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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your securities in Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司\*), you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
**(位元堂藥業控股有限公司\*)**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 897)**

- (1) POSSIBLE VERY SUBSTANTIAL ACQUISITION IN RELATION TO  
PRE-CONDITIONAL VOLUNTARY PARTIAL CASH OFFER TO  
ACQUIRE CERTAIN SHARES IN AND CONVERTIBLE NOTES ISSUED  
BY CHINA AGRI-PRODUCTS EXCHANGE LIMITED;**
- (2) MAJOR TRANSACTION IN RELATION TO PROVISION OF LOAN TO  
CHINA AGRI-PRODUCTS EXCHANGE LIMITED;**
- AND**
- (3) NOTICE OF SPECIAL GENERAL MEETING**

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A letter from the Board is set out on pages 7 to 23 of this circular.

A notice convening the SGM to be held at 20/F., Alexandra House, 18 Chater Road, Central, Hong Kong on Wednesday, 27 November 2019 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

Whether or not you are able to attend and vote in person at the SGM, you are required to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case maybe). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

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## DEFINITIONS

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

“2017 CAP Rights Issue”	has the meaning ascribed to the term of “Rights Issue” in the prospectus issued by CAP dated 27 November 2017
“2017 CAP Rights Issue Subscription Price”	has the meaning ascribed to the term of “Subscription Price” in the prospectus issued by CAP dated 27 November 2017
“2019 Bonds”	the unlisted five-year 10.0% coupon bonds issued by CAP on 28 November 2014
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associates”	has the meaning ascribed to it in the Takeovers Code
“Board”	the board of the Directors
“Business Day”	a day on which the Stock Exchange is open for transaction of business (excluding Saturday and Sunday)
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“CAP”	China Agri-Products Exchange Limited 中國農產品交易有限公司, an exempted company incorporated in Bermuda with limited liability, the ordinary shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 0149), which is held as to approximately 20.17% indirectly by EOG as at the Latest Practicable Date
“CAP Board”	the board of directors of CAP
“CAP Group”	CAP and its subsidiaries
“CAP Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of CAP
“CAP Shareholder(s)”	the holder(s) of the CAP Share(s)
“close associate(s)”	has the meaning ascribed to it in the Listing Rules
“Company”	Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司*), an exempted company incorporated in Bermuda with limited liability, the ordinary shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 897)

\* For identification purpose only

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## DEFINITIONS

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“Composite Document”	the composite offer and response document to be issued by or on behalf of the Offeror and CAP to all CAP Shareholders and Convertible Noteholders in accordance with the Takeovers Code containing, among other things, details of the Partial Offers and the acceptance and transfer forms in respect of the Partial Offers
“Conditions”	the conditions to the Partial Share Offer as set out in the section headed “The Partial Offers – Conditions” in Part A of this letter from the Board in this circular
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Convertible Note(s)”	7.5% convertible note(s) due 2021 issued by CAP on 19 October 2016
“Convertible Noteholder(s)”	the holder(s) of the Convertible Note(s)
“Despatch Date”	the date of despatch of the Composite Document to the CAP Shareholders and Convertible Noteholders as required by the Takeovers Code
“Director(s)”	the director(s) of the Company
“Double Leads”	Double Leads Investments Limited, an indirect wholly-owned subsidiary of WOG and a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding
“Enlarged Group”	the Group immediately after completion of the Partial Offers
“EOG”	Easy One Financial Group Limited 易易壹金融集團有限公司, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the ordinary shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 221), which is held as to approximately 29.06% indirectly by the Company as at the Latest Practicable Date
“EOG Irrevocable Undertaking”	the irrevocable undertaking dated 26 September 2019 entered into between the Offeror, Onger Investments and Peony Finance in respect of the Partial Offers
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof

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## DEFINITIONS

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“Final Closing Date”	the date which is the 14th day after (i) the date on which the Partial Share Offer is declared unconditional as to acceptances; or (ii) the First Closing Date, whichever is the earlier, provided that the Partial Share Offer shall be open for acceptance for at least 21 days following the Despatch Date
“First Closing Date”	the date to be stated in the Composite Document as the first closing day of the Partial Share Offer, which shall be at least 21 days following the Despatch Date, or such later date as may be extended by the Offeror in accordance with the Takeovers Code
“Group”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	the Shareholders, other than WOG and its associates
“Joint Announcement”	the announcement dated 26 September 2019 jointly issued by the Company, the Offeror, WOG, EOG and CAP
“Joint Announcement Date”	26 September 2019, being the date of the Joint Announcement
“Kingston CF”	Kingston Corporate Finance Limited, a corporation licensed by the SFC to carry on business in Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Partial Offers
“Kingston Securities”	Kingston Securities Limited, a corporation licensed by the SFC to carry on business in Type 1 (dealing in securities) regulated activity under the SFO, being the agent making the Partial Offers on behalf of the Offeror
“Last Trading Day”	26 September 2019, being the last trading day prior to the publication of the Joint Announcement
“Latest Practicable Date”	8 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan in the principal amount of HK\$621.0 million to be granted by Winning Rich, as the lender, to CAP, as the borrower, for a period of three years pursuant to the Loan Agreement

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## DEFINITIONS

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“Loan Agreement”	a loan agreement dated 26 September 2019 entered into between CAP, as the borrower, and Winning Rich, as the lender, pursuant to which Winning Rich agreed to grant the Loan to CAP
“Model Code”	Model Code for Securities Transaction by Directors of Listed Issuers
“Offer Convertible Notes”	the Convertible Notes subject to the Partial CN Offer, being a maximum of 54.83% of the outstanding principal amount of the Convertible Notes (subject to adjustment in the event of a change in the issued share capital of CAP)
“Offer Share(s)”	the CAP Shares held by the CAP Shareholders subject to the Partial Share Offer, being such number of CAP Shares which would result in the Offeror and parties acting in concert with it holding a maximum of 75% of the CAP Shares in issue as at the Final Closing Date (including any CAP Share for which a valid conversion notice has been delivered in respect of the Convertible Notes on or after the Joint Announcement Date and prior to the Final Closing Date)
“Offeror”	Goal Success Investments Limited, an indirect wholly-owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability which is engaged in investment holding
“Onger Investments”	Onger Investments Limited, an indirect wholly-owned subsidiary of EOG and a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding, being the CAP Shareholder holding 2,007,700,062 CAP Shares, representing approximately 20.17% of the CAP Shares in issue as at the Latest Practicable Date
“Partial CN Offer”	the conditional voluntary partial cash offer to be made by Kingston Securities on behalf of the Offeror to the Convertible Noteholders to acquire a maximum of 54.83% of the outstanding principal amount of the Convertible Notes (subject to adjustment in the event of a change in the issued share capital of CAP) on the terms and conditions set out in this circular and to be set out in the Composite Document and in compliance with the Takeovers Code
“Partial CN Offer Price”	HK\$0.2275 for each HK\$1 face value of the Convertible Notes payable by the Offeror to the Convertible Noteholders accepting the Partial CN Offer
“Partial Offers”	collectively, the Partial Share Offer and the Partial CN Offer

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## DEFINITIONS

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“Partial Share Offer”	the conditional voluntary partial cash offer to be made by Kingston Securities on behalf of the Offeror to the CAP Shareholders to acquire such number of CAP Shares which would result in the Offeror and parties acting in concert with it holding a maximum of 75% of the CAP Shares in issue as at the Final Closing Date (including any CAP Share for which a valid conversion notice has been delivered in respect of the Convertible Notes on or after the Joint Announcement Date and prior to the Final Closing Date) on the terms and conditions set out in this circular and to be set out in the Composite Document and in compliance with the Takeovers Code
“Partial Share Offer Price”	HK\$0.091 for each Offer Share payable by the Offeror to the CAP Shareholders accepting the Partial Share Offer
“Peony Finance”	Peony Finance Limited, a company incorporated in the British Virgin Islands with limited liability, which is an indirect wholly-owned subsidiary of EOG and the registered holder of the Convertible Notes in the principal amount of HK\$103.0 million
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Pre-Conditions”	the pre-conditions to the Partial Offers as set out in the section headed “The Partial Offers – Pre-Conditions” in Part A of this letter from the Board in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the making of the Partial Offers and the provision of the Loan
“Shareholder(s)”	the holder(s) of the ordinary shares of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules

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## DEFINITIONS

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“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Winning Rich”	Winning Rich Investments Limited, an indirect wholly-owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding
“WOG”	Wang On Group Limited (宏安集團有限公司)*, an exempted company incorporated in Bermuda with limited liability, the ordinary shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 1222)
“WOG Board”	the board of directors of WOG
“WOG Independent Shareholders”	the WOG Shareholders, other than the Company and its associates
“WOG SGM”	the special general meeting of WOG to be convened and held to consider and, if thought fit, approve, among other things, the making of the Partial Offers and the provision of the loan to CAP
“WOG Shareholder(s)”	the holder(s) of the ordinary shares of HK\$0.01 each in the issued share capital of WOG
“WOP”	Wang On Properties Limited (宏安地產有限公司), an exempted company incorporated in Bermuda with limited liability, the ordinary shares of which are listed and traded on the main board of the Stock Exchange (Stock Code: 1243), a 75%-owned listed subsidiary of WOG
“%”	per cent.

\* For identification purpose only



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## LETTER FROM THE BOARD

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# WAI YUEN TONG MEDICINE HOLDINGS LIMITED (位元堂藥業控股有限公司\*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

*Executive Directors:*

Mr. Tang Ching Ho, *SBS, JP*  
(Chairman and Managing Director)  
Mr. Chan Chun Hong, Thomas  
Ms. Tang Mui Fun  
Ms. Tang Wai Man

*Independent non-executive Directors:*

Mr. Leung Wai Ho, *MH*  
Mr. Siu Man Ho, Simon  
Mr. Cho Wing Mou  
Mr. Li Ka Fai, David

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business:*

Suite 3101, 31/F., Skyline Tower  
39 Wang Kwong Road  
Kowloon Bay  
Kowloon  
Hong Kong

11 November 2019

*To Shareholders and Independent Shareholders*

Dear Sir or Madam,

- (1) POSSIBLE VERY SUBSTANTIAL ACQUISITION IN RELATION TO  
PRE-CONDITIONAL VOLUNTARY PARTIAL CASH OFFER TO  
ACQUIRE CERTAIN SHARES IN AND CONVERTIBLE NOTES ISSUED  
BY CHINA AGRI-PRODUCTS EXCHANGE LIMITED;  
(2) MAJOR TRANSACTION IN RELATION TO PROVISION OF LOAN TO  
CHINA AGRI-PRODUCTS EXCHANGE LIMITED;  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

### INTRODUCTION

Reference is made to the Joint Announcement dated 26 September 2019.

The purpose of this circular is to provide you with, among other things, (i) further details regarding the Partial Offers and the Loan; (ii) the financial information of the Group and the CAP Group; and (iii) the notice of the SGM.

\* For identification purpose only

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# LETTER FROM THE BOARD

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## PART A: THE PARTIAL OFFERS

### THE PARTIAL OFFERS

On 26 September 2019, the Offeror announced, among other things, that Kingston Securities, on behalf of the Offeror, will (subject to the satisfaction of the Pre-Conditions):

- (a) make the Partial Share Offer to the CAP Shareholders to acquire such number of Offer Shares which would result in the Offeror and parties acting in concert with it holding a maximum of 75% of the CAP Shares in issue as at the Final Closing Date (including any CAP Share for which a valid conversion notice has been delivered in respect of the Convertible Notes on or after the Joint Announcement Date and prior to the Final Closing Date) at the Partial Share Offer Price of HK\$0.091 per CAP Share; and
- (b) pursuant to Rule 13.1 of the Takeovers Code, extend an appropriate offer to acquire a maximum of 54.83% of the outstanding principal amount of the Convertible Notes (subject to adjustment in the event of a change in the issued share capital of CAP) (for illustrative purposes only, as at the Latest Practicable Date and assuming no Convertible Notes are converted into the CAP Shares, the maximum amount of the Convertible Notes that may be acquired would be approximately HK\$145.19 million of the outstanding principal amount of the Convertible Notes).

The Partial Offers are expected to be made on the following basis:

For each Offer Share . . . . . HK\$0.091 in cash

For each HK\$1 face value of the Offer Convertible Notes . . . . . HK\$0.2275 in cash

As at the Latest Practicable Date, CAP had 9,953,067,822 CAP Shares in issue and EOG, a party acting in concert with the Offeror, held indirectly 2,007,700,062 CAP Shares, representing approximately 20.17% of the CAP Shares in issue. As at the Latest Practicable Date, there were outstanding Convertible Notes in the principal amount of HK\$264.8 million, HK\$103.0 million of which was held indirectly by EOG.

Other than such CAP Shares and Convertible Notes, to the knowledge of the Board, there were no options, derivatives, warrants or other securities issued by CAP that are convertible or exchangeable into CAP Shares as at the Latest Practicable Date.

The Partial Share Offer Price of HK\$0.091 per CAP Share was determined after taking into account, among other things, the following factors:

- (a) the potential benefits that the Offeror and the Group may derive from the prospects of the business of the CAP Group (including but not limited to the property investment in the PRC by the CAP Group) and the Partial Share Offer which are more particularly described in the section headed “The Offeror’s reasons for the Partial Share Offer” in Part A of this letter from the Board;

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## LETTER FROM THE BOARD

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- (b) the financial performance of the CAP Group, including but not limited to the recent improved financial performance of the CAP Group as indicated by, among other things, (i) unaudited net profit of approximately HK\$14.8 million for the CAP Group for the six months ended 30 June 2019 (compared to unaudited net loss of approximately HK\$59.7 million for the corresponding period in 2018 and audited net loss of approximately HK\$179.3 million for the year ended 31 December 2018) and (ii) cash inflow generated from operating activities for the CAP Group of approximately HK\$451.1 million for the year ended 31 December 2018 (compared to cash outflow used in operating activities of approximately HK\$40.4 million for the year ended 31 December 2017);
- (c) the historical share prices of CAP, which are more particularly described in the section headed “Comparison of value” in Part A of this letter from the Board;
- (d) the 2017 CAP Rights Issue Subscription Price of HK\$0.088 – the 2017 CAP Rights Issue was the last capital raising by CAP under which a large proportion of the CAP Shares were allotted and issued to the CAP Shareholders at the 2017 CAP Rights Issue Subscription Price. After considering the historical prices of the CAP Shares since the 2017 CAP Rights Issue which had largely remained below the 2017 CAP Rights Issue Subscription Price, the Offeror takes the view that the slight premium of the Partial Share Offer Price over the 2017 CAP Rights Issue Subscription Price will incentivise the CAP Shareholders to accept the Partial Share Offer, and is justifiable taking into account the improved financial performance of the CAP Group since the 2017 CAP Rights Issue, the last capital raising by CAP, as set out in paragraph (b) above and in particular, as shown by, among other things, (i) the improved gearing ratio of the CAP Group of approximately 0.95 as at 30 June 2019 (compared to the higher gearing ratios of approximately 1.04 and 1.00 as at 31 December 2017 and 31 December 2018, respectively); (ii) unaudited profit from operations of the CAP Group of approximately HK\$158.3 million for the six months ended 30 June 2019 (compared to audited loss from operations of approximately HK\$29.5 million for the year ended 31 December 2017 and audited profit from operations of approximately HK\$97.6 million for the year ended 31 December 2018); and (iii) the increased interest coverage ratio of the CAP Group of approximately 1.69 for the six months ended 30 June 2019 (compared to the negative ratio of approximately 0.11 for the year ended 31 December 2017 and the positive ratio of approximately 0.46 for the year ended 31 December 2018); and
- (e) the unaudited consolidated net assets attributable to owners of CAP per CAP Share – the Partial Share Offer Price represents a discount of approximately 25.41% to the unaudited consolidated net assets attributable to owners of CAP per CAP Share of approximately HK\$0.122 as at 30 June 2019.

The Partial CN Offer Price of HK\$0.2275 for each outstanding HK\$1 face value of the Offer Convertible Notes is determined in accordance with Rule 13 of the Takeovers Code as the “see-through” price for the Offer Convertible Notes, being (i) the number of CAP Shares to be issued upon exercise of conversion rights attached to each outstanding HK\$1 face value of the Convertible Note at the conversion price of HK\$0.4 per Offer Convertible Note; multiplied by (ii) the Partial Share Offer Price of HK\$0.091 per CAP Share.

The Partial Offers will be made in compliance with the Takeovers Code.

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## LETTER FROM THE BOARD

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### Pre-Conditions

The making of the Partial Offers will be subject to the satisfaction of the following Pre-Conditions:

- (a) consent from the Executive in respect of the Partial Share Offer pursuant to Rule 28.1 of the Takeovers Code (the “**SFC Consent Condition**”);
- (b) approval by the WOG Shareholders at the WOG SGM; and
- (c) approval by the Shareholders at the SGM.

The Pre-Conditions cannot be waived by the Offeror. If the Pre-Conditions are not satisfied by 31 December 2019, the Partial Offers will not be made.

Pursuant to a letter from the Executive dated 15 October 2019, the Executive granted its consent in respect of the Partial Offers. Accordingly, the SFC Consent Condition has been fulfilled.

### Conditions

The Partial Share Offer, if made, will be subject to the following Conditions:

- (i) valid acceptances of the Partial Share Offer having been received (and not, where permitted, withdrawn) in respect of a minimum number of CAP Shares which would result in the Offeror and parties acting in concert with it holding 50.01% of the CAP Shares in issue by 4:00 p.m. (Hong Kong time) on the First Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve), provided that the Offeror shall purchase from the CAP Shareholders as many CAP Shares as are tendered by the CAP Shareholders up to a maximum number of CAP Shares which would result in the Offeror and parties acting in concert with it holding 75% of the CAP Shares in issue as at the Final Closing Date (including any CAP Share for which a valid conversion notice has been delivered in respect of the Convertible Notes on or after the Joint Announcement Date and prior to the Final Closing Date); and

*Note:* As of the Latest Practicable Date, based on the total number of 9,953,067,822 CAP Shares in issue, and 2,007,700,062 (or approximately 20.17%) CAP Shares held indirectly by EOG, the minimum number of CAP Shares tendered for valid acceptance that is required for the acceptance condition above would be 2,969,829,156 CAP Shares, representing approximately 29.84% of the CAP Shares in issue; and the maximum number of CAP Shares to be purchased by the Offeror from the CAP Shareholders would be 5,457,100,804 CAP Shares, representing approximately 54.83% of the CAP Shares in issue.

- (ii) approval of the Partial Share Offer pursuant to Rule 28.5 of the Takeovers Code by registered CAP Shareholders as at the First Closing Date (unless the First Closing Date is extended in accordance with the Takeovers Code) holding over 50% of the CAP Shares not held by the Offeror and parties acting in concert with it, signified by means of a separate box on the form of acceptance specifying the number of CAP Shares in respect of which the Partial Share Offer is approved.

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## LETTER FROM THE BOARD

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In the event that valid acceptances are received:

- (a) for less than the number of CAP Shares which would result in the Offeror and parties acting in concert with it holding 50.01% of the CAP Shares in issue by the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code, the Partial Offers will not proceed and will lapse immediately; and
- (b) for not less than the number of CAP Shares which would result in the Offeror and parties acting in concert with it holding 50.01% of the CAP Shares in issue on or before the First Closing Date, the Offeror will declare the Partial Share Offer unconditional as to acceptances on or before the First Closing Date PROVIDED THAT approval of the Partial Share Offer pursuant to Rule 28.5 of the Takeovers Code as more particularly set out in Condition (ii) above has also been obtained.

The Partial CN Offer will be subject to and conditional upon the Partial Share Offer becoming or being declared unconditional in all respects.

As at the Latest Practicable Date, if the Partial CN Offer becomes unconditional, the Offeror can acquire a maximum of 54.83% of the outstanding principal amount of the Convertible Notes. However, in the event that there is a change to the issued share capital of CAP, the maximum percentage of the outstanding principal amount of the Convertible Notes which the Offeror can acquire will be adjusted. Further announcement will be made if such change occurs.

Pursuant to Rule 28.4 of the Takeovers Code, if the Partial Share Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

**WARNING: Shareholders and prospective investors should note that the Pre-Conditions must be satisfied before the Partial Offers will be made. The making of the Partial Offers is therefore a possibility only. Further, Shareholders and prospective investors should note that the Partial Offers will be subject to the satisfaction of the Conditions. The Partial Offers may or may not become unconditional and will lapse if it does not become unconditional. Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company. If they are in any doubt about their positions, they should consult their professional advisers.**

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## LETTER FROM THE BOARD

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### Comparison of value

The Partial Share Offer Price of HK\$0.091 per CAP Share under the Partial Share Offer represents:

- (i) a premium of approximately 65.45% over the closing price of HK\$0.055 per CAP Share as quoted on the Stock Exchange on the date immediately preceding the date of the commencement of the offer period (as defined under the Takeovers Code), being 11 September 2019;
- (ii) a premium of approximately 44.44% over the closing price of HK\$0.063 per CAP Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 37.88% over the average closing price of approximately HK\$0.066 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 65.45% over the average closing price of approximately HK\$0.055 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 85.71% over the average closing price of approximately HK\$0.049 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 78.43% over the average closing price of approximately HK\$0.051 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 78.43% over the average closing price of approximately HK\$0.051 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 93.62% over the average closing price of approximately HK\$0.047 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- (ix) a premium of approximately 37.88% over the closing price of HK\$0.066 per CAP Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (x) a premium of approximately 28.17% over the highest closing price of HK\$0.071 per CAP Share based on the daily closing prices as quoted on the Stock Exchange for the twelve-month period preceding the Joint Announcement Date;
- (xi) a discount of approximately 24.79% to the audited consolidated net assets attributable to owners of CAP per CAP Share of approximately HK\$0.121 as at 31 December 2018, calculated based on the audited consolidated net assets attributable to owners of CAP of approximately HK\$1,208.97 million as at 31 December 2018 divided by the total number of 9,953,067,822 CAP Shares in issue as at the Latest Practicable Date; and

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## LETTER FROM THE BOARD

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- (xii) a discount of approximately 25.41% to the unaudited consolidated net assets attributable to owners of CAP per CAP Share of approximately HK\$0.122 as at 30 June 2019, calculated based on the unaudited consolidated net assets attributable to owners of CAP of approximately HK\$1,213.50 million as at 30 June 2019 divided by the total number of 9,953,067,822 CAP Shares in issue as at the Latest Practicable Date.

### **Highest and lowest CAP Share prices**

During the six-month period preceding the date of the commencement of the offer period (as defined under the Takeovers Code), being 12 September 2019 and up to the Last Trading Day, the highest and lowest closing prices of the CAP Shares as quoted on the Stock Exchange were HK\$0.071 on 12 September 2019 and HK\$0.038 on 6 August 2019, respectively.

