdings Limited, a company incorporated in the British Virgin Islands and all rotary tablet pressing machine, capsule filling machine, homogenizing mixer and other pharmaceutical manufacturing machinery and equipment at a total consideration of HK\$100,000,000, details of which are as disclosed in the announcement of the Company dated October 11, 2016; and
- (h) the Sale and Purchase Agreement.

7. INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, there is no contract or arrangement subsisting in which a Director is materially interested and significant in relation to the business of the Group.

8. DIRECTOR'S INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates is interested in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

9. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is Unit 2313-18, 23/F, Tower 1, Millennium City 1, 388 Kwun Tong Road, Kwun Tong, Kowloon Hong Kong.
- (b) The Company's Branch Registrar and Transfer Office in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Wong Wai Ming, who has been a fellow member of the Association of Chartered Certified Accountants in the United Kingdom since November 2002 and a fellow member of the Hong Kong Institute of Certified Public Accountants since March 2006.
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text in the case of inconsistency.

10. QUALIFICATION AND CONSENT OF EXPERTS

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

Name	Qualification
KPMG	Certified Public Accountants, Hong Kong
CBRE Limited	Property valuer

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report dated February 24, 2017 and reference to its name in the form and context in which it appear.

Each of the experts named above confirmed that as at the Latest Practicable Date, it did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since March 31, 2016, the date to which the latest audited financial statements of the Group was made up, and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Units 2313-18, 23/F, Tower 1 Millennium City 1, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekdays (except public holidays) from the date of this circular up to and including March 15, 2017:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the interim report of the Company for the six months ended September 30, 2016;
- (c) the Accountants' Report on Victor Luck Limited issued by KPMG, which is set out in Appendix IV to this circular;
- (d) the Accountants' Report on Happy Echo Limited issued by KPMG, which is set out in Appendix V to this circular;
- (e) the report from KPMG in connection with the unaudited pro forma financial information of the Enlarged Group, which is set out in Appendix VI to this circular;

- (f) the property valuation report of the Property, which is set out in Appendix VII to this circular;
- (g) the written consent of the experts as referred to in the paragraph headed “Qualification and Consent of Experts” in this appendix;
- (h) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix; and
- (i) this circular.