### **Value of the Partial Offers**

As at the Latest Practicable Date, CAP had 9,953,067,822 CAP Shares in issue and EOG, a party acting in concert with the Offeror, held indirectly 2,007,700,062 CAP Shares, representing approximately 20.17% of the CAP Shares in issue. As at the Latest Practicable Date, there were outstanding Convertible Notes in the principal amount of HK\$264.8 million, HK\$103.0 million of which was held indirectly by EOG.

Assuming full valid acceptances of the Partial Share Offer, the cash consideration payable by the Offeror for the Offer Shares, being a maximum number of CAP Shares which would result in the Offeror and parties acting in concert with it holding 75% of the CAP Shares in issue as at the Final Closing Date, under the Partial Share Offer will be approximately HK\$496.60 million (assuming no Convertible Notes are converted into the CAP Shares) or approximately HK\$524.20 million (assuming all Convertible Notes that are not subject to the EOG Irrevocable Undertaking (being approximately HK\$161.8 million or approximately 61.10%) are converted into the CAP Shares).

Assuming full valid acceptances of the Partial CN Offer, the cash consideration payable by the Offeror under the Partial CN Offer will be approximately HK\$33.03 million.

Accordingly, the maximum total cash consideration payable by the Offeror under the Partial Offers will amount to approximately HK\$529.63 million.

The Offeror intends to finance the cash consideration required for the Partial Offers by internal resources including those generated from early repayment of the 2019 Bonds since 31 March 2019 and sale proceeds from recent sale of several investment properties of the Group completed after 31 March 2019. It is also believed that CAP's business (management and sales of properties in agricultural produce exchange markets) is capable of generating financial resources to support its own operations. Together with existing banking facilities available to the Group and the CAP Group and the continual disposal of properties stock by CAP, the Board considers there to be sufficient resources to support the operations of the Enlarged Group upon completion of the Partial Offers.

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## LETTER FROM THE BOARD

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### EOG IRREVOCABLE UNDERTAKING

On 26 September 2019, Onger Investments, an existing CAP Shareholder holding 2,007,700,062 CAP Shares, representing approximately 20.17% of the CAP Shares in issue as at the Latest Practicable Date, gave an irrevocable undertaking to the Offeror that (among other things):

- (a) it will not sell, transfer, encumber, grant any option over or otherwise dispose of any interest in the CAP Shares held by it; and
- (b) it will not tender any CAP Share held by it for acceptance of the Partial Share Offer.

On 26 September 2019, Peony Finance, a Convertible Noteholder holding the Convertible Notes in the principal amount of HK\$103.0 million as at the Latest Practicable Date, gave an irrevocable undertaking to the Offeror that (among other things):

- (a) it will not sell, transfer, encumber, grant any option over or otherwise dispose of any interest in the Convertible Notes held by it;
- (b) it will not tender any Convertible Note held by it for acceptance of the Partial CN Offer; and
- (c) it will not exercise the conversion rights attaching to the Convertible Notes held by it to convert the Convertible Notes held by it into the CAP Shares.

The EOG Irrevocable Undertaking will only terminate: if the Partial Offers lapse; if the Partial Offers are withdrawn without having become wholly unconditional in circumstances permitted under the Takeovers Code; or if the offer period (as defined under the Takeovers Code) ends.

As at the Latest Practicable Date, apart from the EOG Irrevocable Undertaking, the Offeror and parties acting in concert with it had not received any indication or irrevocable commitment from any CAP Shareholder and Convertible Noteholder to accept or reject the Partial Offers.

### INTENTION OF THE OFFEROR IN RESPECT OF CAP GROUP

The Company understands that the Offeror intends to continue with the existing businesses and the employment of the employees of the CAP Group and that it has no intention to change the composition of the CAP Board, or introduce any major changes to the existing businesses of the CAP Group and material redeployment of fixed assets of CAP.



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## LETTER FROM THE BOARD

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### LISTING STATUS

The Company understands that the Offeror intends to maintain the listing status of CAP on the Stock Exchange upon completion of the Partial Offers. As at the Latest Practicable Date, CAP had a public float of approximately 79.83% of the CAP Shares in issue. In the event the Partial Offers become unconditional, upon completion of the Partial Offers, it is expected that the Offeror and parties acting in concert with it will be holding at least 50.01% and not more than 75% in CAP. Assuming full valid acceptances of the Partial Share Offer by all CAP Shareholders, CAP will have a public float of approximately 25% of the CAP Shares in issue immediately following completion of the Partial Offers (assuming there are no changes to the issued share capital of CAP after the Latest Practicable Date) and accordingly the number of CAP Shares in public hands will continue to meet the public float requirement under Rule 8.08 of the Listing Rules.

### THE OFFEROR'S REASONS FOR THE PARTIAL SHARE OFFER

As stated in the Company's annual report for the year ended 31 March 2019, property investment is one of the Group's three operating segments in which the Group owned 16 retail properties. Majority of the properties were self-used as retail shops while some were leased out for generating rental income.

Winning Rich held the 2019 Bonds which amounted to HK\$700.0 million as at 31 March 2019.

As at the Latest Practicable Date, Winning Rich held the 2019 Bonds amounted to HK\$621.0 million.

### Positive prospects of the CAP Group's property investment

As stated in the interim results announcement of the CAP Group for the six months ended 30 June 2019, investment properties and stock of properties accounted for approximately 86.24% of the CAP Group's total assets.

The investment properties and stock of properties of the CAP Group are located in Hubei Province, Henan Province, Guangxi Zhuang Autonomous Region, Jiangsu Province, and Liaoning Province of the PRC. These provinces are highly supported by the PRC government policies including but not limited to the following:

- (a) 國家新型城鎮化規劃 (2014至2020年) (National New Urbanisation Planning (2014–2020)\*), which planned out the urbanisation process of major PRC provinces from 2014 to 2020 through, among others things, agricultural modernisation by (i) coordinating planning of the agricultural produce market network, supporting produce distribution centers and improving construction of wholesale produce markets and produce futures markets; (ii) strengthening the agricultural produce cold chain logistics covering collection, storage, processing, transportation and sales; and (iii) promoting convergence between production and marketing and accelerating development of agricultural produce e-commerce;

<sup>#</sup> Denotes English translation of Chinese name is provided for identification purpose only

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## LETTER FROM THE BOARD

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- (b) 中原城市群發展規劃 (Central Plains Urban Agglomeration Development Planning<sup>#</sup>), which mapped out a development plan from 2016 to 2020 for developing provinces in the central area of the PRC including Hubei Province and Henan Province. It advocates the development and expansion of agricultural cluster through supporting leading enterprises in agricultural industrialisation and building modern industrialised agricultural bases by extending the agricultural industrial chain and promoting the integrated development of agricultural production, processing, logistics and marketing; and
- (c) 促進中部地區崛起規劃 (2016至2025年) (Central Area Promotion Planning (2016 to 2025)<sup>#</sup>), which also places an emphasis on developing provinces in the central area of the PRC, including Hubei Province and Henan Province. It promised to, among other things, (i) enhance the produce wholesale market and cold chain logistics infrastructure; and (ii) strengthen the construction of agricultural produce futures markets and improve the modern agricultural risk management system.

The Company and the Offeror are of the view that the investment properties and properties stock of the CAP Group will benefit from the aforementioned policies.

In view of the above, the Company and the Offeror consider the Partial Share Offer to be a good opportunity to make additional investments in properties by having direct shareholding of a majority stake in CAP, which is also in line with part of the Group's existing business focus to invest in properties for stable rental income and/or capital gain when suitable opportunity arises. In light of the prospects of the CAP Group, the Group has been investing in CAP by way of subscribing the 2019 Bonds since 2014. Furthermore, in view of the CAP Group's positive prospects, the recent improvement in its financial position, and the other reasons as stated in this section and the basis of determination of the Partial Share Offer Price, the Company considers the Partial Offers to be an opportunity to turn the Group's investment in CAP from debt into equity investment so as to participate in CAP's future growth.

### **Improving financial performances of the CAP Group**

The CAP Group's profitability for the financial years ended 31 December 2018 and 2017 was affected mainly by the high interest expenses of the bonds. However, the Company and the Offeror are optimistic in the financial performance of the CAP Group on the basis of the following:

- a) agricultural issue is the PRC central government's first priority policy for the next consecutive years. In 2019, the Central Committee of Communist Party of China and the State Council of China released the 二零一九年中央一號文件 (Number 1 Policy of 2019<sup>#</sup>), which promised to: (i) promote investments in agricultural produce markets; (ii) expand agricultural produce network; (iii) build logistic infrastructure and storage facilities of agriculture; and (iv) improve regional cold storage infrastructure. On the other hand, it is expected that the "One Belt, One Road" policy will drive the overall growth of the PRC economy and provide a sustainable way for the PRC's continuing development. The Company and the Offeror expect that the CAP Group's operation will benefit from these government policies in the future;

<sup>#</sup> Denotes English translation of Chinese names is provided for identification purpose only

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## LETTER FROM THE BOARD

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- b) the bonds of the CAP Group decreased from approximately HK\$1.34 billion as at 31 December 2016 to approximately HK\$0.97 billion as at 30 June 2019 as a result of bonds redemption using proceeds raised by the CAP Group from a rights issues exercise in December 2017, disposal of subsidiaries holding land bank in August 2018 and internally generated working capital. The Company understands that the CAP Group will continue to explore various options in order to restructure its outstanding 2019 Bonds balance, so as to scale down its interest expenses and hence indirectly improve the CAP Group's financial performance; and
- c) the CAP Group's revenue from property sales increased from approximately HK\$278.1 million in 2016 to approximately HK\$400.0 million in 2018. Furthermore, the CAP Group has an increasing portfolio of properties stock, with values amounting from approximately HK\$938.5 million as at 31 December 2016 to approximately HK\$1.8 billion as at 30 June 2019. The Company understands that the CAP Group is expected to implement a systematic approach to its properties sales to capture better values at opportune time in order to generate further income from such sales, which will be supported by its current properties stock and the government policies as aforementioned.

### **Analysis on the Partial Share Offer Price**

The Partial Share Offer Price of HK\$0.091 per CAP Share represents an approximately 25.41% discount to the unaudited consolidated net asset value per CAP Share attributable to owners of CAP as at 30 June 2019. It also represents a premium of approximately 28.17% over the highest closing price of CAP Share of HK\$0.071 as quoted on the Stock Exchange for the past one year. In view of the positive prospects of CAP as aforementioned, the Offeror considers that the Partial Share Offer Price, which is set at a premium to the market price of CAP demonstrates the Offeror's confidence in the CAP Group, which would send a positive signal to CAP stakeholders including its staff and customers. The Company also notes that the recent low trading prices and volume in the CAP Shares may not be indicative of the willingness of the CAP Shareholders to tender their shares for acceptance under the Partial Share Offer, and is of the view that setting the Partial Share Offer Price at a slight premium over the 2017 CAP Rights Issue Subscription Price may also be attractive to the CAP Shareholders who participated in the 2017 CAP Rights Issue and is conducive to the successful fulfilment of the acceptance condition under the Partial Share Offer.

In addition, the Partial Share Offer represents a good opportunity for the CAP Shareholders (other than EOG and its relevant wholly-owned subsidiary due to the EOG Irrevocable Undertaking) to realise at least approximately 54.83% (assuming there are no changes to the issued share capital of CAP after the Latest Practicable Date) of their investment at a premium to the recent share price of the CAP Shares.

### **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, the Offeror was an indirect wholly-owned subsidiary of the Company. The making of the Partial Offers by the Offeror will constitute a transaction for the Company under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Partial Offers (if they proceed) exceeds 100%, the Partial Offers will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and are therefore subject to the requirements of notification, publication and approval from the Shareholders at the SGM.

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## LETTER FROM THE BOARD

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Approval by the Shareholders of the Partial Offers is one of the Pre-Conditions to the Partial Offers. The Pre-Conditions cannot be waived by the Offeror. If the Pre-Conditions are not satisfied by 31 December 2019, the Partial Offers will not be made.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, CAP Shareholders and Convertible Noteholders (other than EOG) and their respective ultimate beneficial owners are third parties independent of and not connected with the Company.

### **SGM**

The SGM will be held for the purpose of considering and, if thought fit, approving, among other things, the Partial Offers by the Shareholders by way of a poll. Shareholders who have a material interest in the Partial Offers and their respective close associates (as defined in the Listing Rules) are required to abstain from voting on the relevant resolution(s) at the SGM. As at the Latest Practicable Date, to the Company's knowledge, no Shareholder is required to abstain from voting on the resolution(s) in relation to the Partial Offers at the SGM.

### **GENERAL**

#### **Information on the Offeror and the Group**

Goal Success Investments Limited, the Offeror, is a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

The Company is an exempted company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the main board of the Stock Exchange. The Group is principally engaged in (i) the manufacturing and retailing of traditional Chinese pharmaceutical and health food products, including Chinese medicinal products sold under the brand name of "Wai Yuen Tong", mainly in the PRC and Hong Kong; (ii) the manufacturing and retailing of Western pharmaceutical and health food and personal care products under the brand names of "Madame Pearls" and "Pearls"; and (iii) property investment.

#### **Information on CAP**

CAP is an exempted company incorporated in Bermuda with limited liability and the CAP Shares are listed and traded on the main board of the Stock Exchange. The CAP Group is principally engaged in the business of management and sales of properties in agricultural produce exchange markets in the PRC.

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## LETTER FROM THE BOARD

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Based on the published unaudited consolidated financial information of CAP for the six months ended 30 June 2019, the unaudited total asset value and net asset value of CAP as at 30 June 2019 were approximately HK\$5,421,167,000 and HK\$1,605,971,000, respectively. Based on the published audited consolidated financial statements of CAP for the two financial years ended 31 December 2017 and 2018 and the published unaudited consolidated financial information of CAP for the six months ended 30 June 2019, the audited and unaudited consolidated net profit/(loss) of CAP before and after taxation for the two financial years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively, were as follows:

	Year ended 31 December		Six months ended 30 June
	2017	2018	2019
	(HKD'000)	(HKD'000)	(HKD'000)
	(audited)	(audited)	(unaudited)
Net profit/(loss) before taxation	(301,257)	(114,079)	64,494
Net profit/(loss) after taxation	(337,571)	(179,319)	14,821

### WARNING

**As the making of the Partial Offers is subject to the satisfaction of the Pre-Conditions, the Partial Offers may or may not be made. Further, completion of the Partial Offers is subject to the Conditions being fulfilled. Accordingly, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

### PART B: THE LOAN

#### THE LOAN AGREEMENT

On 26 September 2019, CAP and Winning Rich entered into the Loan Agreement, pursuant to which Winning Rich agreed to grant the Loan to CAP in the principal amount of HK\$621.0 million for the purpose of refinancing the outstanding indebtedness of CAP owed to Winning Rich under the 2019 Bonds. To the best of the knowledge and belief of the Directors after having made all reasonable enquiries, apart from Winning Rich, no other member of the Group held any of the 2019 Bonds as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### Principal terms

The principal terms of the Loan Agreement are set forth below:

Date: 26 September 2019

Parties: (1) CAP as the borrower; and  
(2) Winning Rich as the lender.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, CAP and its ultimate beneficial owner(s) (other than the Company, EOG and their respective ultimate beneficial owners) are third parties independent of the Company and are not its connected persons.

Principal amount of the Loan: HK\$621.0 million

Term: Three (3) years

Purpose: Refinancing the outstanding indebtedness of CAP owed to Winning Rich under the 2019 Bonds

Interest rate: 10% per annum

The accrued interest shall be repaid on a half-yearly basis.

Repayment: 36 months from the date of the Loan Agreement and it is repayable any time by CAP with three-day prior notice

Conditions Precedent: Completion of the provision of the Loan by Winning Rich is conditional upon the Independent Shareholders having passed the ordinary resolution(s) at the SGM and the WOG Independent Shareholders having passed the ordinary resolution(s) at the WOG SGM, respectively to approve the provision of the Loan.

### REASONS AND BENEFITS OF ENTERING INTO THE LOAN AGREEMENT

The Directors consider that the Loan Agreement is relatively short term in nature and a relatively high return can be generated to the Shareholders. In addition, as at the Latest Practicable Date, the Company was the single largest shareholder of EOG, which in turn was the single largest shareholder of CAP. In view of the funding need of CAP, the Directors consider that it is in the interests of the Shareholders to continue to provide financial support to CAP with an aim to generate return to the Shareholders in long run. Assuming full valid acceptances of the Partial Share Offer, it is expected CAP would become a subsidiary of the Company, hence the provision of the Loan would become an intra-group loan and align with the interests of the Company.

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## LETTER FROM THE BOARD

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The provision of the Loan is not conditional on the Partial Offers being approved, or the outcome of the Partial Offers. Should the Partial Offers not proceed, the Loan will generate a stable revenue and cash flow stream to the Group after the 2019 Bonds expire in November 2019 by bringing to the Group an annual interest income of HK\$62.1 million. There is no impact to the assets and liabilities statement arising from the provision of the Loan.

The Loan is provided for the sole purpose of refinancing the 2019 Bonds, therefore provision of the Loan would not have any impact on the cash flow or cash position of Winning Rich. The Board is of the view that the terms of the Loan Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and thus the entering into of the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

Although the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the provision of the Loan is 100% or more for the Company, as the Loan does not involve acquisition or disposal of any assets, the provision of the Loan by Winning Rich shall only constitute a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the requirements of notification, publication and approval from the Independent Shareholders at the SGM. The provision of the Loan by Winning Rich is not conditional on the Partial Offers being approved, or the outcome of the Partial Offers.

### **THE SGM**

The SGM will be held for the purpose of considering and, if thought fit, approving, among other things, the provision of the Loan pursuant to the Loan Agreement by the Independent Shareholders by way of a poll. Shareholders who have a material interest in the Loan Agreement and their respective close associates (as defined in the Listing Rules) are required to abstain from voting on the relevant resolution(s) at the SGM. As at the Latest Practicable Date, WOG was the parent company of the Company and a Shareholder holding, and controls the voting right in respect of, approximately 58.08% equity interest in the Company. As WOG is also the owner of Double Leads, which has entered into a conditional loan agreement with CAP in relation to a loan in the principal amount of HK\$89.0 million in favour of CAP, WOG is considered to have a material interest in the Loan Agreement which is different from other Shareholders. Accordingly, WOG and its associates will abstain from voting on the relevant resolution(s) in relation to the provision of the Loan by Winning Rich.

### **INFORMATION ON WINNING RICH**

As at the Latest Practicable Date, Winning Rich was an indirect wholly-owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability. It is principally engaged in investment holding.

### **FINANCIAL IMPACTS OF THE PARTIAL OFFERS AND THE PROVISION OF THE LOAN**

Assuming full valid acceptances of the Partial Share Offer, the CAP Group will become non wholly-owned subsidiaries of the Company and the financial results of the CAP Group will be consolidated into the consolidated financial statements of the Group, hence the provision of the Loan would become an intra-group loan and in line with the interests of the Company.

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## LETTER FROM THE BOARD

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### **Earnings**

Assuming full valid acceptances of the Partial Share Offer take place on 31 March 2019, approximately HK\$87.3 million would be recognised in profit and loss of the Group on a pro forma basis. The unaudited net profit of the Enlarged Group would become approximately HK\$161.6 million.

### **Assets and liabilities**

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, upon completion of the Partial Offers and provision of the Loan, the total assets, total liabilities and net assets of the Enlarged Group are expected to increase by approximately HK\$4,528.2 million, HK\$3,187.3 million and HK\$1,340.9 million, respectively.

The unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as at 31 March 2019 was prepared based on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Further details of the unaudited pro forma financial information of the Enlarged Group immediately following completion of the Partial Offers and the provision of the Loan are set out in Appendix III to this circular.

### **THE SGM**

A notice convening the SGM of the Company to be held at 20/F., Alexandra House, 18 Chater Road, Central, Hong Kong on Wednesday, 27 November 2019 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend and vote in person at the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

### **RECOMMENDATION**

The Board considers that the terms of the Partial Offers, the provision of the Loan and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders and Independent Shareholders (in the case of the provision of the Loan) to vote in favour of the ordinary resolutions set out in the notice of the SGM on pages SGM-1 to SGM-3 of this circular to be proposed at the SGM to approve the Partial Offers, the Loan Agreement and the transactions contemplated thereunder.



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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
(位元堂藥業控股有限公司\*)  
**Tang Ching Ho**  
*Chairman and Managing Director*

\* *For identification purpose only*

**1. FINANCIAL INFORMATION**

The audited consolidated financial statements of the Group for the three financial years ended 31 March 2017, 2018 and 2019, including the independent auditors' report thereon and the notes thereto, have been disclosed in the respective annual reports of the Company. The auditor of the Company has not issued any qualified opinion on the Group's consolidated financial statements for the three financial years ended 31 March 2017, 2018 and 2019.

The annual reports of the Company for the three financial years ended 31 March 2017, 2018 and 2019 are published on the websites of HKEXnews ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.wyth.net/pressrelease](http://www.wyth.net/pressrelease)), respectively.

**Quick links**

- (i) for the year ended 31 March 2017 (pages 74 to 163),  
(<http://www1.hkexnews.hk/listedco/listconews/sehk/2017/0727/ltm20170727599.pdf>)
- (ii) for the year ended 31 March 2018 (pages 72 to 144),  
(<http://www1.hkexnews.hk/listedco/listconews/sehk/2018/0726/ltm20180726494.pdf>)
- (iii) for the year ended 31 March 2019 (pages 107 to 274),  
(<http://www1.hkexnews.hk/listedco/listconews/sehk/2019/0730/ltm20190730531.pdf>)

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 30 September 2019, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement set out in this circular, the Enlarged Group had the following indebtedness:

**(A) The Group**

- (a) outstanding bank and other loans of approximately HK\$921.6 million, of which bank loans with an aggregate amount of approximately HK\$921.6 million were secured by the Group's land and buildings, investment properties and certain rental income generated therefrom; and
- (b) lease liabilities amounting to approximately HK\$150.2 million.

**(B) The CAP Group**

- (a) outstanding bank and other borrowings, bonds, convertible bonds and promissory note of approximately HK\$1,950.7 million, of which bank loans with an aggregate amount of approximately HK\$429.4 million were secured by the CAP Group's equipment, stock of properties and investment properties;

- (b) lease liabilities amounting to approximately HK\$19.7 million; and
- (c) the CAP Group also provided guarantee(s) to banks in respect of loans provided by the bank to the customers of CAP Group in an amount not exceeding approximately HK\$59.7 million.

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on 30 September 2019, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or 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 of the Enlarged Group, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances, such as any event of force majeure occurs including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2019, being the date on which the latest published audited consolidated financial statements of the Group were made up.

### **5. BUSINESS TREND OF THE GROUP AND FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP**

Despite the retail market is slowing down due to the recent political chaos and against the backdrop of China-US trade disputes, with the Hong Kong government actively promoting traditional Chinese Medicine in local market and co-operation with cities in Greater Bay Area, it is believed that the market for Chinese pharmaceutical products and supplementation manufactured in Hong Kong is set to expand rapidly over the coming decade, spurred by the trend of preferential policies from Chinese government. A number of the Group's newly launched products have quickly gained leading market share and are still growing in a fast pace. The Group will continue to push sales growth through effective marketing strategy and apply the selling expense wisely with highlighting on giving customers more direct benefits. On the other hand, it is expected that the Group's western pharmaceutical business will record a favourable growth as the cough syrup under the "Madame Pearl's" brand has obtained government approval to sell to the clinical market in Hong Kong. The national policy for Guangdong-Hong Kong-Macau Greater Bay Area, as a key development area, also provides a bright prospect for traditional Chinese medicine development.

In order to promote future development and business growth, the Group will grasp the opportunities for development of traditional Chinese medicine in the Greater Bay Area. The Greater Bay Area, comprising 11 cities covering 56,000 km<sup>2</sup> and having an estimated total population of 70 million, has a strong demand for traditional Chinese medicine. Mainland China has been attaching great importance to and spending efforts to promote the development of traditional Chinese medicine in the area. With the reputation “Wai Yuen Tong” brand established in Hong Kong and overseas over the past century, and given that its production factory was granted the certificate of GMP for Proprietary Chinese Medicine of Hong Kong and the standard certificate of the PIC/S by the Therapeutic Goods Administration of Australia, in the future when product regulation and market sale of Proprietary Chinese Medicine in the Greater Bay Area integrate, the Group will realise its great potential.

The Group will continuously expand co-operation with scientific research institutes and, based on traditional Chinese medicine formulas and taking “Made in Hong Kong” as quality control, promote scientific development in terms of regulation of Chinese medicine. The Group will continue to enhance its distribution network by penetrating into more local communities and diversify its product range to meet the needs of customers.

In respect of the financial and trading prospects of the CAP Group, agricultural issue is the PRC central government’s first priority policy for the next consecutive years. In 2019, the Central Committee of Communist Party of China and the State Council of PRC released the “Number 1 Policy of 2019”. The document promises to promote investments in agricultural produce markets, expand agricultural produce network, build logistic infrastructure and storage facilities of agriculture and improve regional cold storage infrastructure. On the other hand, it is expected that the “One Belt, One Road” policy will drive the overall growth of the PRC economy and provide a sustainable way for the PRC’s continuing development.

As the investment properties and properties stock of the CAP Group will benefit from these policies and supportive government policies implemented in the PRC provinces where they are located, the Group is optimistic that they will bring favourable returns to its shareholders. Rental income from the investment properties will also provide a steady stream of income to the Enlarged Group.

## **6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**

*Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 March 2017, 2018 and 2019. The information is extracted from and based on the annual reports of the Company for the relevant financial years. The management discussion and analysis should be read in conjunction with the financial information of the Group included in the respective annual reports of the Company.*

**A. Management discussion and analysis for the year ended 31 March 2017*****BUSINESS REVIEW***

For the year ended 31 March 2017, the Group's turnover dropped by approximately 10.53% to approximately HK\$738.4 million (2016: approximately HK\$825.3 million). The Group recorded a loss attributable to owners of the parent amounting to approximately HK\$93.3 million (2016: a profit attributable to owners of the parent amounted to approximately HK\$25.4 million). The deteriorating results was mainly attributable to the unrealised loss in fair value of equity investments at fair value through profit or loss of the Group, the drop in turnover, and share of results in EOG, an associate of the Company, which had reported a significant loss during the year.

***(1) Chinese Pharmaceutical and Health Food Products***

Turnover for the year ended 31 March 2017 has decreased by approximately 10.93% from the previous year to approximately HK\$578.3 million.

Hong Kong market is the major market of the Group's Chinese pharmaceutical and health food products, of which sluggish operating environment persisted in the year ended 31 March 2017. The retail market in Hong Kong had been affected by the lowered number of mainland visitors, which led to a drop in sales revenue of the retail business of the Group. During the year, there was a slight decrease in the Group's gross profit margin as a result of constantly improving sales mix and stringent cost control. As the Group continued to widen distribution network of the products, sales channels including key accounts achieved a mild growth during the year. In respect of market presence, the online shopping platform developed by the Group has brought much convenience to the consumers, while enhancing the effectiveness of the marketing of products. E-commerce sales channels started to generate revenue during the year.

During the year, the Group continued strictly adhering to the comprehensive quality assurance procedures. In the beginning of 2017, the construction of the Group's New Factory for Western pharmaceutical and Chinese traditional medicines in Yuen Long Industrial Estate was completed and it has commenced production. The new facility served to complement the Group's plan on production commissioning and operation, its effort on continued beefing up of the research and development capacity, its pursuit on innovation, meeting market demand and trend and expanding product variety. The brand "Wai Yuen Tong", with its inexpensive and high-quality pharmaceutical and health food products, has taken the leading position in the industry and has been well recognised by the market for years.

Under China Thirteenth Five-Year Plan, traditional Chinese medicine was promoted to a national strategic industry status. The Group intended to actively act in accordance with the government policies in Hong Kong and the PRC to facilitate and stimulate business development. It was expected that the Mainland Factory could obtain Good Manufacturing Practice ("GMP") certification from the State Food and Drug Administration in the second half of 2017. The main products from the Mainland Factory were Chinese medicine crude slices. Upon its commissioning, the production capacity and variety of the Group's Chinese medicinal products would be expanded.

(2) *Western Pharmaceutical and Health Food Products*

Turnover for the year ended 31 March 2017 decreased slightly by approximately 8.3% to approximately HK\$149.9 million compared to last year.

Amid the economic downturn of Hong Kong, with the Group's quality products, the Group managed to record a growth in the retail sales in Hong Kong, yet that in the mainland China recorded a weaker sales figure. Coping with the intense market competition in the mainland China, the Group implemented proactive marketing expansion strategies focusing on the mainland market. The Group strived to reinforce brand recognition in the mainland and increase market share by offering discounts in prices as promotion for the Group's products, and as a result recorded a decrease in gross profit margin. The Group's famous "Pearl's" MosquitOut products were leading brand of the category in Hong Kong, and had exhibited steady growth in sales during the year. Products under "MP-Professional" brand like Madame Pearl's Breath Easy patches had shown a steady growth. However, cough syrup products under "Madame Pearl's" brand posted a decrease in turnover.

In addition to marketing strategies to consolidate the mainland market, the Group intended to continue their relentless research effort and product development, with the aim to enrich product variety to meet the market demand. In the meantime, the Group intended to intensify their product penetration into the market through enhanced advertisement and promotion activities and exploration of sales channels, such as institutional sales to hospitals, to boost sales revenue.

(3) *Property Investment*

On 25 November 2015, the Group entered into a provisional sale and purchase agreement for the sale of a property located in Sheung Shui, Hong Kong for a consideration of HK\$88.0 million. The disposal was completed on 31 May 2016 and a gain on disposal of approximately HK\$65.7 million was recorded in this regard. Details of the transaction were set out in the Company's announcement dated 26 November 2015.

During the year ended 31 March 2017, the Group owned twelve properties which were all retail premises. Some of these properties were leased out for commercial purpose whereas some were used as the Group's retail shops. During the year, the net fair value losses on investment properties of the Group amounted to HK\$31.8 million. Despite the downward adjustment in the valuation of the properties during the year, the Company was confident in the long-term prospect of commercial properties in Hong Kong and considers that its investment property portfolio can provide stability to and strengthen the Group's income base in the long run.

(4) *Investment in EOG*

During the year ended 31 March 2017, there was no change in the Group's shareholding in EOG. As at 31 March 2017, the Group held 132,418,625 shares, representing approximately 28.51% of the issued shares of EOG.

The Group's share of loss of EOG amounted to approximately HK\$47.7 million for the year (2016: share of profit amounted to approximately HK\$77.9 million).

No impairment on the investment in EOG was recognised by the Group during the year (2016: Nil) as the recoverable amount was assessed to be close to the carrying value of the interest in EOG.

During the year, the Group granted a loan facility to EOG of not exceeding HK\$100.0 million for a term of 24 months at an interest rate of 6.5% per annum, details of which were set out in the Company's announcement dated 5 October 2016. As at the date of the annual report of the Company for the year ended 31 March 2017, HK\$100.0 million had been drawn down by EOG.

(5) *Investment in CAP*

Pursuant to the subscription agreement dated 4 October 2014 (as supplemented on 28 November 2014), the Group subscribed for 2019 Bonds with an outstanding principal amount of HK\$720 million on 28 November 2014.

In addition, pursuant to the sale and purchase agreement dated 5 July 2016 (as supplemented on 8 July 2016), the Group acquired 2019 Bonds with an outstanding principal amount of HK\$200 million from Double Leads.

As at 31 March 2017, the Group held a principal amount of HK\$920.0 million (2016: HK\$720 million) of 2019 Bonds and the fair value of the 2019 Bonds held by the Group amounted to approximately HK\$912.1 million (2016: approximately HK\$671.5 million).

(6) *Equity Investments at Fair Value through Profit or Loss*

The Group has maintained a portfolio of listed equity securities in Hong Kong which are held for trading purpose. The Group recorded a net loss on change in fair value of equity investments at fair value through profit or loss of approximately HK\$47.5 million for the year (2016: a net gain of approximately HK\$3.1 million).

(7) *Commissioning of the New Factory in Yuen Long*

The Group had obtained the permission to construct the New Factory, a state-of-the-art factory in Yuen Long Industrial Estate to manufacture both Chinese traditional medicines and Western pharmaceutical, which certifies that the Group's products are "100% made in Hong Kong" and attain international product quality standard. The construction of the New Factory was completed in early 2017 in alignment with the Group's plan of commissioning the production and operation of the New Factory in early 2017. Upon the commissioning of the New Factory, both the overall production capacity and level of product quality control of the Group had been enhanced significantly. Meanwhile, in October 2016 and the first half of 2017, Wai Yuen Tong's new GMP factory was awarded the certificate of GMP for Proprietary Chinese Medicine from the Chinese Medicine Council of Hong Kong and the certification for of European standard of "The Pharmaceutical Inspection Co-operation Scheme" (PIC/S), the most stringent manufacturing practice regulation with worldwide recognition, from the Therapeutic Goods Administration of Australia (TGA). With regard to "Luxembourg" new GMP factory, an application for the certification of PIC/S has been submitted to The Pharmacy and Poisons Board of Hong Kong and is expected to be approved in the second half of 2017. It certifies that the Group's products are "100% made in Hong Kong" and the quality satisfies international pharmaceutical manufacturing standard. The New Factory had six Chinese medicine production lines and three Western pharmaceutical production lines, which added separate clean manufacturing units and introduced

advanced equipment and inspection instruments for the production system of Chinese medicines and Western medicines to extract and concentrate Chinese medicines by scientific technology and manufacture “Young Yum Pill” and all types of Chinese patent medicines and health food products in a full automation process. In the meantime, the Group intended to produce Luxembourg Western pharmaceutical products in the New Factory through a full automation process. The Factory was also equipped with state-of-the-art laboratory in microbiology and laboratory equipment. With the pure water system conforming to the specifications in the British Pharmacopoeia, the products would be in compliance with the Hospital Authority’s medicine tenders requirement as well as the indicators of the prescription medicines by local doctors.

(8) *Acquisition of a Factory Building and Two Dormitory Buildings in the PRC*

To expand the Group’s manufacturing capacity and further strengthen its business in the PRC, on 16 July 2015, the Group entered into a provisional agreement with The Sky High Plastic Works Limited, a third party independent of and not connected with the Company and its connected persons, for the acquisition of the Mainland Factory comprising a factory building and two dormitory buildings located at Nanbu Village, Pingshan Town, Shenzhen, the PRC, with a gross floor area of approximately 19,475 square meters for a total consideration of approximately HK\$81.3 million. Completion of the acquisition had been extended from 16 October 2015 to 30 June 2017, details of which were set out in the Company’s announcements dated 20 July 2015, 20 October 2015, 30 December 2015, 24 February 2016, 27 April 2016, 27 July 2016 and 30 December 2016, respectively.

**FINANCIAL REVIEW**

(1) *Fund Raising*

On 29 September 2016, the Company completed a rights issue on the basis of 3 rights shares for every 1 existing share held by qualifying shareholders at an issue price of HK\$0.43 per rights share and a total of 948,857,166 rights shares were issued (the “**Rights Issue**”). The net proceeds from the Rights Issue amounted to approximately HK\$400.7 million, of which the Group intended to utilise (i) approximately HK\$50.0 million for the payment of installation of facilities and equipment for the Group’s factory in the PRC; (ii) approximately HK\$200.0 million for the acquisition of the HK\$200.0 million 2019 Bonds from Double Leads; (iii) approximately HK\$50.0 million for the repayment of outstanding bank borrowings and interests of the Group; and (iv) the remaining balance of approximately HK\$100.7 million for general working capital of the Group.

As at 31 March 2017, approximately HK\$200.0 million were utilised for the acquisition of the HK\$200.0 million 2019 Bonds. The balance of the net proceeds of the Rights Issue was being held as bank deposits and would be utilised as intended.



(2) *Liquidity and Gearing and Financial Resources*

As at 31 March 2017, the Group had total assets of approximately HK\$3,573.3 million (2016: approximately HK\$3,237.5 million) which were financed by current liabilities of approximately HK\$212.6 million (2016: approximately HK\$320.8 million), non-current liabilities of approximately HK\$702.9 million (2016: approximately HK\$587.1 million) and shareholders' equity of approximately HK\$2,657.7 million (2016: approximately HK\$2,329.6 million).

As at 31 March 2017, the Group's bank balances and cash were approximately HK\$323.7 million (2016: approximately HK\$205.6 million). As at 31 March 2017, the Group's total bank borrowings amounted to approximately HK\$759.3 million (2016: approximately HK\$738.7 million), all of which bore interest at floating interest rates and were denominated in Hong Kong dollars. As at 31 March 2017, the maturity profile of all bank borrowings based on the scheduled repayment dates set out in the relevant loan agreements was shown below, together with the corresponding figures as at 31 March 2016:

	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans repayable:		
Within one year	62,290	130,040
In the second year	34,790	154,522
In the third to fifth years, inclusive	139,370	331,638
Beyond five years	<u>522,857</u>	<u>122,486</u>
	<u><u>759,307</u></u>	<u><u>738,686</u></u>

The Group maintained a healthy liquidity position. The current ratio, being a ratio of current assets to current liabilities, was approximately 4.1 (2016: approximately 2.6). The gearing ratio, being the ratio of total borrowings net of bank balances and cash to equity attributable to owners of the parent, was approximately 16.4% (2016: approximately 23.0%). The Group adopted a conservative approach in its financial management.

## (3) Significant Investments Held

As at 31 March 2017, the Group had available-for-sale investment of approximately HK\$912.1 million and equity investments at fair value through profit or loss of approximately HK\$150.3 million, details of which were set out as follows:

Nature of investments	As at 31 March 2017				For the year ended 31 March 2017				Fair value/carrying amount		
	Number of shares held '000	Amount/ units held HK\$'000	Percentage of shareholding in such stock %	Percentage to the Group's total assets %	Addition/ (Disposal) HK\$'000	Change in fair value HK\$'000	Imputed Interest income HK\$'000	Interests/ Dividends received HK\$'000	As at 31 March 2017 HK\$'000	As at 31 March 2016 HK\$'000	Investment cost HK\$'000
<i>Available-for-sale investment</i>											
<i>(unlisted securities</i>											
<i>debenture):</i>											
<i>CAP - 10% 5-year Bonds</i>											
2019 Bonds	—	912,093	—	25.526%	200,000	37,204	3,368	81,979	912,093	671,521	920,000
<i>Equity investments at fair value</i>											
<i>through profit or loss:</i>											
<b>A. Listed Investments</b>											
Kingston Financial Group Limited	12,336	31,210	0.09%	0.873%	—	(14,310)	—	247	31,210	45,520	9,413
Jun Yang Solar Power Investments Ltd	1,333	172	0.05%	0.005%	—	(254)	—	—	172	426	9,705
Town Health International Investment Limited	52,500	65,100	0.68%	1.821%	—	(11,550)	—	514	65,100	76,650	16,434
Sino Harbour Property Group Ltd	36,000	18,360	1.46%	0.514%	—	(9,900)	—	—	18,360	28,260	20,049
WOG	423,000	29,610	2.19%	0.829%	—	(10,998)	—	2,538	29,610	40,608	16,819
<b>B. Mutual Funds</b>											
Emerging Market Bond Fund	33	540	—	0.015%	—	46	—	—	540	494	519
China Growth Fund	13	135	—	0.004%	—	25	—	—	135	110	130
Asian Equity Plus Fund	20	246	—	0.007%	—	14	—	—	246	232	212
ASEAN Frontiers Fund	21	234	—	0.007%	—	13	—	—	234	221	212
USD Money Fund	57	558	—	0.015%	—	19	—	—	558	539	541
Opus Mezzanine Fund 1 LP	—	4,138	—	0.116%	—	123	—	—	4,138	4,015	3,900
		<u>150,303</u>		<u>4.206%</u>	<u>—</u>	<u>(46,772)</u>	<u>—</u>	<u>3,299</u>	<u>150,303</u>	<u>197,075</u>	<u>77,934</u>

The principal activities of the listed securities are as follows:

## 1. Kingston Financial Group Limited (“Kingston”)

Kingston is principally engaged in the provision of a wide range of financial services which include securities underwriting and placements, margin and initial public offering financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau.

2. Jun Yang Solar Power Investments Ltd (“**Jun Yang**”)

Jun Yang is principally engaged in financial services business, solar energy business with a current focus on development, construction, operation and maintenance of power station projects, money lending business and asset investment business.

3. Town Health International Medical Group Limited (“**Town Health**”)

Town Health is principally engaged in (i) healthcare business investments; (ii) provision and management of medical, dental and other healthcare related services; and (iii) investments and trading in properties and securities.

4. Sino Harbour Property Group Ltd (“**Sino Harbour**”)

Sino Harbour is principally engaged in the property development business with a focus on residential properties in Jiangxi Province, the PRC.

5. WOG

WOG is principally engaged in property development, property investment, management and sub-licensing of Chinese wet markets, treasury management and production and sales of pharmaceutical health food products and personal care products in Hong Kong and the PRC.

The Group also invested in certain other mutual funds including an emerging market bond fund, a China-focused growth fund, an Asian equity “plus” fund and an US dollar currency fund.

(4) *Financial Review and Prospect of Significant Investments Held*

(a) Available-for-sale investment

As at 31 March 2017, the Group held the 2019 Bonds in the principal amount of HK\$920.0 million (2016: HK\$720.0 million). As at 31 March 2017, the fair value of the 2019 Bonds amounted to approximately HK\$912.1 million (2016: approximately HK\$671.5 million). The 2019 Bonds had provided a reasonable and stable cash income stream to the Group and the Group intended to hold it to maturity.

(b) Equity investments at fair value through profit or loss

With a view to optimise its use of cash resources, the Group invested in various listed equity securities and mutual funds for trading purposes with prudence and in a cautious manner. As at 31 March 2017, the Group maintained an investment portfolio of listed equity securities in Hong Kong and mutual funds. The Group had recorded a net loss on change in fair value of equity investments through profit or loss of approximately HK\$47.5 million for the year under review (2016: a net gain of approximately HK\$3.1 million). The Group adopted a prudent investment strategy and would closely monitor the market changes and adjust its investment portfolio as and when necessary.

(5) *Foreign Exchange*

The Board was of the opinion that the Group had no material foreign exchange exposure and thus did not engage in any hedging activities. All bank borrowings were denominated in Hong Kong dollars. The revenue of the Group, mostly denominated in Renminbi and Hong Kong dollars, matched the currency requirements of the Group's operating expenses.

(6) *Capital Commitment*

As at 31 March 2017, the Group had capital commitment of approximately HK\$11.0 million (2016: approximately HK\$57.9 million) in respect of the acquisition of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

(7) *Pledge of Assets*

As at 31 March 2017, the Group's bank borrowings were secured by the Group's land and buildings and investment properties, with a total carrying value of approximately HK\$634.6 million (2016: approximately HK\$619.5 million).

(8) *Contingent Liabilities*

As at 31 March 2017, the Group had no material contingent liabilities (2016: Nil).

**NUMBER OF EMPLOYEES AND REMUNERATION POLICIES**

The Group recognises its employees as the key element that contributes to the Group's success. As at 31 March 2017, the Group had 947 (2016: 778) employees, of whom approximately 57.2% (2016: 75.0%) were located in Hong Kong and the rest were located in Mainland China. The Group remunerates its employees mainly based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options may be granted to selected staff by reference to the Group's performance as well as the individual's performance. Other benefits such as medical and retirement benefits and structured training programs are also provided. Meanwhile, the Group endeavours to provide a safe workplace to its employees. The Board believes that the Group maintains admirable relations with the employees.

**B. Management discussion and analysis for the year ended 31 March 2018*****BUSINESS REVIEW***

For the year ended 31 March 2018, the Group's revenue increased by approximately 14.5% to approximately HK\$845.8 million (2017: approximately HK\$738.4 million). The Group recorded a loss attributable to owners of the parent amounting to approximately HK\$115.6 million (2017: approximately HK\$93.3 million), representing an increase in loss attributable to owners of approximately 23.9% as compared with corresponding period of last year. The deterioration in results was mainly attributable to an one-off gain on disposal of a property, plant and equipment recorded in 2017, impairment losses in property, plant and equipment, an increase in overheads in the Group's factories and a loss on deemed partial disposal of equity interests in an associate, as offsetting by the improvement effects on the net change in fair value of equity investments at fair value through profit or loss and the net change in fair value on investment properties for the year.

*(1) Chinese Pharmaceutical and Health Food Products*

During the year, the revenue increased by 21.1% year-on-year to approximately HK\$700.2 million.

As the economy and consumption environment of Hong Kong recovered gradually, the overall retail sales in Hong Kong increased by 2.2% year-on-year in 2017, as compared to 8.1% decrease in 2016. "Wai Yuen Tong", as one of leading health product brands in Hong Kong, has been trusted by many consumers. During the year, due to recovery of the retail market in Hong Kong, the revenue from the Chinese pharmaceutical and health food products segment increased correspondingly. Meanwhile, a rise in general public's awareness of health increases the demand for health food products; and the confidence of consumers from mainland China in the quality of Hong Kong-made health food products and TCM together drive sales of the Group.

As the Group continued to widen the distribution network of the products, there was a modest growth in sales channels including key accounts during the year. The "Wai Yuen Tong" brand represents one of the largest TCM retail network in Hong Kong. At present, it has over 60 shops in Hong Kong, approximately 40 of which provide TCM services.

The Group continued to implement the comprehensive quality assurance procedure. The TCM and Western medicine GMP factory of the Group in Yuen Long Industrial Estate was formally completed in early 2017 and put into production in April of 2017, which significantly improved the research and development capacity of the Group and diversified the existing product mix so that the Group can seize market opportunities and expand sources of income. In response to the enormous demand for cardiovascular medicines in the Hong Kong market, "Angong Niu Huang Wan", a high value-added product newly developed by the Group, was launched into the market at the end of 2017 and had been well accepted by the public.

In terms of brand promotion, “Wai Yuen Tong” kept pace with the times and carries out optimisation projects for many Wai Yuen Tong retail shops which introduces fashionable elements and modern elements. Meanwhile, it continued to launch diversified promotion activities, so as to improve the brand awareness and image. During the year, for the first time, the Group invited Ms. Gigi Leung Wing-kei, a Hong Kong singer and Mr. Ray Lui Leung-wai, a legendary actor, both of whom are well-known in mainland China, Hong Kong, Macau and Taiwan, to act as product ambassadors of “Wall- Broken Ganoderma Lucidum Spores (Upgraded Formula) (破壁靈芝孢子(升級配方))” and “Angong Niu Huang Wan (安宮牛黃丸)”. The “Wai Yuen Tong Infant Care Classroom” also carried out a series of activities to promote baby series of products. In addition to traditional advertising platforms such as TV, newspapers and magazines, the Group provided product discounts and uploads health tips from registered Chinese medicine practitioners from time to time through social media, so as to build word-of-mouth and achieve brand influence.

In order to support brand rejuvenation, the Group launched the mobile apps of “Wai Yuen Tong” for e-commerce and customer relationship management (CRM) in August 2017, so as to strengthen its reach to the young customer base. The mobile apps included functions of immediate appointment for TCM diagnosis and treatment, and quick tongue diagnosis which is pioneer in Hong Kong and serves as free preliminary assessment. The apps had been well-received since the launch. During the year, “Wai Yuen Tong” also enhanced integration of marketing channels in Hong Kong and mainland China, and together with business partners launched a cross-border offline-to-online (O2O) platform, on which Chinese consumers can purchase Hong Kong-made Chinese patent medicines and health products of “Wai Yuen Tong” through the apps, thus improving operating benefit. The online shopping platform of the Group continues to improve product promotion efficiency. Big data collected were conducive to the analysis of customers’ buying habits and preferences. During the year, the Group recorded stable revenue from sales on the online shopping platform.

## (2) *Western Pharmaceutical and Health Food Products*

The turnover for the year decreased by approximately 9.3% to approximately HK\$135.9 million compared to last year.

Although the economy and consumption environment of Hong Kong recovered gradually, the overall turnover for two main project series of the Group declined, due to influence by different factors. The shipment volume of “Madame Pearl’s Cough Drugs” needs to be controlled to align with commissioning of new factories, due to transition to production by the new factory and compliance with the Department of Health of Hong Kong. Although “Pearl’s” mosquito repellent products were sold well in Hong Kong, there were a great number of similar products entering the market during the year, which intensified channel and price competition. Sales of “Pearl’s” products stably ranked first in the market, in spite of slowdown in the sales under pressure. The Group recorded a slight decrease in sales of products in “Madame Pearl’s Professional Series” including “Madame Pearl’s” BreathEasy Patch.

In response to fierce competition in the industry and seasonality of tourist arrivals to Hong Kong, the Group adjusted the marketing strategy in a timely manner, focuses on development of new distribution channels, optimises the product mix, expands the distribution network and maintains the overall operating income. The Group intended to continue to enhance publicity and promotion, further diversify sales channels, increase the market penetration rate of products, and especially focus on key products including upper airway product series under “Madame Pearl’s” and personal care product series under “Pearl’s”. It retained the No. 1 spot in terms of sales of the two series in the market, thus facilitating increase in the sales revenue of the Group.

The Group continued to enhance research and development of products and diversify product series to meet market demands. In September 2017, the new GMP factory of Luxembourg Medicine was granted the GMP certificate by the Department of Health of Hong Kong and the PIC/S certificate for which more stringent requirements need to be satisfied. Through advanced equipment of new factories, the Group continued to carry out research and development of pharmaceutical aqua products, a core business. It intended to further promote product diversity and accelerate development of new sales channels.

During the year, full impairment provision of HK\$7.6 million of the goodwill relating to the Western Pharmaceutical Business was made.

(3) *Property Investment*

On 7 February 2018, Guidepost Investments Limited (“**Guidepost**”), an indirect wholly-owned subsidiary of the Company entered into an agreement with, East Run Investments Limited (“**East Run**”), an indirect wholly-owned subsidiary of WOP and WOP for the acquisition of the entire issued share capital and their respective shareholder’s loans in four target companies, which were holding a retail property located in Causeway Bay, Shau Kei Wan, Mong Kok and Tai Po, respectively for a total cash consideration of HK\$350 million, completion of which took place on 25 April 2018. Upon completion of the acquisition, the Company intended to maintain the properties for self-use. The acquisition presented an opportunity for the Group not only to further entrench and expand its business presence at strategic retail locations, but also to reduce its rental burden, as the properties were situated at locations which the Board considered suitable for the Group’s medicine retail business. The details of the transactions were disclosed the Company’s announcement dated 7 February 2018 and circular dated 29 March 2018.

At the end of the reporting period, the Group owned 12 properties which were all retail properties. Some of these properties were leased out for commercial purpose whereas some were used as the Group’s retail shops. During the year, the net fair value gain on investment properties of the Group amounted to HK\$23.4 million. Despite the upward adjustment in the valuation of the properties as compared to last year, the Group considered that the investment property portfolio can provide stability to the operating cost of retail shops and strengthen the Group’s income base in the long run.

(4) *Investment in EOG*

As at 31 March 2018, the Group held 132,418,625 shares, representing approximately 23.8% of the issued shares of EOG.

The Group’s share of loss of EOG amounted to approximately HK\$96.1 million included a loss on deemed partial disposal of EOG of HK\$52.2 million for the year (2017: share of loss amounted to approximately HK\$47.7 million).

On 5 October 2016, the Group granted an unsecured revolving loan facility to EOG of HK\$100.0 million for a term of 24 months at an interest rate of 6.5% per annum, details of which were set out in the Company’s announcement dated 5 October 2016. As at 20 June 2018, HK\$100.0 million had been drawn down by EOG and remained outstanding.

(5) *Investment in CAP*

Pursuant to the subscription agreement dated 4 October 2014 (as supplemented on 28 November 2014) and the sale and purchase agreement dated 5 July 2016 (as supplemented on 8 July 2016), the Group had subscribed for the 2019 Bonds in principal amount of HK\$720.0 million on 28 November 2014 and further acquired the 2019 Bonds in a principal sum of HK\$200.0 million from Double Leads.

As at 31 March 2018, the Group held a principal amount of HK\$920 million (31 March 2017: HK\$920 million) of 2019 Bonds and the fair value of the 2019 Bonds held by the Group amounted to approximately HK\$909.6 million (31 March 2017: approximately HK\$912.1 million).

(6) *Equity Investments at Fair Value through Profit or Loss*

The Group has maintained a portfolio of listed equity securities in Hong Kong which are held for trading purpose. The Group held shares of Town Health International Medical Group Limited (“**Town Health**”), which accounts for 0.6% of the total assets of the Group. In 2017, the share price declined, and trading in the shares was suspended. During the year, the Group recognised a fair value loss of HK\$41.6 million on the investment in Town Health. The Group recorded an overall net loss on change in fair value of equity investments at fair value through profit or loss of approximately HK\$17.8 million for the year (2017: HK\$47.5 million).

(7) *Commissioning of the Yuen Long Factory*

The modern TCM and Western medicine factory of the Group in Yuen Long Industrial Estate had been gradually put into production since April 2017 and was granted the standard certification of the PIC/S by the TGA of Australia in the first half of 2017. The new GMP factory of Luxembourg Medicine was granted the PIC/S certification by the Pharmacy and Poisons Board of Hong Kong in September of the same year, certifying that the Group’s products are “100% made in Hong Kong” and the quality met world-class standard. In addition to improvement in the product quality level, fully automated production equipment of the Yuen Long Factory significantly improved the production capacity and reduced the overall operating costs.

In the meantime, the Group intended to produce Luxembourg Medicine Western pharmaceutical products in the new factory through a full automation process. The new factory was also equipped with state-of-the-art laboratory in microbiology and laboratory equipment. With the pure water system conforming to the specifications in the British Pharmacopoeia, the products would be in compliance with the Hospital Authority’s medicine tenders requirement as well as the indicators of the prescription medicines by local doctors.

(8) *Factory Building in Mainland China*

To expand the Group’s manufacturing capacity and further strengthen its business in mainland China, the Group acquired a factory building and two dormitory buildings located at Nanbu Village, Pingshan Town, Shenzhen, China, with a gross floor area of approximately 19,475 square meters.

During the year, the Group completed the renovation of this factory and contracted out the production to a GMP licensed manufacturer on a temporary basis to path the way for the Group’s future expansion in mainland China market.



*FINANCIAL REVIEW**(1) Liquidity and Gearing and Financial Resources*

As at 31 March 2018, the Group had total assets of approximately HK\$3,656.5 million (2017: approximately HK\$3,573.3 million) which were financed by current liabilities of approximately HK\$425.4 million (2017: approximately HK\$212.6 million), non-current liabilities of approximately HK\$671.1 million (2017: approximately HK\$702.9 million) and shareholders' equity of approximately HK\$2,560.0 million (2017: approximately HK\$2,657.7 million).

As at 31 March 2018, the Group's bank balances and cash were approximately HK\$420.8 million (2017: approximately HK\$323.7 million). As at 31 March 2018, the Group's total bank borrowings amounted to approximately HK\$927.0 million (2017: approximately HK\$759.3 million), all of which bore interest at floating interest rates and were denominated in Hong Kong dollars. As at 31 March 2018, the maturity profile of all bank borrowings based on the dates set out in the relevant loan agreements was shown below, together with the corresponding figures as at 31 March 2017:

	<b>2018</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans repayable:		
Within one year	264,790	62,290
In the second year	42,290	34,790
In the third to fifth years, inclusive	151,869	139,370
Beyond five years	<u>468,068</u>	<u>522,857</u>
	<u>927,017</u>	<u>759,307</u>

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 2.5 (2017: approximately 4.1). The gearing ratio, being the ratio of total borrowings net of bank balances and cash to equity attributable to owners of the parent, was approximately 19.8% (2017: approximately 16.4%). The Group always adopts a conservative approach in its financial management.

## (2) Significant Investments Held

As at 31 March 2018, the Group had available-for-sale investments of approximately HK\$911.6 million and equity investments at fair value through profit or loss of approximately HK\$127.6 million, details of which were set out as follows:

Nature of investments	As at 31 March 2018				For the year ended 31 March 2018				Fair value/carrying amount		
	Number of shares held	Amount/ units held	Percentage of shareholding in such stocks	Percentage to the Group's total assets	Addition/ (Disposal)	Change in Fair value	Imputed interest	Interests/ Dividends received	As at 31 March 2018	As at 31 March 2017	Investment cost
	'000	HK\$'000	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Available-for-sale investments:</i>											
<i>- unlisted securities debenture</i>											
2019 Bonds	-	909,562	-	24.875%	-	(6,263)	3,732	95,403	909,562	912,093	920,000
<i>- listed securities debenture</i>											
Korean Air Line Co. Ltd.- 5.875% 3-year Bonds	-	2,029	-	0.055%	2,029	-	-	8	2,029	-	2,029
	-	911,591	-	24.930%	2,029	(6,263)	3,732	95,411	911,591	912,093	922,029
<i>Equity investments at fair value through profit or loss:</i>											
<b>A. Listed Investments</b>											
Kingston Financial Group Limited ("Kingston")	12,336	43,299	0.09%	1.184%	-	12,089	-	308	43,299	31,210	9,413
Power Financial Group Limited ("Power Financial")	1,333	292	0.04%	0.008%	-	120	-	-	292	172	9,705
Town Health	52,500	23,520	0.60%	0.643%	-	(41,580)	-	147	23,520	65,100	16,434
Sino Harbour Holdings Group Limited ("Sino Harbour")	36,000	14,580	1.46%	0.399%	-	(3,780)	-	360	14,580	18,360	20,049
Wang On	423,000	43,992	2.23%	1.203%	-	14,382	-	2,538	43,992	29,610	16,819
<b>B. Mutual Funds</b>											
Emerging Market Bond Fund	33	559	-	0.016%	-	19	-	-	559	540	519
China Growth Fund	13	189	-	0.005%	-	54	-	-	189	135	130
Asian Equity Plus Fund	20	327	-	0.009%	-	81	-	-	327	246	212
ASEAN Frontiers Fund	21	293	-	0.008%	-	59	-	-	293	234	212
USD Money Fund	57	542	-	0.015%	-	(16)	-	-	542	558	541
Opus Mezzanine Fund 1 LP	-	-	-	-	(4,910)	772	-	-	-	4,138	3,900
	-	127,593	-	3.490%	(4,910)	(17,800)	-	3,353	127,593	150,303	77,934

The principal activities of the other listed securities are as follows:

1. Kingston

Kingston is principally engaged in the provision of a wide range of financial services which include securities underwriting and placements, margin and initial public offering financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau.

2. Power Financial

Power Financial is principally engaged in financial services business, money lending business and asset investment business.

3. Town Health

Town Health is principally engaged in (i) healthcare business investments; (ii) provision and management of medical, dental and other healthcare related services; and (iii) investments and trading in properties and securities.

4. Sino Harbour

Sino Harbour is principally engaged in the property development business with a focus on residential properties in Jiangxi Province, China.

5. WOG

WOG is principally engaged in property development, property investment, management and sub-licensing of Chinese wet markets, treasury management and production and sale of pharmaceutical products in Hong Kong and mainland China.

The Group also invested in certain other mutual funds including an emerging market bond fund, a China-focused growth fund, an Asian equity “plus” fund and an US dollar currency fund.

(3) *Financial Review and Prospect of Significant Investments Held*

(a) Available-for-sale investments

As at 31 March 2018, the Group held the 2019 Bonds in the principal amount of HK\$920.0 million (2017: HK\$920.0 million) and Korean Air Line Co. Ltd. bonds in the principal amount of HK\$2.0 million (2017: Nil). As at 31 March 2018, the fair value of the 2019 Bonds amounted to approximately HK\$909.6 million (2017: approximately HK\$912.1 million) and the fair value of the Korean Air Line Co. Ltd. Bonds amounted to approximately HK\$2.0 million (2017: Nil). The bonds had provided a reasonable and stable cash income stream to the Group and the Group intended to hold them to maturity.

(b) Equity investments at fair value through profit or loss

With a view to optimise its use of cash resources, the Group invested in various listed equity securities and mutual funds with prudence and in a cautious manner. As at 31 March 2018, the Group maintained an investment portfolio of listed equity securities in Hong Kong and mutual funds. The Group had recorded a net loss on change in fair value of equity investments through profit or loss of approximately HK\$17.8 million for the year under review (2017: a net loss of approximately HK\$47.5 million). The Group adopted a prudent investment strategy and would closely monitor the market changes and adjust its investment portfolio as and when necessary.

(4) *Foreign Exchange*

The Board was of the opinion that the Group has no material foreign exchange exposure and thus does not engage in any hedging activities. All bank borrowings were denominated in Hong Kong dollars. The revenue of the Group, mostly denominated in Renminbi and Hong Kong dollars, matched the currency requirements of the Group's operating expenses.

(5) *Capital Commitment*

As at 31 March 2018, the Group had capital commitment of approximately HK\$317.6 million (2017: approximately HK\$11.0 million) in respect of the acquisitions of property, plant and equipment and subsidiaries, which were contracted for but not provided for in the consolidated financial statements.

(6) *Pledge of Assets*

As at 31 March 2018, the Group's bank borrowings were secured by the Group's land and buildings and investment properties, with a total carrying value of approximately HK\$645.7 million (2017: approximately HK\$634.6 million).

(7) *Contingent Liabilities*

As at 31 March 2018, the Group had no material contingent liabilities (2017: Nil).

**NUMBER OF EMPLOYEES AND REMUNERATION POLICIES**

The Group recognises its employees as the key element that contributes to the Group's success. As at 31 March 2018, the Group had 721 (2017: 713) employees, of whom approximately 75.5% (2017: approximately 76.1%) were located in Hong Kong and the rest were located in mainland China. The Group remunerated its employees based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options would also be granted to selected staff by reference to the Group's performance as well as the individual's performance. The Group also provides a defined contribution to the Mandatory Provident Fund as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its eligible employees in Hong Kong. Other benefits such as medical and retirement benefits and structured training programs were also provided. Meanwhile, the Group endeavours to provide a safe workplace to its employees. The Board believes that the Group maintains admirable relations with the employees.

**C. Management discussion and analysis for the year ended 31 March 2019*****BUSINESS REVIEW***

The Group's revenue for the year ended 31 March 2019 decreased by 11.2% to HK\$751.4 million (2018: HK\$845.8 million). Against the backdrop of consolidating distribution channels and relocation of production, total revenue of the Chinese and Western pharmaceutical and health food products decreased by 11.4% to HK\$740.7 million (2018: HK\$836.1 million). Various new products were launched to enrich the Group's product offerings during the year. A solid foundation was laid down for future growth. The profit attributable to owners of the parent was HK\$74.6 million (2018: a loss of HK\$115.6 million).

***(1) Chinese Pharmaceutical and Health Food Products***

During the year, revenue of the Chinese pharmaceutical and health food products decreased by 10.8% year-on-year to HK\$624.7 million. It implemented various initiatives during the year for the long term growth of the Group, including enriching the product range and consolidating distribution channels. Revenue of this business segment accounted for 83.1% of total revenue of the Group.

With the world's aging population and ardent demand for healthy living, the Group continued to promote and develop a series of TCM healthcare products for common diseases of urban people. This year, Angong Sanbao (安宮三寶) had been successfully completed: Angong Niu Huang Wan (安宮牛黃丸), Angong Jiangya Wan (安宮降壓丸) and Angong Zaizao Wan (安宮再造丸), which are gatekeepers of cardiovascular health of the public based on the overall concept of emergency-prevention-rehabilitation. The series is registered in Hong Kong according to ancient prescriptions/nationally recognised prescription and its whole production process is carried out at the Group's Good Manufacturing Practice ("GMP")/The Pharmaceutical Inspection Co-operation Scheme ("PIC/S") factory in Yuen Long, Hong Kong. The Group had launched a series of product promotion, which successfully drew public attention to cerebrovascular health information through health talks and event promotional vehicles in various districts.

At the same time, the Group actively developed various Chinese patent medicine products for urban diseases, such as "three-hypers" and "gastrointestinal disorder". Among them, Gastrointestinal Pills (整腸正氣丸) and Stomach Relief Granules (香砂正胃方), for the treatment of gastrointestinal discomfort, both registered as Chinese patent medicines, were launched. During the year, the Group continued to promote the Ganoderma Lucidum Spores Lipid (靈芝孢子油) for assisting patients with refractory diseases, and cooperated with scientific research institutions to further establish its auxiliary effects and disseminated product information to those in need through health talks jointly organised with medical institutions. In the healthcare sector, main products of this year included Golden Dura-Gizer (金裝剛勁) for men's vitality and Colla Corii Asini (阿膠) products for women's beauty and blood nourishing which provided suitable health food products for various consumer groups.

The Group targeted better cost efficiency through further optimisation of its retail sales network and distribution channels. The Group had enhanced the distribution channel by partnering with a strong distributor in the fourth quarter of 2018 which would focus on distributing the products of the Group to the key accounts in Hong Kong. By the end of the year, the Group had over 60 retail outlets in Hong Kong. The enhanced distribution network helped strengthen the Group's sales and brand recognition. A strong network had been laid down for a sustainable growth in the future.

The Group was well aware of the importance of networks nowadays and therefore had intensified its efforts to explore other sales channels, major customers, distributors and overseas regions to expand and enrich its sales channels. Increased investment would also be made in the development of online shopping platform.

Last but not least, the Group intended to continue to work with renowned universities and research institutes to promote and develop various types of Chinese medicine health products. In face of future challenges, the Group would insist on strict monitoring on product quality and a sincere service attitude.

(2) *Western Pharmaceutical and Health Food Products*

Revenue of the Western pharmaceutical and health food products decreased by 14.7% to HK\$116.0 million amidst the process of relocating production to the Group's GMP/PIC/S factory in Yuen Long, Hong Kong.

The two major product series, namely "Madame Pearl's" and "Pearl's" under this business segment encountered different challenges during the year. The segment's prime product – cough syrup – under the "Madame Pearl's" brand was affected by the relocation of production facilities to the Group's new GMP/PIC/S plant in Yuen Long which was gradually put in production since April 2017. Installation of equipment and the time required for application of relevant production permits resulted in decline in production volume of "Madame Pearl's" cough syrup. The relocation of production was completed by the end of 2018.

The "Pearl's" product series, which comprises MosquitOut spray, hand cream and itching relief products, faced with severe price competition. Despite a highly competitive market environment, "Pearl's" MosquitOut remained as a leading brand in this product category.

During the year, the Group placed substantial resources in revamping its Western pharmaceutical and health food product distribution channels in order to improve efficiency. More resources were put on branding aiming to strengthen the brand loyalty for both "Madame Pearl's" and "Pearl's" product series. To comply with mainland China's relevant regulations, the Group engaged various local industry players to rejuvenate the penetration of its upper airway product series under "Madame Pearl's" into mainland China.

Capitalising on state-of-the-art technology and advanced equipment of the Group's Yuen Long factory, the Group continued to carry out research and development of products for core medical solution targeting at institutional clients.

(3) *Property Investment*

At the end of the year, the Group owned 16 properties which are all retail properties. Majority of those properties were self-used as retail shops while some were leased out for generating rental income. The net fair value gains on investment properties amounted to HK\$17.4 million (2018: fair value gains of HK\$23.4 million).

In April 2018, the Group acquired four retail shops located in Causeway Bay, Shau Kei Wan, Mong Kok and Tai Po, for a total consideration of approximately HK\$350.0 million.

On 28 February 2019, the Group reached a provisional sale and purchase agreement with independent third parties to sell the retail shop at Hip Wo Street, Kwun Tong at a consideration of HK\$53.1 million, completion of which took place in June 2019. On 28 March 2019, the Group also concluded a preliminary sale and purchase agreement with another independent third party to sell the retail shop at No. 166 Sai Yeung Choi Street South, Mong Kok at a consideration of HK\$102.8 million, completion of which took place in May 2019. These two properties were reclassified as assets classified as held for sale as at 31 March 2019.

(4) *Investment in EOG*

As at 31 March 2019, the Group held 29.06% (2018: 23.8%) of the issued shares of EOG, which is an associate of the Group. The increase in equity interests in EOG during the year resulted in a gain on bargain purchase which was recognised in share of profit of associate. The Group's share of profit of EOG during the year amounted to HK\$49.0 million included a gain on bargain purchase of additional equity interests of EOG of HK\$38.0 million (2018: share of loss of HK\$96.1 million included a loss on deemed partial disposal of equity interests in EOG of HK\$52.2 million). The improvement on EOG's performance was one of the reasons for the Group's favourable results for the year.

On 18 September 2018, the Group entered into a loan agreement for granting of not exceeding a sum of HK\$65.0 million to EOG for a term of 36 months at an interest rate of 7.0% per annum. As at 31 March 2019, the loan was fully repaid by EOG.

(5) *Investment in CAP*

During the year, CAP had early redeemed part of the principal amounted to HK\$220.0 million to the Group. As at 31 March 2019, the remaining principal amount held by the Group was HK\$700.0 million (2018: HK\$920.0 million).

The investment in the 2019 Bonds was classified as financial assets at fair value through other comprehensive income as at 31 March 2019 which had previously been classified as available-for-sale investments.

(6) *Financial Assets at Fair Value through Other Comprehensive Income and Financial Assets at Fair Value through Profit or Loss*

The Group had maintained a portfolio of equity investments and debt investments which were held for long term investment purpose aiming to generating a stable income.

The equity investments were investments in companies listed on the Stock Exchange and were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. The fair value of equity investments at 31 March 2019 was HK\$87.4 million (2018: HK\$125.7 million). During the year, the Group had recorded a net loss on change in fair value of equity investments at fair value through other comprehensive income of HK\$39.3 million (2018: net loss on change in fair value through profit or loss of HK\$18.8 million).

The debt investments (excluding the 2019 Bonds) were investments in listed bonds. The Group increased the investments in listed bonds by HK\$177.2 million which carried annual interest rates ranging from 5.375% to 15.500% in order to generating a stable income. The fair value of investments in listed bonds of HK\$184.5 million (2018: available-for-sale investments of HK\$2.0 million), of which HK\$165.1 million were designated at fair value through other comprehensive income, investment on listed perpetual bonds amounted to HK\$19.4 million were classified as debt investments at fair value through profit or loss. During the year, the Group recorded a net gain on change in fair value of debt investments at fair value through other comprehensive income of HK\$4.6 million (2018: Nil) and a net gain on change in fair value of debt investments at fair value through profit or loss of HK\$0.6 million (2018: Nil).

(7) *Commissioning of the Yuen Long Factory*

The modern TCM and Western medicine factory of the Group in Yuen Long Industrial Estate has commenced operation in phases since April 2017. The plant was granted the standard certification of the PIC/S by the Therapeutic Goods Administration of Australia (TGA) in the first half of 2017. The manufacturing unit of Luxembourg Medicine, a subsidiary of the Group, was granted the PIC/S certification by the Pharmacy and Poisons Board of Hong Kong in September 2017. The plant is also GMP certified. Such certifications signify the production facilities' compliance with local and international industry standards.

The Yuen Long plant utilises the latest technology meeting stringent environment and quality requirements. With the installation of fully automated equipment and clean room facilities, the plant is capable of significantly enhancing the Group's overall production capacity and product quality. The plant's inauguration serves to further reinforce the Group's business concept of having its products "100% made in Hong Kong".

With the purified water system conforming to the specifications of the British Pharmacopoeia, Luxembourg Medicine's products are ensured to be complied with the Hong Kong Hospital Authority's medicine tender requirement, as well as the indicators of the prescription medicines by local doctors. The new factory is also equipped with state-of-the-art laboratory in microbiology and testing equipment.

By the end of 2018, the production of "Madame Pearl's" cough syrup was relocated to Yuen Long factory successfully. After obtaining the relevant production permits, mass production is possible to meet the market demand.



*FINANCIAL REVIEW**(1) Liquidity and Gearing and financial Resources*

As at 31 March 2019, the Group had total assets of HK\$3,454.7 million (2018: HK\$3,656.5 million) which were financed by current liabilities of HK\$381.3 million (2018: HK\$425.4 million), non-current liabilities of HK\$625.2 million (2018: HK\$671.1 million) and shareholders' equity of HK\$2,448.1 million (2018: HK\$2,560.0 million).

As at 31 March 2019, the Group's bank balances and cash were HK\$171.2 million (2018: HK\$420.8 million).

As at 31 March 2019, the Group's total bank borrowings amounted to HK\$852.2 million (2018: HK\$927.0 million), all of which bore interest at floating interest rates and were denominated in Hong Kong dollars.

	At 31 March 2019		At 31 March 2018	
	HK\$ Million	% of Total	HK\$ Million	% of Total
Bank loans repayable:				
Within one year	232	27.2%	265	28.6%
In the second year	45	5.3%	42	4.5%
In the third to fifth years, inclusive	164	19.3%	152	16.4%
Beyond five years	411	48.2%	468	50.5%
Total	<u>852</u>	<u>100%</u>	<u>927</u>	<u>100%</u>

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was 3.5 (2018: 2.5). The gearing ratio, being the ratio of total borrowings net of bank balances and cash to equity attributable to owners of the parent, was 27.9% (2018: 19.8%). The Group always adopts a conservative approach in its financial management.

## (2) Significant Investments Held

As at 31 March 2019, the Group had financial assets at fair value through other comprehensive income of HK\$939.4 million and financial assets at fair value through profit or loss of HK\$21.3 million, details of which were set out as follows:

	As at 31 March 2019			For the year ended 31 March 2019			Fair value/carrying amount			
	Number of shares held	Amount held	Percentage to share-holding in such stock	Percentage to the Group's net assets	Fair value gain/(loss)	Bond interest income	Dividends received	As at 31 March 2019	As at 1 April 2018	Investment cost
	'000	HK\$'000	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Nature of investments</b>										
<b>Financial assets at fair value through other comprehensive income:</b>										
A. Equity investments										
WOG	423,000	39,339	2.37	1.61	(4,653)	-	2,538	39,339	43,992	16,819
Others		48,049		1.96	(34,643)	-	607	48,049	81,691	56,603
B. Debt investments										
2019 Bonds		686,877		28.06	(7,810)	86,162	-	686,877	909,562	700,000
Others		165,146		6.75	4,612	4,017	-	165,146	2,029	160,447
Sub-total		939,411		38.37	(42,494)	90,179	3,145	939,411	1,037,274	933,869
<b>Financial assets at fair value through profit or loss:</b>										
A. Listed perpetual bonds		19,403		0.79	617	349	-	19,403	-	18,786
B. Unlisted mutual funds		1,886		0.08	(24)	-	-	1,886	1,910	1,614
Sub-total		21,289		0.87	593	349	-	21,289	1,910	20,400
Total		960,700		39.24	(41,901)	90,528	3,145	960,700	1,039,184	954,269

The principal activities of the securities are as follows:

- (a) WOG, a company listed on the main board of the Stock Exchange, is principally engaged in property development, property investment, management and sub-licensing of fresh markets, treasury management and production and sale of pharmaceutical products in Hong Kong and mainland China.

- (b) Save as disclosed above, the Group also invested in other listed equity securities and listed bond investments in Hong Kong. The fair value of each of which represented less than 1.00% of the net assets of the Group as at 31 March 2019.
- (c) Save as disclosed above, the Group also invested in other mutual funds, the fair value of each of which represented less than 1.00% of the net assets of the Group as at 31 March 2019.

(3) *Financial Review and Prospect of Significant Investments Held*

- (a) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include the 2019 Bonds, listed equity securities and other listed debt investments. The Group adopted a prudent investment strategy and would closely monitor the market changes and adjust its investment portfolio as and when necessary. The Group intended to hold these investments for long term purpose aiming to generating a stable income. As at 31 March 2019, the Group held the 2019 Bonds in the principal amount of HK\$700.0 million (2018: HK\$920.0 million). As at 31 March 2019, the fair value of the 2019 Bonds amounted to HK\$686.9 million (2018: HK\$909.6 million).

With a view to optimising its use of cash resources, the Group increased the investments in debt investments by HK\$158.4 million which carried annual interest rates ranging from 5.375% to 15.500% during the year. As at 31 March 2019, the fair value of the debt investments (excluding the 2019 Bonds) amounted to HK\$165.1 million.

As at 31 March 2019, the fair value of the Group's investments in listed equity securities amounted to HK\$87.4 million (2018: HK\$125.7 million).

The Group had recorded a net loss on change in fair value of financial assets at fair value through other comprehensive income of HK\$42.5 million for the year (2018: a net loss in respect of available-for-sale investments recognised in other comprehensive income of HK\$6.3 million).

- (b) Financial assets at fair value through profit or loss

As at 31 March 2019, the Group maintained an investment portfolio of unlisted mutual funds and certain listed perpetual bonds. The Group adopted a prudent investment strategy and would closely monitor the market changes and adjust its investment portfolio as and when necessary.

With a review to optimise its use of cash resources, the Group increased the investments in listed perpetual bonds by HK\$18.8 million which carried annual interest rates ranging from 6.000% to 6.625% during the year. As at 31 March 2019, the fair value of the listed perpetual bonds amounted to HK\$19.4 million.

The Group had recorded a net gain on change in fair value of financial assets at fair value through profit or loss of HK\$0.6 million for the year (2018: a net loss of HK\$17.8 million).

*(4) Foreign Exchange*

The Board was of the opinion that the Group has no material foreign exchange exposure and thus does not engage in any hedging activities. All bank borrowings were denominated in Hong Kong dollars. The revenue of the Group, mostly denominated in Hong Kong dollars, matched the currency requirements of the Group's operating expenses.

The activities of the Group were exposed to foreign currency risks mainly arising from its operations in mainland China. The RMB exposure of the Group was mainly derived from currency translation risk arising from the net assets of the Group's mainland China subsidiaries. The loss on translation of foreign operations was HK\$13.3 million (2018: gain of HK\$7.4 million).

*(5) Capital Commitment*

As at 31 March 2019, the Group had capital commitment of HK\$2.5 million (2018: HK\$317.6 million) in respect of the acquisitions of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

*(6) Pledge of Assets*

As at 31 March 2019, the Group's bank borrowings were secured by the Group's land and buildings and investment properties, with a total carrying value of HK\$1,010.0 million (2018: HK\$645.7 million).

As at 31 March 2019, the Group pledged certain of its financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, with an aggregate carrying amount of HK\$211.6 million (2018: Nil) and HK\$19.4 million (2018: Nil), respectively, as securities for general banking facilities granted to the Group.

*(7) Contingent Liabilities*

As at 31 March 2019, the Group had no material contingent liabilities (2018: Nil).

**NUMBER OF EMPLOYEES AND REMUNERATION POLICIES**

The Group recognises its employees as the key element that contributes to the Group's success. As at 31 March 2019, the Group had 685 (2018: 721) employees, among them approximately 78.8% (2018: approximately 75.5%) were located in Hong Kong and the rest were located in mainland China. The Group remunerated its employees based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options would also be granted to selected staff by reference to the Group's performance as well as the individual's performance. The Group also provides a defined contribution to the Mandatory Provident Fund as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for eligible employees in Hong Kong. Other benefits such as medical and retirement benefits and structured training programs were also provided. Meanwhile, the Group endeavours to provide a safe workplace to its employees. The Board believes that the Group maintains admirable relations with the employees.

**CONSOLIDATED FINANCIAL INFORMATION OF THE CAP GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND THE SIX MONTHS ENDED 30 JUNE 2019**

The consolidated financial information, together with the accompanying notes to the financial statements, of the CAP Group for each of the three financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 are disclosed on pages 71 to 165 of the annual report of CAP for the year ended 31 December 2016, pages 68 to 153 of the annual report of CAP for the year ended 31 December 2017, pages 70 to 173 of the annual report of CAP for the year ended 31 December 2018 and pages 27 to 80 of the interim report of CAP for the six months ended 30 June 2019 respectively, all of which are published on both the website of the Stock Exchange (<http://www.HKEXnews.hk>) and the website of CAP (<http://www.cnagri-products.com>).

**MANAGEMENT DISCUSSION AND ANALYSIS ON THE CAP GROUP**

*Set out below is the management discussion and analysis of the results of the CAP Group for each of the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019. The information is extracted from and based on the annual reports and interim report of CAP for the relevant periods. The management discussion and analysis should be read in conjunction with the financial information of the CAP Group included in the respective annual reports and interim report.*

**BUSINESS REVIEW**

The CAP Group is principally engaged in the business of management and sales of properties in agricultural produce exchange markets in the PRC. For further details of the CAP Group, please refer to the section headed “Information on CAP” in the letter from the Board in this circular.

In order to cope with future growth and provide more comprehensive services to customers, the CAP Group strives for diversification of income streams in order to align its corporate mission and goals with the aim to delivering a long term benefit to the shareholders of CAP. From traditional operation of the CAP Group’s wholly-owned agricultural produce markets to cooperation projects with local partners, the CAP Group took a further step to adopt the light assets model. With the benefit of the CAP Group’s reputation in the industry, the CAP Group had started the provision of management service in recent years. As at the Latest Practicable Date, the CAP Group operates the following 11 agricultural produce exchange markets in the PRC:

**Agricultural Produce Markets*****Hubei Province******1. Wuhan Baisazhou Market***

Located in the provincial capital of Hubei Province, the PRC, Wuhan Baisazhou Agricultural and By-Product Exchange Market (“**Wuhan Baisazhou Market**”) is one of the largest agricultural produce exchange operators in the PRC. Wuhan Baisazhou Market is situated in the Hongshan District of Wuhan City, the PRC with a site area of approximately 310,000 square metres and a total gross floor area of approximately 190,000 square metres. In 2019, Wuhan Baisazhou Market was awarded top 10 of agricultural produce exchange

markets by China Agricultural Wholesale Market Association. The award was a sign to the market contribution being made by the CAP Group's effort and expertise as an agricultural produce exchange market operator in the PRC. The turnover of Wuhan Baisazhou Market remained steady during the financial years ended 31 December 2016 and 2017. In 2018, the turnover of Wuhan Baisazhou Market increased significantly due to the rise in rental rate. During the six months ended 30 June 2019, the performance of Wuhan Baisazhou Market was steady and satisfactory. As a mature market in Wuhan, the PRC, Wuhan Baisazhou Market has established its reputation and track record to customers and tenants and continued to make significant contribution to the community.

#### 2. *Huangshi Market*

Following the completion of acquisition of Huangshi Hongjin Agricultural and By-Product Exchange Market ("**Huangshi Market**") in January 2015, Huangshi Market had become one of the CAP Group's joint venture projects in Hubei Province, the PRC. The contracted operating space of Huangshi Market was approximately 23,000 square metres. Huangshi city is a county level city in Hubei and around 100 kilometres away from Wuhan Baisazhou Market. Huangshi Market, as a second-tier agricultural produce exchange market, created synergy effect with Wuhan Baisazhou Market by increasing vegetables and by-products trading. During the financial years ended 31 December 2016, 2017 and 2018, the operating performance of Huangshi Market was satisfactory, bringing positive operating cash flow to the CAP Group. During the six months ended 30 June 2019, Huangshi Market underperformed when compared to the corresponding period of the prior financial year due to keen competition from a new market.

#### 3. *Suizhou Market*

In March 2018, the CAP Group formed a joint venture company with an independent third party in Suizhou City, Hubei Province, the PRC, to operate Suizhou Baisazhou Agricultural and By-Product Exchange Market ("**Suizhou Market**"), which is the third project of the CAP Group in Hubei Province, the PRC, which occupied approximately 240,000 square metres. Phase one of Suizhou Market focused on vegetables and fruits transactions. The CAP Group pursued asset light business model by taking up the contract management rights to operate this new market in Hubei Province, the PRC. In 2018, Suizhou Market was in its early stage of development and was expected to grow gradually. During the six months ended 30 June 2019, the operating performance of Suizhou Market was satisfactory and is expected to grow gradually.

#### 4. *Luoyang Market*

Luoyang Hongjin Agricultural and By-Product Exchange Market ("**Luoyang Market**") was the flagship project of the CAP Group in Henan Province, the PRC, with a site area and gross floor area of approximately 255,000 square metres and approximately 223,000 square metres, respectively. After several years of operations, the business performance of Luoyang Market had gradually improved during the financial years ended 31 December 2016 and 2017, while both occupancy rate and vehicles traffic were satisfactory. In 2018, the operation income of Luoyang Market changed from loss to profit and it was awarded "The Most Influential Market" by the Market Development Committee of the Marketing Association of the PRC and the "Model Market of Modern and Reliability" by the Industrial and Commercial Bureau of Luoyang City, the PRC. During the six months ended 30 June 2019, the operating performance of Luoyang Market was satisfactory and contributed positive cash flow to the CAP Group.

5. *Puyang Market*

Puyang Hongjin Agricultural and By-Product Exchange Market (“**Puyang Market**”) is one of the CAP Group’s joint venture projects in cooperation with a local partner in Henan Province, the PRC. While Puyang Market recorded a decrement of approximately 9% in turnover in 2016 as compared to the prior financial year, during 2017 and 2018, its operating performance improved and resulted in an increase of approximately 10% and 22% in turnover as compared to the respective prior financial years. During the six months ended 30 June 2019, Puyang Market recognised property sales and resulted in a growth at a double digit rate in turnover as compared to the corresponding period of the prior financial year.

6. *Kaifeng Market*

Kaifeng Hongjin Agricultural and By-Product Exchange Market (“**Kaifeng Market**”), with a gross floor construction area of approximately 120,000 square metres, was the third point of market operations for facilitating the CAP Group to build an agricultural produce market network in Henan Province, the PRC. During the financial years ended 31 December 2016, 2017 and 2018, the business of Kaifeng Market was behind expectations and CAP had implemented various operating strategies to improve the market performance of Kaifeng Market. During the six months ended 30 June 2019, Kaifeng Market performed steadily and is expected to grow gradually.

***Guangxi Zhuang Autonomous Region***

7. *Yulin Market*

Yulin Hongjin Agricultural and By-Product Exchange Market (“**Yulin Market**”) is one of the largest agricultural produce exchange markets in Guangxi Zhuang Autonomous Region, the PRC (“**Guangxi Region**”) with a site area of approximately 415,000 square metres and a total gross floor area of approximately 196,000 square metres. It consists of various types of market stalls and multi-storey godowns. Phase two development of Yulin Market became a new growth driver for the CAP Group. In 2018, Yulin Market was awarded the “Food Safety Model Wholesale Market of Guangxi Region” by the Food and Medicine Supervision and Management Authority, the Guangxi Region. As an energetic agricultural produce exchange market, Yulin Market’s continuously remarkable performance proved it having become one of the key agricultural produce exchange markets in the Guangxi Region. Yulin Market’s operation performance was encouraging, achieving a revenue growth of approximately 164%, 184% and 27% for the financial years ended 31 December 2016, 2017 and 2018, as compared to the respective prior financial years. One of the main reasons for the revenue growth was the continuous increase in property sales recognition during the said periods. The performance of Yulin Market was satisfactory during the six months ended 30 June 2019, achieving property sales recognition contributed to the CAP Group.

8. *Qinzhou Market*

Qinzhou Hongjin Agricultural and By-Product Exchange Market (“**Qinzhou Market**”), with a gross floor construction area of approximately 180,000 square metres, was the second point of market operations and facilitated the CAP Group to build an agricultural produce market network in the Guangxi Region. During the financial year ended 31 December 2016, approximately HK\$200 million were recognised as property sales income of Qinzhou Market. Although a decrease of approximately 81% was recorded in the turnover of Qinzhou Market for the financial year ended 31 December 2017 as compared to the prior financial year, the CAP Group focused on enhancing the market’s operation performance and it resulted in an increase of approximately 18% in operation turnover of Qinzhou Market in 2018. The performance of Qinzhou Market remained satisfactory during the six months ended 30 June 2019.

*Jiangsu Province*

9. *Xuzhou Market*

Xuzhou Agricultural and By-Product Exchange Market (“**Xuzhou Market**”) occupies approximately 200,000 square metres and is located in the northern part of Jiangsu Province, the PRC. The market houses various market stalls, godowns and cold storage. Xuzhou Market is a major marketplace for the supply of fruit and seafood in the city and the northern part of Jiangsu Province, the PRC. Xuzhou Market recorded a decrease in income in 2016 by approximately 19% to approximately HK\$47,571,000 as compared to the prior financial year. A slight decrease of approximately 3% in revenue was recorded in 2017 and approximately HK\$46 million of revenue was recorded in 2018. The operating performance of Xuzhou Market continued to remain steady during the six months ended 30 June 2019.

10. *Huai’an Market*

Huai’an Hongjin Agricultural and By-Product Exchange Market (“**Huai’an Market**”), with contracted operating area of approximately 100,000 square metres, is located at Huai’an City of Jiangsu Province, the PRC. Phase one of Huai’an Market had been in operation since October 2015 and it was expected that the performance of Huai’an Market will gradually improve after the market has become more mature. As at the Latest Practicable Date, CAP is under a legal dispute with the partner of the joint venture founded in September 2017, the details of which were disclosed in note 19 to the condensed consolidated financial statements in the interim report of CAP for the six months ended 30 June 2019.

*Liaoning Province*

11. *Panjin Market*

Panjin Hongjin Agricultural and By-Product Exchange Market (“**Panjin Market**”), with a construction area of around 50,000 square metres, is the first attempt of the CAP Group’s investment in Liaoning Province, the PRC. Panjin Market focused on the trading of river crabs and was still in the preliminary stage of operation development during the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019. In 2018, CAP expanded the business scope by holding regular market fairs in Panjin Market to improve its performance. It is expected that the performance of Panjin Market will gradually improve after the market has become more mature.



### Food and agricultural by-products merchandising

As more and more projects had become mature with stable operation, the CAP Group saw robust demand for food and agricultural by-products merchandising services in their markets. Therefore, the CAP Group has been strategically extending its footprints to the business of food and agricultural by-products merchandising. Leveraging on their advantages in market penetration, products knowledge, price, quality sensitivity and suppliers' network, the CAP Group launched its first pilot site in Wuhan Baisazhou Market. This new business was gradually improving. The management of the CAP Group would closely monitor the performance of this new business and would launch this new service to other markets when the business model becomes mature.

### E-commerce development

With the robust mobile network and widespread use of intelligent mobile devices in the PRC, the CAP Group has put limited resources into e-commerce development linking online and offline customers in their agricultural exchange markets together. The CAP Group takes cautious cost control on e-business operations and will also explore opportunities to cooperate with other business partners in this area.

## FINANCIAL REVIEW

### Turnover, gross profit and segment result

The below table summarises the key financial performance of the CAP Group for the periods indicated below:

<i>HK\$ million and approximate %</i>	For the year ended 31 December 2016			For the year ended 31 December 2017			For the year ended 31 December 2018			For the six months ended 30 June 2019		
	Agricultural Produce Exchange		Property Sales	Agricultural Produce Exchange		Property Sales	Agricultural Produce Exchange		Property Sales	Agricultural Produce Exchange		Property Sales
	Market	Operation		Market	Operation		Market	Operation		Market	Operation	
	Total	Total	Total	Total	Total	Total	Total	Total				
Turnover	325	278	603	341	449	790	379	400	779	196	266	462
Gross Profit	216	93	309	238	103	341	278	113	391	136	83	219
Segment Result	58	77	135	102	77	179	126	73	199	91	43	134
Gross Profit to Turnover	66%	33%	51%	70%	23%	43%	73%	28%	50%	69%	31%	47%
Segment Result to Turnover	18%	28%	22%	30%	17%	23%	33%	18%	26%	46%	16%	29%

For the financial year ended 31 December 2017, the CAP Group recorded a turnover of approximately HK\$790 million, an increase of approximately HK\$187 million or approximately 31% increase from approximately HK\$603 million for the corresponding period in 2016. The increase in income was mainly due to the increase in properties sales of recognition of the agricultural and by-product exchange markets in Yulin City and Kaifeng City in the PRC. For the financial year ended 31 December 2017, the CAP Group recorded a gross profit and a segment result of approximately HK\$341 million and approximately HK\$179 million, respectively, as compared to approximately HK\$309 million and approximately HK\$135 million, respectively, for the financial year ended 31 December 2016, representing an increase of approximately 10% and approximately 33%, respectively, due to the abovementioned increase in property sales recognition.

The CAP Group recorded a turnover of approximately HK\$779 million for the financial year ended 31 December 2018, representing a decrease of approximately 1% as compared to approximately HK\$790 million for the corresponding period in 2017 mainly due to the decrease in property sales recognition. The CAP Group recorded a gross profit and a segment result of approximately HK\$391 million and approximately HK\$199 million, respectively, for the financial year ended 31 December 2018, as compared to approximately HK\$341 million and approximately HK\$179 million, respectively, for the prior financial year, representing an increase of approximately 15% and an increase of approximately 11%, respectively. This increase in gross profit and segment result was mainly due to increase in rental income and implementation of effective cost saving policies.

For the six months ended 30 June 2019, the CAP Group recorded a turnover of approximately HK\$462 million, representing an increase of approximately HK\$135 million or approximately 41% from approximately HK\$327 million for the corresponding period of the prior financial year as property sales recognition was higher than that of the same period of prior financial year. The CAP Group recorded a gross profit and a segment result of approximately HK\$219 million and approximately HK\$134 million, respectively, representing an increase of approximately 7% and a decrease of approximately 1%, respectively, as compared to the corresponding period of the prior financial year mainly due to higher property sales recognition with a lower gross profit ratio.

#### **Other revenue and other net income**

Other revenue and other net income recorded by the CAP Group decreased from HK\$65 million to HK\$15 million for the financial year ended 31 December 2017 as compared to the prior financial year. The decrease was mainly due to the decrease in government subsidies from Huai'an Market and Kaifeng Market in 2017 as compared to the prior financial year.

The CAP Group recorded other revenue and other net income of approximately HK\$21 million for the financial year ended 31 December 2018, as compared to approximately HK\$15 million for the prior financial year. The increase was mainly due to increase in interest income.

#### **General and administrative expenses, selling expenses and finance costs**

For the financial year ended 31 December 2017, general and administrative expenses recorded by the CAP Group were approximately HK\$239 million (2016: approximately HK\$288 million). The decrease was mainly due to tight control of operating expenses in various projects. Selling expenses were approximately HK\$44 million (2016: approximately HK\$50 million). The decrease in selling expenses was mainly due to the implementation of cost saving policies in the CAP Group's marketing and promotion events in 2017. Finance costs were approximately HK\$272 million (2016: approximately HK\$269 million) and such increase was mainly due to the slight increase in effective interest rate of interest-bearing debts.

For the financial year ended 31 December 2018, general and administrative expenses recorded by the CAP Group were approximately HK\$235 million (2017: approximately HK\$239 million). The decrease was mainly due to the implementation of cost saving policies. Selling expenses were approximately HK\$50 million (2017: approximately HK\$44 million). The increase in selling expenses was mainly due to the increase in the sales and promotion activities in 2018. Finance costs were approximately HK\$212 million (2017: approximately HK\$272 million) and such decrease was mainly due to the early repayments of debts.

The CAP Group recorded general and administrative expenses of approximately HK\$92 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately HK\$90 million). The increase was mainly due to the loss on exchange rate arising from repaying outstanding debts. Selling expenses were approximately HK\$39 million (for the six months ended 30 June 2018: approximately HK\$11 million), which was mainly due to the increase in marketing and promotion expenses of promoting property sales. Finance costs were approximately HK\$94 million (for the six months ended 30 June 2018: approximately HK\$111 million) and such decrease was mainly due to the repayment of bank and other borrowings.

#### **Net gain/loss in fair value of investment properties and written down of stock of properties**

For the financial year ended 31 December 2017, the net gain in fair value of investment properties amounted to approximately HK\$52 million (2016: net loss of approximately HK\$594 million), mainly due to the improvement of agri-products exchange markets income in the PRC. Stock of properties value was written down for approximately HK\$83 million (2016: approximately HK\$17 million), mainly due to the decrease in property value in Panjin Market.

For the financial year ended 31 December 2018, the net gain in fair value of investment properties was approximately HK\$5 million (2017: net gain of approximately HK\$52 million). The decrease in the net gain was mainly due to decrease in fair value of Kaifeng Market and Huai'an Market. Stock of properties value was written down for approximately HK\$67 million (2017: approximately HK\$83 million) mainly due to written down of stock of properties of Kaifeng Market, Huai'an Market and Panjin Market.

For the six months ended 30 June 2019, the net change in fair value of investment properties was approximately HK\$60 million (for the six months ended 30 June 2018: net change of approximately HK\$6 million). Such increase was mainly due to the improvement of income derived from Wuhan Baisazhou Market and Luoyang Market. No stock of properties value was impaired during the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately HK\$32 million). The fair value was arrived at based on the valuations carried out by an independent firm of qualified professional valuers. The professional valuers are professional members of The Hong Kong Institute of Surveyors and the valuations conform to the Valuation Standard of The Hong Kong Institute of Surveyors.

#### **Change in fair value of derivative financial instruments**

During the financial year ended 31 December 2017, net loss in fair value of derivative financial instruments was approximately HK\$77 million (2016: approximately HK\$2 million) due to the exercise of conversion rights under the Convertible Notes and the drop of share price of CAP during the year of 2017.

During the financial year ended 31 December 2018, net loss in fair value of derivative financial instruments was approximately HK\$18 million (2017: approximately HK\$77 million) due to the drop of share price of CAP during the year of 2018.

During the six months ended 30 June 2019, net gain in fair value of derivative financial instruments was approximately HK\$69,000 (for the six months ended 30 June 2018: net loss of approximately HK\$13 million) due to the rise of share prices of CAP during the period.

**Profit/loss attributable to owners of CAP**

The loss attributable to owners of CAP for the financial year ended 31 December 2017 was approximately HK\$341 million as compared to the prior financial year's loss of approximately HK\$741 million. The CAP Group recorded profit from operations before fair value changes and impairment of approximately HK\$74 million and loss from operations of approximately HK\$30 million (2016: profit of approximately HK\$37 million and loss of approximately HK\$583 million, respectively) for the financial year ended 31 December 2017. The decrease in loss attributable to owners of CAP was mainly due to a turnaround from net loss in 2016 to net gain in 2017 attributable to fair value of investment properties.

The loss attributable to owners of CAP for the financial year ended 31 December 2018 was approximately HK\$213 million as compared to the loss of approximately HK\$341 million in the prior financial year. Profit from operations before fair value changes and impairment, interest and tax was approximately HK\$127 million and the profit from operations was approximately HK\$98 million (2017: profit of approximately HK\$74 million and loss of approximately HK\$30 million, respectively) for the financial year ended 31 December 2018. The decrease in loss attributable to owners of CAP was mainly due to (i) an increase in gain from disposal of subsidiaries holding a parcel of land; (ii) a decrease in finance costs by early repayment of debts during 2018; and (iii) a decrease in loss in fair value of derivative financial instruments arising from the Convertible Notes, as compared to the financial year ended 31 December 2017.

The profit attributable to owners of CAP for the six months ended 30 June 2019 was approximately HK\$8 million as compared to loss attributable to owners of CAP of approximately HK\$87 million in the corresponding period of the prior financial year. The CAP Group recorded profit from operations before fair value change of investment properties and impairment of approximately HK\$98 million and profit from operations of approximately HK\$158 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately HK\$111 million and approximately HK\$81 million, respectively). The profit attributable to owners of CAP was mainly due to the net gain in fair value of investment properties and derivative financial assets and decrease in impairment of stock of properties.

**Liquidity and financial resources**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the CAP Group had total cash and cash equivalents amounting to approximately HK\$330 million, HK\$514 million, HK\$488 million and HK\$397 million, respectively. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the total assets of the CAP Group were approximately HK\$5,957 million, HK\$6,111 million, HK\$5,604 million and HK\$5,421 million, respectively, whilst total net assets of the CAP Group amounted to approximately HK\$1,159 million, HK\$1,958 million, HK\$1,595 million and HK\$1,606 million, respectively. The gearing ratio of the CAP Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 were approximately 2.3, 1.0, 1.0 and 1.0, respectively, being a ratio of total bank and other borrowings, bonds and promissory notes of approximately HK\$2,993 million, HK\$2,553 million, HK\$2,085 million and HK\$1,920 million, respectively, net of cash and cash equivalents and/or pledged bank deposits of approximately HK\$330 million, HK\$514 million, HK\$488 million and HK\$397 million, respectively, to shareholders' funds of approximately HK\$1,159 million, HK\$1,958 million, HK\$1,595 million and HK\$1,606 million, respectively.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the ratio of total interest-bearing debts of approximately HK\$2,993 million, HK\$2,553 million, HK\$2,085 million and HK\$1,920 million, respectively, to total assets of approximately HK\$5,957 million, HK\$6,111 million, HK\$5,604 million and HK\$5,421 million, respectively, was approximately 50%, 42%, 37% and 35%, respectively.

**Convertible Notes**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Convertible Notes with the outstanding principal amount of HK\$500.0 million, HK\$264.8 million, HK\$264.8 million and HK\$264.8 million was in issue, respectively.

**Listed notes due in 2024 (the “Listed Notes”)**

In May 2014, CAP established a HK\$1,000,000,000 medium term note program. The Listed Notes issued under the program are listed on the Stock Exchange by way of debt issue to professional investors only (stock code: 5755). As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Listed Notes in the principal amount of HK\$400 million, HK\$400 million, HK\$290 million and HK\$290 million, respectively, remained outstanding.

**Capital commitments, pledges and contingent liabilities**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, outstanding capital commitments, contracted but not provided for, amounted to approximately HK\$194 million, HK\$260 million, HK\$214 million and HK\$247 million, respectively, in relation to the purchase of property, plant and equipment, construction contracts and operating lease agreements. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the CAP Group had significant contingent liabilities in the amount of approximately HK\$15 million, HK\$8 million, HK\$0.2 million and HK\$0.2 million, respectively, in relation to the guarantees provided by a wholly-owned subsidiary of CAP to customers of the CAP Group in favor of a bank for the loans provided by the bank to the customers of the CAP Group’s project.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, certain investment properties and stock of properties with carrying amount of approximately HK\$2,269 million, HK\$2,345 million, HK\$1,669 million and HK\$1,623 million were pledged to secure certain bank borrowings.

The CAP Group did not have any outstanding foreign exchange contracts, interest or currency swaps or other financial derivatives as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. The revenue, operating costs and bank deposits of the CAP Group were mainly denominated in RMB and Hong Kong dollars. The activities of the CAP Group are exposed to foreign currency risks mainly arising from its operations in mainland China and certain bank deposits denominated in RMB. Currently, the CAP Group does not have a foreign currency hedging policy. During the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, due to the currency fluctuation of RMB against Hong Kong dollars, the CAP Group has been considering, from time to time, alternative risk hedging tools to mitigate RMB currency exchange risk.

**Debt profiles and financial planning**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the interest-bearing debts of the CAP Group were analysed as follows:

	2016		31 December 2017		2018		30 June 2019	
	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>
Bonds Issuance	1,336	11%	1,255	11%	1,026	11%	968	11%
Convertible Notes	413	12%	226	12%	235	12%	239	12%
Financial Institution								
Borrowings	707	6%	672	6%	448	6%	337	6%
Non-Financial Institution								
Borrowings	161	11%	24	10%	0	0%	0	0%
Promissory Notes	<u>376</u>	5%	<u>376</u>	5%	<u>376</u>	5%	<u>376</u>	5%
Total	<u>2,993</u>		<u>2,553</u>		<u>2,085</u>		<u>1,920</u>	

*Note:* Save as the financial institution borrowings which were made in RMB with floating or fixed interest rates, other items as mentioned in the above table were made in Hong Kong dollars or RMB with fixed interest rates.

As at 31 December 2018, the bonds issued by CAP will mature during the period from November 2019 to September 2024; the Convertible Notes will mature in October 2021; the financial institution borrowings of CAP will mature during the period from January 2019 to November 2023; and the holders of the promissory notes have given an undertaking not to indorse, assign, transfer or negotiate the promissory notes and enforce payment by presentation of the promissory notes until the final determination of a court action or further court order. Under the said undertaking, the promissory notes will no longer fall due for payment by CAP on 5 December 2012. Details of the undertaking and the court case were disclosed in note 36 to the consolidated financial statements in the annual report of CAP for the financial year ended 31 December 2018. In order to meet interest-bearing debts and business capital expenditure, the CAP Group is, from time to time, considering various financing alternatives, as and when appropriate, including equity and debt financing including but not limited to new share placing, rights issue of new shares, financial institution borrowings, non-financial institution borrowings, bonds issuance, convertible notes, other debt financial instruments, disposal of investment properties and sales of stock of properties.

**Treasury policy**

The CAP Group's treasury policy includes diversifying the funding sources. Internally generated cash flow, issuance of shares and interest-bearing bank/non-financial institution loans are the general source of funds to finance the operation of the CAP Group. The CAP Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. In order to meet interest-bearing debts and business capital expenditure, the CAP Group is from time to time considering various alternatives including equity and debt financing including but not limited to new share placing, rights issue of new shares, financial institution borrowings, non-financial institution borrowings, bonds issuance, convertible notes, other debt financial instruments, disposal of investment properties and sales of stock of properties.

**Contractual arrangement of e-commerce business**

Shenzhen Gudeng Technology Limited (“**Shenzhen Gudeng**”), established in 2015, was an indirectly-owned subsidiary of the CAP Group carrying out the business of e-commerce and electronic trading platform of the CAP Group. For the compliance of the PRC regulatory requirements, on 11 July 2016, the CAP Group entered into an agreement to transfer its entire interest in Shenzhen Gudeng to a nominee shareholder and further entered into a series of contractual arrangements after obtaining the Internet Content Provider license issued by the Communication Authority of Guangdong Province to enable the CAP Group to manage and operate the Internet Content Provider services of Shenzhen Gudeng. Details of the disposal and the contractual arrangements were disclosed in CAP's announcements dated 11 July 2016 and 11 October 2016, respectively. As at the Latest Practicable Date, the above said contractual arrangements were still valid and effective between the nominee shareholder and the CAP Group.

**Fund raising activities***Issue of the Convertible Notes in 2016*

On 23 August 2016, CAP entered into a notes placing agreement with Kingston Securities in relation to the placing of the Convertible Notes in the aggregate principal amount of HK\$360 million convertible into 900,000,000 convertible shares at the conversion price of HK\$0.40 per convertible share in CAP (the “**Notes Placing**”). On the same date, CAP entered into a note subscription agreement with Peony Finance, pursuant to which CAP agreed to issue to Peony Finance the Convertible Notes in the principal amount of HK\$140 million convertible into 350,000,000 convertible shares at the conversion price of HK\$0.40 per convertible share in CAP (the “**EOG Note Subscription**”). The total net proceeds of approximately HK\$488 million were utilised as intended, of which (i) approximately HK\$200 million was utilized for the repayment of the bonds due in 2016; (ii) approximately HK\$40 million was utilized for offsetting part of the principal amount of the 2019 Bonds; (iii) approximately HK\$100 million was utilized towards the offsetting of the outstanding principal amounts and interest of loan from a subsidiary of EOG; (iv) approximately HK\$100 million was utilised for the repayment of principal amount and interest of interest-bearing debts; and (v) approximately HK\$48 million was utilized for general working capital of the CAP Group, major components of which were operating expenses, such as rental expenses, marketing expenses and salary expenses. Further details of the Notes Placing and the EOG Note Subscription were set out in the announcement of CAP dated 23 August 2016 and the circular of CAP dated 15 September 2016.

During the financial year ended 31 December 2017, the principal amount of HK\$198.2 million of the Convertible Notes were converted into 495,500,000 CAP Shares by the Convertible Noteholders and the principal amount of HK\$37 million of the Convertible Notes held by Peony Finance was offset by part of the net proceeds from the 2017 CAP Rights Issue.

### ***2017 CAP Rights Issue***

On 4 October 2017, CAP announced a rights issue on the basis of five rights shares for every one existing share at a price of HK\$0.088 per rights share. The aggregate net proceeds of approximately HK\$697 million were utilized as intended, of which (i) approximately HK\$110 million was utilised for offsetting of outstanding principal amounts of the 2019 Bonds issued by CAP to Peony Finance as intended; (ii) approximately HK\$37 million was utilized for offsetting of outstanding principal amounts of the Convertible Notes held by Peony Finance as intended; (iii) approximately HK\$100 million was utilised for repayment of outstanding principal amounts on loans of the CAP Group due to a subsidiary of WOG as intended; (iv) approximately HK\$205 million was utilised for repayment of outstanding interests accrued on the bonds, loans and the Convertible Notes held by/owed to the subsidiaries of EOG, WOG and the Company as intended; (v) approximately HK\$235 million was utilised for repayment of outstanding indebtedness of the CAP Group owed to independent third parties as intended and; (vi) approximately HK\$10 million was utilised for the general working capital of the CAP Group as intended. Further details of the 2017 CAP Rights Issue were set out in the announcements of CAP dated 4 October 2017, 26 October 2017, 14 November 2017, 15 November 2017 and 18 December 2017 and the circular of CAP dated 26 October 2017 and the prospectus of CAP dated 27 November 2017, respectively.

### **Significant investments held, material acquisitions and disposals of subsidiaries**

#### ***Repurchase and cancellation of notes***

During the period from January to March 2018, CAP completed the purchase of and subsequently cancelled part of the outstanding Listed Notes in the aggregate principal amount of HK\$110 million. As at 30 June 2019, the Listed Notes in the principal amount of HK\$290 million remained outstanding.

#### ***Disposal of subsidiaries holding a parcel of land in Yulin city***

On 23 August 2018, an indirect wholly-owned subsidiary of CAP entered into a sale and purchase agreement with an independent third party to sell the entire issued share capital of an indirect wholly-owned subsidiary of CAP at the consideration of RMB78 million (equivalent to approximately HK\$88 million). This subsidiary indirectly held a parcel of land with a total site planned area of 73,333.51 square metres in Yulin City, the PRC. The disposal was completed on 10 October 2018, in which the CAP Group recorded a gain of approximately HK\$40 million arising from the disposal. The net proceeds (after deducting other expenses in relation thereto and the relevant tax) arising from such disposal were approximately RMB72.7 million (equivalent to approximately HK\$82.4 million), in which approximately HK\$70 million was utilised for repayment of indebtedness and related interest and approximately HK\$12.4 million was utilised for general working capital.



**Litigation**

References were made to the announcements of CAP dated 11 January 2011, 22 May 2012, 19 June 2014, 4 July 2014, 13 January 2015, 14 January 2015, 28 May 2015, 8 January 2016, 11 January 2016, 24 May 2016, 31 August 2016, 19 April 2017, 11 May 2017 and 27 December 2018 in relation to the civil proceedings (the “**Legal Proceedings**”) in the PRC initiated by Ms. Wang Xiu Qun (“**Ms. Wang**”) and Wuhan Tian Jiu Industrial and Commercial Development Co., Ltd (“**Tian Jiu**”) as plaintiffs against CAP as defendant and joined Wuhan Baisazhou Agricultural By-Product Grand Market Company Limited (“**Baisazhou Agricultural**”) as third party.

Ms. Wang and Tian Jiu alleged that the share transfer agreements in relation to the acquisition of an aggregate of 90% interest in Baisazhou Agricultural by CAP from Ms. Wang as to 70% thereof and Tian Jiu as to 20% thereof (the “**Contended Agreements**”) were forged. They sought an order from the Higher People’s Court of Hubei Province, the PRC (the “**Hubei Court**”) that the Contended Agreements were void and invalid from the beginning and should be terminated and claimed against CAP and Baisazhou Agricultural all relevant profits of Baisazhou Agricultural which were attributable to Ms. Wang and Tian Jiu, together with costs of the Legal Proceedings.

CAP received the judgment from the Hubei Court in relation to the Legal Proceedings (the “**Hubei Court Judgment**”) in June 2014. By the Hubei Court Judgment, the Hubei Court dismissed the claims of Ms. Wang and Tian Jiu, and ordered Ms. Wang and Tian Jiu to bear the legal costs of the Legal Proceedings. Ms. Wang and Tian Jiu filed an appeal notice to the Supreme People’s Court of the PRC (the “**Supreme Court**”). On 13 January 2015, CAP received the judgment (the “**Beijing Judgment**”) handed down from the Supreme Court in relation to Ms. Wang and Tian Jiu’s appeal against the Hubei Court Judgment. The Supreme Court ordered that (i) the Hubei Court Judgment be revoked; (ii) the Contended Agreements were void; and (iii) acknowledged that the HK\$1,156 million sale and purchase agreement (the “**SPA**”) shall be the actual agreement being performed by CAP, Ms. Wang and Tian Jiu.

In May 2015, Ms. Wang and Tian Jiu jointly commenced legal proceedings against the Ministry of Commerce (“**MOFCOM**”) of the PRC alleging that MOFCOM failed to discharge its statutory duties for handling their application submitted in January 2015 for revoking the certificate of approval and letter of approval in relation to the Contended Agreements (the “**Application**”). The cases were accepted by the Beijing Second Intermediate People’s Court (the “**Beijing Court**”) in May 2015. CAP and Baisazhou Agricultural then made an application to join the cases as third party. CAP received a judgment dated 31 December 2015 on 8 January 2016 issued by the Beijing Court, by which the Beijing Court demanded MOFCOM to handle the Application again within 30 days.

CAP received a decision (the “**Decision**”) on 23 May 2016 issued by MOFCOM dated 19 May 2016 to the effect, among other things, that its approval issued in November 2007 (the “**Approval**”) in relation to the Contended Agreements shall not be revoked and shall remain to be in force. In making the Decision, MOFCOM considered that the revocation of the Approval as requested by Ms. Wang and Tian Jiu may cause serious damage to the public interest.

Upon the making of the Decision by MOFCOM that the Approval shall not be revoked and shall remain in force in August 2016, CAP noted that Ms. Wang and Tian Jiu had brought another administrative proceedings (the “**Administrative Proceedings**”) to the Beijing Court. According to a writ dated 3 August 2016, Ms. Wang and Tian Jiu requested the Beijing Court to revoke the Decision and to order MOFCOM to make a decision to revoke the Approval. According to a notice issued by the Beijing Court dated 26 August 2016 together with the writ which was served to CAP on 30 August 2016, each of CAP and Baisazhou Agricultural has been added as third party by the Beijing Court to the Administrative Proceedings.

On 18 April 2017, CAP received the judgment of the Beijing Court dated 31 March 2017 (the “**31 March Judgment**”) stating that the request made by Ms. Wang and Tian Jiu to revoke the Decision lacked both legal and factual basis and was not supported by the Beijing Court. Accordingly, the Beijing Court dismissed the application of Ms. Wang and Tian Jiu.

On 10 May 2017, CAP received a notice of appeal dated 8 May 2017 (the “**Notice of Appeal**”). By the Notice of Appeal, Ms. Wang and Tian Jiu appealed against the 31 March Judgment and requested for an order that (a) the 31 March Judgment be set aside and (b) MOFCOM to make a decision to revoke the Approval.

The hearing for the appeal against the 31 March Judgment took place on 30 August 2017. CAP received the judgment of the Beijing High People’s Court dated 20 December 2018 (the “**20 December Judgment**”) on 24 December 2018. By the 20 December Judgment, the Beijing High People’s Court dismissed the appeal of Ms. Wang and Tian Jiu and upheld the ruling of the Beijing Second Intermediate People’s Court as set out in the 31 March Judgment. In other words, the Approval shall not be revoked and remain to be in force, and CAP continues to be the legal and beneficial owner of Baisazhou Agricultural under the PRC Laws.

Separately, in May 2015, in view of the Beijing Judgment, CAP issued a writ against Ms. Wang and Tian Jiu which was accepted by the Hubei Court. CAP sought an order from the Hubei Court that Ms. Wang and Tian Jiu shall assist Baisazhou Agricultural to discharge its contractual duties under the SPA to make the necessary filing with MOFCOM.

On 10 May 2017, Ms. Wang and Tian Jiu applied to the Hubei Court for a freezing order in respect of CAP’s 70% interest in Baisazhou Agricultural. According to the order of the Hubei Court dated 26 May 2017 (the “**26 May Order**”), the Hubei Court granted a freezing order as against CAP’s 70% interest in Baisazhou Agricultural. CAP then applied for review of the 26 May Order which was dismissed by the Hubei Court on 12 June 2017.

On 26 May 2017, Ms. Wang and Tian Jiu applied to add a counterclaim for return of CAP’s 90% interest in Baisazhou Agricultural (70% for Ms. Wang and 20% for Tian Jiu).

On 10 April 2019, in light of the outcome of the legal proceedings against MOFCOM by Ms. Wang and Tian Jiu, CAP applied to the Hubei Court for withdrawal of its claim. On 11 April 2019, CAP’s application was granted. The counterclaim made by Ms. Wang and Tian Jiu on 26 May 2017 is still being heard by the Hubei Court.

As advised by the PRC legal advisors of CAP, (i) the Supreme Court only ordered the Contended Agreements void, but it did not make any ruling regarding the acquisition; and (ii) the Beijing Judgment will not directly lead to any immediate change of ownership of Baisazhou Agricultural. CAP continues to be the legal owner of Baisazhou Agricultural until and unless the revocation of: (a) the Approval; and (b) the registration of the transfer of shareholding by the Hubei Province Administration for Industry and Commerce. CAP will take all necessary actions in the PRC as advised by its PRC legal advisors in response to the Beijing Judgment.

For other detailed information of the litigation cases, please refer to note 19 to the condensed consolidated financial statements in the interim report of CAP for the six months ended 30 June 2019.

#### **Number of employees and remuneration policy**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the CAP Group had 1,698, 1,355, 1,229 and 1,183 employees, respectively, approximately 98% of whom were located in the PRC. The CAP Group's remuneration policy was reviewed periodically by the remuneration committee of CAP and the remuneration of the CAP Board is determined by reference to market terms, company performance, and individual qualifications and performance. The CAP Group aimed to recruit, retain and develop competent individuals who were committed to the CAP Group's long-term success and growth. Remunerations and other benefits of the employees were reviewed annually in response to both market conditions and trends, and were based on qualifications, experience, responsibilities and performance. CAP has adopted a share option scheme on 3 May 2012 for the primary purpose of providing incentive to selected eligible persons to take up options for their contribution to the CAP Group. During the financial years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, no share option had been granted.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The following is an illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, unaudited pro forma consolidated statement of cash flow (collectively, the “**Unaudited Pro Forma Financial Information**”) of Wai Yuen Tong Medicine Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”), as enlarged by the proposed acquisition of a maximum of 54.83% equity interest in China Agri-Products Exchange Limited (“**CAP**”) and its subsidiaries (collectively, “**CAP Group**”), proposed acquisition of a maximum of 54.83% of the outstanding principal amount of the convertible notes issued by CAP (“**CN**”) and provision of loans of a principal amount of HK\$621,000,000 to CAP for a period of three years for the purpose of refinancing the outstanding amount of the five-year 10.0% coupon bonds issued by CAP on 28 November 2014 (“**CAP Bonds**”) held by the Group (collectively, the “**Proposed Transactions**”). The Group as enlarged by the Proposed Transactions are hereafter collectively referred to as the (“**Enlarged Group**”). The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company (the “**Directors**”) in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the Proposed Transactions to the Group.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate: (a) the financial position of the Enlarged Group as if the Proposed Transactions had been completed on 31 March 2019 and (b) the results and cash flows of the Enlarged Group for the year ended 31 March 2019 as if the Proposed Transactions had been completed on 1 April 2018.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Transactions been completed on 31 March 2019 or any future date or the results and cash flows of the Enlarged Group for the year ended 31 March 2019 had the Proposed Transactions been completed on 1 April 2018 or any future date.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2019, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2019, which have been extracted from the published 2019 annual report of the Company, and the audited consolidated statement of financial position of the CAP Group as at 31 December 2018, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the CAP Group for the year ended 31 December 2018, which have been extracted from annual report of CAP, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments						Unaudited	
	for the year ended 31 March 2019	for the year ended 31 December 2018	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	pro forma of the Enlarged Group	
	Note 1	Note 1	Note 2(b)	Note 2(c)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)	
<b>REVENUE</b>	751,443	778,857								1,530,300
Cost of sales	(449,915)	(387,962)								(837,877)
Gross profit	301,528	390,895								692,423
Other income and gains	115,671	21,313	331,267		(86,162)	(1,179)				380,910
Selling and distribution expenses	(281,769)	(50,356)								(332,125)
Administrative expenses	(166,170)	(234,876)				1,562				(399,484)
Reversal of impairment losses/ (impairment losses) on financial assets, net	82,767	-						(83,895)		(1,128)
Other expenses	(6,205)	-							(6,320)	(12,525)
Finance costs	(28,553)	(211,702)			86,162		15,526			(138,567)
Fair value gains/(losses) on financial assets at fair value through profit or loss, net	593	(17,687)					9,698			(7,396)
Fair value gains on investment properties, net	17,445	4,507								21,952
Written down of stock of properties	-	(66,371)								(66,371)
Share of profit on joint venture	-	10,352								10,352
Gain on disposal of subsidiaries	-	39,846								39,846
Share of profits and losses of associates	46,387	-								46,387
PROFIT/(LOSS) BEFORE TAX	81,694	(114,079)								234,274
Income tax expense	(7,448)	(65,240)								(72,688)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>74,246</b>	<b>(179,319)</b>								<b>161,586</b>

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments						Unaudited
	for the	for the							pro forma
	year ended	year ended							of the
	31 March	31 December							Enlarged
	2019	2018							Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(b)	Note 2(c)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)
OTHER COMPREHENSIVE INCOME/(LOSS)									
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:									
Debt investments at fair value through other comprehensive income:									
Changes in fair value	(3,198)	-					7,810		4,612
Reclassification adjustments for losses included in profit or loss:									
Impairment losses/(reversal of impairment losses)	(80,353)	-					81,102		749
	<u>(83,551)</u>	<u>-</u>							<u>5,361</u>
Share of other comprehensive income/(loss) of associates	(26,917)	-							(26,917)
Translation reserves:									
Translation of foreign operations	(13,326)	(184,698)							(198,024)
Release of exchange differences upon disposal of subsidiaries	-	1,353							1,353
	<u>(13,326)</u>	<u>(183,345)</u>							<u>(196,671)</u>
Net other comprehensive income/ (loss) that may be reclassified to profit or loss in subsequent periods	<u>(123,794)</u>	<u>(183,345)</u>							<u>(218,227)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:									
Share of other comprehensive loss of an associate	(4,240)	-							(4,240)
Equity investments at fair value through other comprehensive income:									
Changes in fair value	(39,296)	-							(39,296)
Deferred tax	3,521	-							3,521

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments							Unaudited
	for the	for the								pro forma
	year ended	year ended								of the
	31 March	31 December								Enlarged
	2019	2018								Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(b)	Note 2(c)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)	
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(40,015)	-								(40,015)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(163,809)	(183,345)								(258,242)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(89,563)</u>	<u>(362,664)</u>								<u>(96,656)</u>
Profit/(loss) attributable to:										
Owners of the parent	74,627	(212,596)	331,267	96,033	(38,921)	(323)	13,830	(83,895)	(5,769)	174,253
Non-controlling interests	<u>(381)</u>	<u>33,277</u>	-	(96,033)	38,921	706	11,394	-	(551)	<u>(12,667)</u>
	<u>74,246</u>	<u>(179,319)</u>	331,267	-	-	383	25,224	(83,895)	(6,320)	<u>161,586</u>
Total comprehensive loss attributable to:										
Owners of the parent	(88,025)	(378,013)	331,267	170,755	(38,921)	(323)	13,830	5,017	(5,769)	9,818
Non-controlling interests	<u>(1,538)</u>	<u>15,349</u>	-	(170,755)	38,921	706	11,394	-	(551)	<u>(106,474)</u>
	<u>(89,563)</u>	<u>(362,664)</u>	331,267	-	-	383	25,224	5,017	(6,320)	<u>(96,656)</u>

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE  
ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments					Unaudited
	as at 31 March 2019	as at 31 December 2018	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	pro forma of the Enlarged Group
	<i>Note 1</i>	<i>Note 1</i>	<i>Note 2(a)</i>	<i>Note 2(b)</i>	<i>Note 2(d)</i>	<i>Note 2(h)</i>	<i>Note 2(i)</i>	HK\$'000
<b>NON-CURRENT ASSETS</b>								
Property, plant and equipment	957,323	52,768	(218)					1,009,873
Investment properties	558,000	3,165,921						3,723,921
Intangible assets	–	6,061	3,579					9,640
Investment in associates	329,584	–						329,584
Financial assets at fair value through other comprehensive income	228,623	–						228,623
Deposits paid	21,702	–						21,702
Deferred tax assets	10,122	–						10,122
Total non-current assets	<u>2,105,354</u>	<u>3,224,750</u>						<u>5,333,465</u>
<b>CURRENT ASSETS</b>								
Inventories	161,508	–						161,508
Stock of properties	–	1,597,574	210,392					1,807,966
Trade and bills receivables	92,210	7,907						100,117
Loans and interest receivables	24,031	40,327						64,358
Prepayments, deposits and other receivables	46,298	242,524			(20,326)			268,496
Financial assets at fair value through other comprehensive income	710,788	–			(686,877)			23,911
Financial assets at fair value through profit or loss	21,289	2,175		(1,156)				22,308
Tax recoverable	1,157	–						1,157
Cash and cash equivalents	<u>171,209</u>	<u>488,415</u>		(529,627)	(44,904)		(6,320)	<u>78,773</u>
	1,228,490	2,378,922						2,528,594
Assets classified as held for sale	<u>120,826</u>	<u>–</u>						<u>120,826</u>
Total current assets	<u>1,349,316</u>	<u>2,378,922</u>						<u>2,649,420</u>



**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments					Unaudited
	as at	as at						pro forma of
	31 March	31 December	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	the Enlarged
	2019	2018	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(a)	Note 2(b)	Note 2(d)	Note 2(h)	Note 2(i)	
<b>CURRENT LIABILITIES</b>								
Trade payables	35,959	–						35,959
Other payables and accruals	107,839	776,193	39		(6,927)			877,144
Contract liabilities	–	652,362						652,362
Bonds	–	844,055	22,976		(758,907)	(89,000)		19,124
Promissory notes	–	376,000						376,000
Interest-bearing bank and other borrowings	232,290	328,036						560,326
Tax payable	4,896	73,639						78,535
	<u>380,984</u>	<u>3,050,285</u>						<u>2,599,450</u>
Liabilities directly associated with the assets classified as held for sale	<u>361</u>	<u>–</u>						<u>361</u>
Total current liabilities	<u>381,345</u>	<u>3,050,285</u>						<u>2,599,811</u>
<b>NET CURRENT ASSETS</b>	<u>967,971</u>	<u>(671,363)</u>						<u>49,609</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>3,073,325</u>	<u>2,553,387</u>						<u>5,383,074</u>
<b>NON-CURRENT LIABILITIES</b>								
Interest-bearing bank and other borrowings	619,937	120,003				89,000		828,940
Bonds	–	182,192	(16,687)					165,505
Convertible bonds	–	234,747	7,996	(133,096)				109,647
Deferred tax liabilities	3,416	421,081	63,573					488,070
Other payables	1,883	–						1,883
Total non-current liabilities	<u>625,236</u>	<u>958,023</u>						<u>1,594,045</u>
Net assets	<u>2,448,089</u>	<u>1,595,364</u>						<u>3,789,029</u>

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments				Unaudited
	as at 31 March 2019	as at 31 December 2018	HK\$'000	HK\$'000	HK\$'000	HK\$'000	pro forma of the Enlarged Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(a)	Note 2(b)	Note 2(d)	Note 2(h)	Note 2(i)
<b>EQUITY</b>							
<b>Equity attributable to owners</b>							
<b>of the parent</b>							
Share Capital	12,316	99,531		(99,531)			12,316
Reserve	<u>2,431,802</u>	<u>1,109,440</u>	120,550	(898,723)	13,727	(5,769)	<u>2,771,027</u>
	<u>2,444,118</u>	<u>1,208,971</u>					<u>2,783,343</u>
Non-controlling interests	<u>3,971</u>	<u>386,393</u>	15,306	600,567		(551)	<u>1,005,686</u>
Total Equity	<u><u>2,448,089</u></u>	<u><u>1,595,364</u></u>					<u><u>3,789,029</u></u>

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED  
GROUP**

	The Group	CAP Group	Pro forma adjustments						Unaudited
	for the	for the							pro forma of
	year ended	year ended							the Enlarged
	31 March	31 December							Group
	2019	2018							Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(b)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)	
Profit (loss) before tax	81,694	(179,319)	331,267	-	383	25,224	(83,895)	(6,320)	169,034
Adjustments for:									
Finance costs	28,553	211,702		(86,162)		(15,526)			138,567
Fair value losses/(gains) on financial assets at fair value through profit or loss, net	(593)	213							(380)
Change in fair value of derivative financial instruments	-	17,687				(9,698)			7,989
Fair value gains on investment properties, net	(17,445)	(4,507)							(21,952)
Accrued rent-free rental income	357	-							357
Share of profits and losses of associates	(46,387)	-							(46,387)
Dividends from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss	(3,145)	-							(3,145)
Interest income on a loan receivable from an associate	(4,203)	-							(4,203)
Interest income on financial assets at fair value through other comprehensive income	(90,179)	-		86,162					(4,017)
Interest income on financial assets at fair value through profit or loss	(349)	-							(349)
Interest income on bank deposits	(1,208)	(7,243)							(8,451)
Allowance for obsolete inventories	9,454	-							9,454
Loss/(gain) on early repayment of a debt investment at fair value through other comprehensive income	(1,179)	3,776			(383)				2,214
Loss on disposal of property, plant and equipment	4	410							414
Depreciation and amortization	51,323	19,869							71,192
Impairment loss/(reversal of impairment losses) on financial assets, net	(82,767)	1,642					83,895		2,770
Impairment of goodwill	7,700	-							7,700
Reversal of impairment losses of items of property, plant and equipment	(1,495)	-							(1,495)
Income tax expenses recognised in statement of profit or loss and other comprehensive income	-	65,240							65,240
Written down on stock of properties	-	66,371							66,371
Written off of investment properties	-	1,991							1,991
Gain on bargain purchase	-	-	(331,267)						(331,267)
Gain on disposal of subsidiaries	-	(39,846)							(39,846)
	(69,865)	157,986							81,801

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments						Unaudited
	for the	for the							pro forma of
	year ended	year ended							the Enlarged
	31 March	31 December							Group
	2019	2018							Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note 1</i>	<i>Note 1</i>	<i>Note 2(b)</i>	<i>Note 2(d)</i>	<i>Note 2(e)</i>	<i>Note 2(f)</i>	<i>Note 2(g)</i>	<i>Note 2(i)</i>	
Decrease in inventories	12,213	-							12,213
Decrease/(increase) in trade and bills receivables	17,482	-							17,482
Decrease/(increase) in trade and other receivables	-	(68,185)							(68,185)
Increase in loan receivables	-	(2,101)							(2,101)
Decrease in stock of properties	-	99,997							99,997
Decrease/(increase) in prepayments, deposits, and other receivables	40,289	-							40,289
Decrease in trade payables	(24,694)	-							(24,694)
Increase in contract liabilities	-	274,760							274,760
(Decrease)/increase in other payables and accruals	(2,419)	20,839							18,420
Cash generated from/(used in) operations	(26,994)	483,296							449,982
Interest received on bank deposits	1,208	7,500							8,708
Hong Kong profits tax refunded/(paid)	(847)	-							(847)
PRC enterprise income tax paid	-	(32,212)							(32,212)
Net cash flows generated from/(used in) operating activities	(26,633)	458,584							425,631

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments					Unaudited
	for the	for the						pro forma of
	year ended	year ended						the Enlarged
	31 March	31 December						Group
	2019	2018						Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(b)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Purchase of items of property, plant and equipment	(15,400)	(11,072)						(26,472)
Purchase of financial assets at fair value through profit or loss	(18,786)	-						(18,786)
Purchase of financial assets at fair value through other comprehensive income	(163,146)	-						(163,146)
Proceeds from redemption of a debt investment at fair value through other comprehensive income	220,000	-		(220,000)				-
Investments in associates	(17,540)	-						(17,540)
Decrease in a loan receivable	100,000	-						100,000
Interest received from a loan receivable and debt investments	101,018	-		(78,692)				22,326
Dividends received from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss	3,145	-						3,145
Dividends received from associates	1,054	-						1,054
Acquisitions of subsidiaries that are not a business, net	(311,662)	-						(311,662)
Deposits paid for acquisition of items of property, plant and equipment	(1,570)	-						(1,570)
Proceeds from disposal of financial assets at fair value through profit or loss	-	3,385						3,385
Proceeds from disposal of property, plant and equipment	-	347						347
Proceeds from investment properties, net	-	46,630						46,630
Proceeds from disposal of subsidiaries	-	82,432						82,432
Net cash flows from/(used in) investing activities	(102,887)	121,722						(279,857)

**APPENDIX III**
**UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

	The Group	CAP Group	Pro forma adjustments						Unaudited
	for the	for the							pro forma of
	year ended	year ended							the Enlarged
	31 March	31 December							Group
	2019	2018							Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 1	Note 2(b)	Note 2(d)	Note 2(e)	Note 2(f)	Note 2(g)	Note 2(i)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
Shares repurchase	(9,956)	-							(9,956)
New bank borrowings	190,000	151,440							341,440
Repayments of bank borrowings	(264,790)	(340,873)							(605,663)
Repayments of other borrowings	-	(22,773)							(22,773)
Repayment of bonds redemption settlement	-	(256,337)		176,000					(80,337)
Net proceeds from right issue	-	(323)							(323)
Net cash flow from acquisition of non-wholly owned subsidiaries	-	1,933							1,933
Interest paid	(28,553)	(161,524)		77,788		10,883			(101,406)
Net cash used in financing activities	(113,299)	(628,457)							(477,085)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>									
	(242,819)	(48,151)							(331,311)
Cash and cash equivalents at beginning of year	420,849	513,827	(529,627)						405,049
Effect of foreign exchange rate changes, net	(6,821)	22,739							15,918
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>171,209</b>	<b>488,415</b>							<b>89,656</b>

## NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

## Notes:

1. The consolidated financial information of the Group is extracted from the annual report of the Company for the year ended 31 March 2019.

The financial year end of CAP is 31 December. As described in note 2 of the interim report of CAP for the six months ended 30 June 2019, CAP has adopted the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are mandatorily effective for annual periods beginning on or after 1 January 2019. However, the financial year end of the Company is 31 March and the Company will only adopt these new and revised HKFRSs from 1 April 2019. For the purpose of preparation of the Unaudited Pro Forma Financial Information in a manner consistent with both the format and accounting policies adopted by the Company in its consolidated financial statements for the year ended 31 March 2019, the Directors prepared the Unaudited Financial Information based on the consolidated financial information of CAP Group for the year ended 31 December 2018, which is extracted from the annual report of CAP for the year ended 31 December 2018.

2. Notes to the pro forma adjustments

- (a) The adjustment represents the fair value adjustment of identified assets and liabilities arising from purchase price allocation upon completion of the Proposed Transactions. The identifiable assets and liabilities of the CAP Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard (“HKFRS”) 3 (Revised) *Business Combinations*. For the illustrative purpose of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the allocation of the purchase consideration is determined based on the estimates of the fair values of the identifiable assets and liabilities of the CAP Group made by the directors of the Company, and by reference to a valuation report issued by RHL Appraisal Limited (the “Valuer”), an independent professionally qualified valuer, to measure the fair value of each of the identified assets and liabilities of CAP Group as at 31 December 2018.

The fair values of the identifiable assets and liabilities of CAP Group, as extracted from the valuation reports prepared by the Valuer are as follow:

	Carrying value as at 31 December 2018 HK\$'000	Adjustment HK\$'000	Fair value as at 31 December 2018 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	52,768	(218)	52,550
Investment properties	3,165,921		3,165,921
Intangible assets	6,061	3,579	9,640
Total non-current assets	<u>3,224,750</u>		<u>3,228,111</u>
<b>CURRENT ASSETS</b>			
Stock of properties	1,597,574	210,392	1,807,966
Trade and bills receivables	7,907		7,907
Loans and interest receivables	40,327		40,327
Prepayments, deposits and other receivables	242,524		242,524
Financial assets at fair value through profit or loss	2,175		2,175
Cash and cash equivalents	488,415		488,415
Total current assets	<u>2,378,922</u>		<u>2,589,314</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	776,193	39	776,232
Contract liabilities	652,362		652,362
Bonds	844,055	22,976	867,031
Promissory notes	376,000		376,000
Interest-bearing bank and other borrowings	328,036		328,036
Tax payable	73,639		73,639
Total current liabilities	<u>3,050,285</u>		<u>3,073,300</u>

	Carrying value as at 31 December 2018 <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	Fair value as at 31 December 2018 <i>HK\$'000</i>
<b>NET CURRENT LIABILITIES</b>	<u>(671,363)</u>		<u>(483,986)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>2,553,387</u>		<u>2,744,125</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	120,003		120,003
Bonds	182,192	(16,687)	165,505
Convertible bonds	234,747	7,996	242,743
Deferred tax liabilities	<u>421,081</u>	<u>63,573</u>	<u>484,654</u>
Total non-current liabilities	<u>958,023</u>		<u>1,012,905</u>
Net assets	<u>1,595,364</u>		<u>1,731,220</u>
Non-controlling interests	<u>386,393</u>	15,306	<u>401,699</u>

- (b) The adjustment represents the elimination of the share capital of CAP, CN, derivative financial instruments associated with the CN acquired and pre-acquisition reserves of CAP Group and recognition of non-controlling interests, assuming that the Proposed Transactions had taken place on 31 March 2019. The Proposed Transactions will result in the Group's interest in CAP raise beyond 51% and as a result, the assets and liabilities of CAP Group will be consolidated into the consolidated statement of financial position of the Group.

A pro forma gain on bargain purchase arising on the date of acquisition of CAP Group is calculated as follows:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Aggregated cash consideration for the Proposed Transactions		
Cash consideration for the acquisition of CAP shares	496,596	
Cash consideration for the acquisition of CN	<u>33,031</u>	<u>529,627</u>
Less: Pro forma assumed fair value of the identifiable net assets of the CAP Group	1,329,521	
Add: CN acquired	133,096	
Less: derivative financial instruments associated with the CN acquired	(1,156)	
Less: recognition of non-controlling interest	<u>(600,567)</u>	<u>860,894</u>
Gain on bargain purchase		<u>331,267</u>

The gain on bargain purchase arising from the Proposed Transactions is credited to profit or loss. Actual goodwill or gain on bargain purchase arising from the Proposed Transactions depend on fair value of net identifiable assets of the CAP Group at the completion date and shall be different to the amount calculated in the above table.

- (c) The adjustments represent the share of profit or loss and other comprehensive income attributable to non-controlling interests of CAP.
- (d) The adjustments represent the elimination of the CAP Bonds held by the Group, outstanding interest associated with CAP Bonds held by the Group as at 31 March 2019 and transactions between the Group and CAP Group during the year ended 31 March 2019.



- (e) The adjustments represent the reversal of the Group's gain and CAP Group's loss on early redemption of CAP Bonds.
- (f) The adjustments represent the reversal of the changes in fair value of derivative financial liabilities related to the CN and the elimination of CN interest expenses for the year ended 31 December 2018.
- (g) The adjustments represent the reversal of impairment of financial assets and the changes in fair value of financial assets at fair through other comprehensive income of the Group for the year ended 31 March 2019 associated with the bonds issued by CAP.
- (h) The adjustments represents the reclassification of CAP Bonds of a principal amount of HK\$89,000,000 held by Double Leads Investments Limited ("**Double Leads**"), a subsidiary of Wang On Group Limited, the ultimate holding company of the Group, to long term other loans pursuant to the loan agreement dated 26 September 2019 entered into between CAP and Double Leads. Double Leads agree to grant a loan of HK\$89,000,000 for a period of three years to refinance the outstanding principal of CAP Bonds held by Double Leads.
- (i) This adjustment represents the estimated direct legal and professional costs related to the Proposed Transactions, among others, the preparation of this Circular, which amounts to approximately HK\$6,320,000.
- (j) No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and CAP Group entered into subsequent to 31 March 2019 and 31 December 2018, respectively.
- (k) Among the new and revised HKFRSs that are mandatorily effective for the annual period beginning on or after 1 January 2019, other than the adoption of HKFRS 16 *Leases* which is expected to have an impact to the financial information of the Enlarged Group by recognising right-of-use assets and corresponding lease liabilities in respect of the non-cancellable leases, the new and revised HKFRSs are not expected to have any significant impact to the financial information of the Enlarged Group.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT IN THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certificated Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Group.*



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

11 November 2019

To the Directors of Wai Yuen Tong Medicine Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Wai Yuen Tong Medicine Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) as enlarged by the proposed acquisition of a maximum of 54.83% equity interest in China Agri-Products Exchange Limited (“**CAP**”) and its subsidiaries (collectively, “**CAP Group**”), proposed acquisition of a maximum of 54.83% of the outstanding principal amount of the convertible notes of CAP and provision of loans of a principal amount of HK\$621,000,000 to CAP for a period of three years for the purpose of refinancing the outstanding amount of the five-year 10.0% coupon bonds issued by CAP on 28 November 2014 held by the Group (collectively, the “**Proposed Transactions**”) by the directors of the Company (the “**Directors**”) for illustrative purpose only.

The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as enlarged by the Proposed Transactions (the “**Enlarged Group**”) as at 31 March 2019, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2019 and the related notes set out on pages III-2 to III-14 of the circular dated 11 November 2019 (the “**Circular**”) issued by the Company (the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page III-1 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Transactions on the Group’s financial position as at 31 March 2019 and the Group’s financial performance and cash flows for the year ended 31 March 2019 as if the Proposed Transactions had taken place on 31 March 2019 and 1 April 2018, respectively. As part of this process, information about the Group’s financial position, financial performance and cash flows has been extracted by the Directors from the Company’s published annual report for the year ended 31 March 2019. Information about the CAP Group’s financial position as at 31 December 2018, financial performance and cash flows for the year ended 31 December 2018 has been extracted by the Directors from CAP’s published annual report for the year ended 31 December 2018.

**Directors' responsibility for the Unaudited Pro Forma Financial Information**

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

**Our independence and quality control**

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

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

**Reporting Accountants' responsibilities**

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

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

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Transactions on unadjusted financial information of the Group as if the Proposed Transactions 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 transaction would have been as presented.

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

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

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

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

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

**OPINION**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## 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 Group. 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) Directors' interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates 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) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange:

#### (i) Long positions in Shares

Name of Director	Nature of interests/Capacity	Number of Shares held	Approximate percentage in the Company's total issued share capital
Mr. Tang Ching Ho	Interest of controlled corporations ( <i>Note 2</i> )	715,322,940	58.08%

#### (ii) Long positions in the shares of WOG, an associated corporation of the Company

Name of Director	Name of corporation	Number of Shares held	Approximate percentage in WOG's total issued share capital
Mr. Tang Ching Ho	WOG ( <i>Note 2</i> )	9,984,356,772	57.39%

*Notes:*

1. The percentages represented the percentages of respective company's share capital as stated in the relevant disclosure of interests forms.
2. Under the SFO, Mr. Tang Ching Ho is taken to be interested in the interests of the Company as he is taken to be interested in an aggregate of 9,984,356,772 shares in WOG (an associated corporation of the Company under the meaning of the SFO), representing approximately 57.39% of all the issued shares of WOG, by virtue of his own beneficial shareholding, the shareholding interests of his spouse in WOG, the shareholding interests of a company wholly and beneficially owned by him, and his deemed interests by virtue of being the founder of Tang's Family Trust. WOG is taken to be interested in the Shares held by Rich Time Strategy Limited ("**Rich Time**"). Rich Time, an indirect wholly-owned subsidiary of WOG, was the beneficial owner of 715,322,940 Shares. Therefore, Mr. Tang Ching Ho was deemed to be interested in 715,322,940 Shares held by WOG for the sole purpose of Part XV of the SFO.

(iii) *Long positions in the underlying shares of shares options of EOG, an associated corporation of the Company:*

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options outstanding	Exercisable period	Number of underlying shares	Approximate percentage of EOG's total issued share capital
						(Note) %
Mr. Chan Chung Hong, Thomas	23.2.2018	0.48	4,600,000	23.2.2018– 22.2.2025	4,600,000	0.83

*Note:* The percentage represented the number of shares over the total issued share capital of EOG as at the Latest Practicable Date was 556,432,500 shares.

Save as disclosed herein, 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: (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial Shareholders' interests**

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

***Long positions in Shares***

<b>Name of Shareholders</b>	<b>Nature of interests/Capacity</b>	<b>No. of Shares</b>	<b>Approximate percentage in the Company's total issued share capital</b>
WOG	Interest of controlled corporations ( <i>Note 2</i> )	715,322,940	58.08%
Wang On Enterprises (BVI) Limited	Interest of controlled corporations ( <i>Note 2</i> )	715,322,940	58.08%
Rich Time	Beneficial owner	715,322,940	58.08%
Ms. Yau Yuk Yin	Interest of spouse ( <i>Note 1</i> )	715,322,940	58.08%

*Notes:*

1. The percentage represented the percentage of the Company's share capital as stated in the relevant disclosure of interests forms filed by the above persons.
2. WOG is deemed to be interested in 715,322,940 Shares beneficially owned by Rich Time as at the Latest Practicable Date as Rich Time is indirectly and wholly owned by WOG through WOG's ownership of Wang On Enterprises (BVI) Limited. Mr. Tang Ching Ho is an executive director of WOG.
3. Ms. Yau Yuk Yin is taken to be interested in the Shares in which her spouse, Mr. Tang Ching Ho, is interested as stated above in the sub-paragraph headed "2.(a) Directors' Interests" in this Appendix.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any other persons (not being Directors or chief executive of the Company) as at the Latest Practicable Date, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

- (i) There is no contract or arrangement entered into by any member of the Enlarged Group, subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group as a whole.
- (ii) As at the Latest Practicable Date, none of the Directors or their respective associates had any interest, direct or indirect, in any assets which had been, since 31 March 2019, being the date on which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

**4. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in businesses which competes or was likely to compete, whether directly or indirectly, with the business of the Group that need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

**5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any other member(s) of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

**6. LITIGATION**

Save as disclosed in the paragraph headed "Management discussion and analysis of the CAP Group – Financial Review – Litigation" in Appendix II to this circular, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

**7. MATERIAL CONTRACTS****The Group**

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

- (a) the Loan Agreement;



- (b) on 3 June 2019, Suntech Investments Limited, an indirect wholly-owned subsidiary of the Company, placed an order to acquire US\$4.0 million 7.875% senior notes due 15 February 2022 issued by Sunac China Holdings Limited, a company incorporated in the Cayman Islands whose shares are listed and traded on the main board of the Stock Exchange (Stock Code: 1918), in the secondary market for a total consideration of approximately US\$4.08 million (equivalent to approximately HK\$32.10 million), the details of which were set out in the announcement of the Company dated 18 April 2019;
- (c) a formal agreement dated 17 May 2019 and a conditional provisional agreement dated 28 March 2019 entered into between Precious Investments Limited, an indirect wholly-owned subsidiary of the Company, as the vendor, and Gloryway Capital Investment Limited, as the purchaser, in relation to the disposal of the property located at Sai Yeung Choi Street South, Kowloon at a consideration of HK\$102.8 million subject to the existing lease expiring on 31 January 2022, the details of which were set out in the announcement of the Company dated 28 March 2019 and the circular dated 24 May 2019;
- (d) a conditional provisional agreement dated 9 May 2019 entered into between Guidepost, an indirect wholly-owned subsidiary of the Company, as the vendor, and Rich Faith Holdings Limited, as the purchaser, in relation to the disposal of the entire issued share capital of, and the assignment of the shareholder loan in, Shiny World Investment Limited, an indirect wholly-owned subsidiary of the Company, holding a retail shop at a consideration of HK\$52.8 million, the details of which were set out in the announcement of the Company dated 9 May 2019;
- (e) a tenancy agreement dated 2 May 2019 entered into between Wai Yuen Tong (Retail) Limited, an indirect subsidiary of the Company, as the tenant, and Vincent Investments Limited, as the landlord, in respect of the lease of a property located at Nathan Road which has a total value of the right of use of approximately HK\$12.06 million, for a term of three years commencing from 1 May 2019 and expiring on 30 April 2022 for a monthly rental of HK\$0.38 million (exclusive of rates and management charge), the details of which were set out in the announcement jointly issued by the Company and WOP dated 2 May 2019;
- (f) a conditional provisional agreement dated 30 April 2019 entered into between Guidepost, as the vendor, and an individual person, as the purchaser, in relation to the disposal of the entire issued share capital of, and the assignment of the shareholder loan in, Wang To Investments Limited, an indirect wholly-owned subsidiary of the Company, holding a retail shop at a consideration of HK\$47.0 million, the details of which were set out in the announcement of the Company dated 30 April 2019;
- (g) a subscription form dated 18 April 2019 and executed by Key High Limited, an indirect wholly-owned subsidiary of the Company, and accepted by Rockpool Capital SPC in respect of the investment of an aggregate of US\$7.5 million in Class C Shares in Rockpool Alpha Credit Strategy SP, a segregated portfolio created by Rockpool Capital SPC, together with a related side letter dated 18 April 2019 entered into between, among others, Trade Capture Investment Limited, Key High Limited and Rockpool Capital SPC, the details of which were set out in the announcement of the Company jointly issued with WOG dated 18 April 2019;

- (h) a conditional provisional sale and purchase agreement dated 18 April 2019 and a binding supplemental agreement dated 19 April 2019 entered into between Sky Success Limited (“**Sky Success**”), an indirect wholly-owned subsidiary of the Company, as the vendor, and Asia Bright Enterprises Limited, as the purchaser, in relation to the disposal of the property located at To Kwa Wan Road at a consideration of HK\$60.5 million and a licence agreement dated 18 April 2019 entered into between Sky Success and the purchaser for the grant of a right to Sky Success to use certain part of the shop for a term of 12 months commencing from the date of completion of such disposal (i.e. on 28 June 2019) by setting aside HK\$6.05 million as a security deposit which will be refunded to Sky Success upon delivery of vacant possession of such property to the purchaser, the details of which were set out in the announcement of the Company dated 19 April 2019;
- (i) a conditional provisional sale and purchase agreement dated 28 February 2019 entered into between Guidepost, as the vendor, and individual third parties, as the purchaser, in relation to the disposal of the entire issued share capital of, and the assignment of the shareholder loan of, Union Target Limited holding a retail property at a consideration of HK\$53,088,000, the details of which were set out in the announcement of the Company dated 28 February 2019;
- (j) a loan agreement dated 18 September 2018 entered into between Able Trend Limited (“**Able Trend**”), an indirect wholly-owned subsidiary of the Company, as the lender, and EOG, as the borrower, pursuant to which Able Trend agreed to grant an unsecured revolving credit facility of not exceeding a sum of HK\$65.0 million at an interest rate of 7.0% per annum for a term of 36 months commencing from 18 September 2018, the details of which were set out in the announcement of the Company dated 18 September 2018; and
- (k) a sale and purchase agreement dated 7 February 2018 entered into between Guidepost, as the purchaser, and East Run, as the vendor, in relation to the sale of share(s), and assignment of the relevant shareholder loan(s), of four respective subsidiaries of WOP holding four retail properties at the consideration of approximately HK\$350.0 million, the details of which were set out in the announcement jointly issued by WOP and the Company dated 7 February 2018 and the circular of the Company dated 29 March 2018.

**The CAP Group**

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

- (a) the Loan Agreement;
- (b) a loan agreement dated 26 September 2019 entered into between CAP, as the borrower, and Double Leads, as the lender, pursuant to which Double Leads agreed to grant an unsecured loan in the principal amount of HK\$89.0 million at an interest rate of 10% per annum for a period of three years, the details of which were set out in the Joint Announcement; and
- (c) a sale and purchase agreement dated 23 August 2018 entered into between Super Treasure Holdings Limited, an indirect wholly-owned subsidiary of CAP, as the vendor, and an individual third party, as the purchaser, in relation to the disposal of the entire issued share capital of, and the assignment of the shareholder loan of, Jackmax Investment Limited holding a parcel of land at a consideration of RMB78 million (equivalent to approximately HK\$89.6 million), the details of which were set out in the announcement of CAP dated 23 August 2018.

**8. EXPERT AND CONSENT**

The following is the qualification of the expert whose statements have been included in this circular:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or opinion or report or reference to its name in the form and context in which it appears.

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

As at the Latest Practicable Date, the above expert had not had any direct or indirect interests in any assets which have been, since 31 March 2019 (being the date on which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

**9. GENERAL**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company in Hong Kong is at Suite 3101, 31/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Ms. Mak Yuen Ming, Anita. She is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (c) The share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English texts of this circular and the accompanying form of proxy shall prevail over their Chinese texts in case of inconsistencies.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suite 3101, 31/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong on any Business Day from the date of this circular up to and including 27 November 2019:

- (a) the memorandum of association and the Bye-laws;
- (b) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this Appendix;
- (c) the letter of consent referred to in the paragraph headed "Expert and Consent" in this Appendix;
- (d) the report by the auditors on the unaudited pro forma consolidated financial information of the Enlarged Group as set out in Appendix III to this circular;
- (e) the annual reports of the Company for the three financial years ended 31 March 2017, 2018 and 2019;
- (f) the annual reports of CAP for the three financial years ended 31 December 2016, 2017 and 2018 and the interim report of CAP for the six months ended 30 June 2019;
- (g) a copy of the circular dated 24 May 2019 issued by the Company pursuant to the requirements set out in Chapter 14 of the Listing Rules; and
- (h) this circular.

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# NOTICE OF THE SGM

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## WAI YUEN TONG MEDICINE HOLDINGS LIMITED (位元堂藥業控股有限公司\*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司\*) (the “**Company**”) will be held at 20/F., Alexandra House, 18 Chater Road, Central, Hong Kong on Wednesday, 27 November 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendment, the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the (i) conditional voluntary partial cash offer to be made by Kingston Securities Limited (“**Kingston Securities**”) on behalf of Goal Success Investments Limited (“**Offeror**”), an indirect wholly-owned subsidiary of the Company, to the shareholders of China Agri-Products Exchange Limited (“**CAP**”) to acquire such number of ordinary shares of HK\$0.01 each in the issued share capital of CAP (“**CAP Shares**”) which would result in the Offeror and parties acting in concert with it holding a maximum of 75% of the CAP Shares in issue (the “**Partial Share Offer**”); and (ii) conditional voluntary partial cash offer to be made by Kingston Securities on behalf of the Offeror to the holders of the 7.5% convertible notes due 2021 issued by CAP on 19 October 2016 (the “**Convertible Notes**”) to acquire a maximum of 54.83% of the outstanding principal amount of the Convertible Notes subject to adjustment in the event of a change in the issued share capital of CAP (the “**Partial CN Offer**”, and together with the Partial Share Offer, the “**Partial Offers**”), the details of which are set out in the announcement dated 26 September 2019 jointly issued by the Company, the Offeror, Wang On Group Limited, CAP and Easy One Financial Group Limited, and the transactions contemplated thereunder, be and are hereby approved and confirmed; and
- (b) any director of the Company be and is authorised to take, on behalf of the Company, all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Partial Offers and the transactions contemplated thereunder.”

\* For identification purpose only

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## NOTICE OF THE SGM

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2. “**THAT:**

- (a) the entering of the loan agreement dated 26 September 2019 between CAP as the borrower and Winning Rich Investments Limited, an indirect wholly-owned subsidiary of the Company, as the lender (the “**Loan Agreement**”, a copy of which has been produced to this meeting marked “A” and initialled by the chairman of the meeting for identification purpose), in relation to the grant of an unsecured and interest-bearing loan in the aggregate principal amount of HK\$621.0 million for a period of three years, and the transactions contemplated thereunder, be and are hereby approved and confirmed; and
- (b) any director of the Company be and is authorised to take, on behalf of the Company, all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Loan Agreement and the transactions contemplated thereunder.”

By Order of the board of  
**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
(位元堂藥業控股有限公司\*)  
**Mak Yuen Ming, Anita**  
*Company Secretary*

Hong Kong, 11 November 2019

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business in Hong Kong:*  
Suite 3101, 31/F., Skyline Tower  
39 Wang Kwong Road  
Kowloon Bay  
Kowloon  
Hong Kong

*Notes:*

1. The register of members of the Company will be closed from Friday, 22 November 2019 to Wednesday, 27 November 2019, both dates inclusive, during which period no transfer of shares of the Company (“**Shares**”) will be registered. In order to be entitled to attend and vote at the SGM, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 21 November 2019.
2. Any member of the Company (“**Member**”) entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a Member.

\* *For identification purpose only*

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## NOTICE OF THE SGM

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3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. In order to be valid, a form of proxy, together with any power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and delivery of the form of proxy will not preclude Members from attending and voting at the SGM or any adjournment thereof (as the case may be) should they so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any shares, any one of such holders may vote at the SGM either personally or by proxy in respect of such shares as if he/she was solely entitled thereto provided that if more than one of such joint holders be present at the SGM whether personally or by proxy, the person whose name stands first on the register of members of the Company in respect of such shares shall be accepted to the exclusion of the votes of the other joint holders.
6. The above resolutions will be voted by way of a poll at the SGM.