
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Daqing Dairy Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any losses howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities in the Company.

The issuance of this circular does not necessarily mean that trading in the Shares will be resumed. The Company will make separate announcement in respect of the Resumption.



DAQING DAIRY HOLDINGS LIMITED

大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

- (1) PROPOSED SHARE CONSOLIDATION ON THE BASIS OF EVERY TWO ISSUED AND UNISSUED EXISTING SHARES INTO ONE CONSOLIDATED SHARE;
 - (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LONGHUI INTERNATIONAL CATERING MANAGEMENT HOLDINGS LTD.;
 - (3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;
 - (4) APPLICATION FOR WHITEWASH WAIVER;
 - (5) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF GLOBAL MILK PRODUCTS PTE. LTD.;
 - (6) PROPOSED PLACING OF CONSOLIDATED SHARES;
 - (7) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE;
 - (8) CHANGE OF DIRECTORS;
- AND
- (9) NOTICE OF EXTRAORDINARY GENERAL MEETING

Sponsor to the new listing application of the Company


SUCCESS NEW SPRING
CAPITAL LIMITED
實德新源資本有限公司
SUCCESS
Financial adviser to the Company

VEDA | CAPITAL
智略資本

Independent Financial Adviser to the Independent Board Committee
and to the Independent Shareholders

 好盈

A letter from the Board is set out on pages 43 to 92 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Shareholders is set out on pages 95 to 129 of this circular.

A notice convening the EGM to be held at Dynasty I of the Dynasty Club, 7/F., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 May 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire and in such event the instrument appointing the proxy will be deemed to be revoked.

9 May 2018

CONTENTS

	<i>Page</i>
Expected timetable	iii
Summary	1
Definitions	23
Glossary of technical terms	36
Corporate information	37
Directors and parties involved	39
Letter from the Board	43
Letter from the Independent Board Committee	93
Letter from the Independent Financial Adviser	95
Forward-looking statements	130
Risk factors	132
Industry overview	164
Regulatory overview	177
History and background of the Target Group	192
Reorganisation of the Target Group	199
Business of the Target Group	203
Relationship with Controlling and Substantial Shareholder	284
Directors and senior management of the Enlarged Group	292
Financial information of the Target Group	306
Share capital	359

CONTENTS

	<i>Page</i>
Appendix I — Accountant’s report of the Target Group	I-1
Appendix II — Financial information of the Group	II-1
Appendix III — Unaudited pro forma financial information of the Enlarged Group	III-1
Appendix IV — Summary of the constitution of the Company and Cayman Islands Company Law	IV-1
Appendix V — Statutory and general information	V-1
Appendix VI — Documents available for inspection	VI-1
Notice of EGM	EGM-1

EXPECTED TIMETABLE

The expected timetable for the Share Consolidation, the Acquisition, the Share Placing, the Disposal and the Open Offer is set out below:

Event	Expected time and date
Despatch of this circular	Wednesday, 9 May 2018
Latest time for lodging transfers of Shares in order to qualify for the attendance and voting at the EGM	4:30 p.m. on Wednesday, 23 May 2018
Register of members closes to determine the qualification for attendance and voting at the EGM (both dates inclusive).	Thursday, 24 May 2018 to Monday, 28 May 2018
Latest time and date for lodging proxy forms for the EGM	11:00 a.m. on Saturday, 26 May 2018
Record date for the EGM	Monday, 28 May 2018
Date and time of the EGM	11:00 a.m. on Monday, 28 May 2018
Announcement of results of the EGM.	Monday, 28 May 2018
If approvals sought at the EGM are obtained:	
Expected effective date of the Share Consolidation and change of board lot size	Tuesday, 29 May 2018
Free exchange of existing Share Certificates for Consolidated Share Certificates Commences.	Tuesday, 29 May 2018
Last day of cum-entitlements of the Open Offer.	Tuesday, 29 May 2018
First day of ex-entitlements of the Open Offer.	Wednesday, 30 May 2018
Latest time for lodging transfer of Consolidated Shares in order to qualify for the Open Offer	4:30 p.m. on Thursday, 31 May 2018
Register of members closes to determine the entitlement to qualify for the Open Offer (both dates inclusive).	Friday, 1 June 2018 to Thursday, 7 June 2018
Record Date for the Open Offer.	Thursday, 7 June 2018

EXPECTED TIMETABLE

Event	Expected time and date
Register of members re-opens	Friday, 8 June 2018
Despatch of the Open Offer Prospectus Documents	Friday, 8 June 2018
Latest Time for Acceptance of and payment for the Offer Shares	4:00 p.m. on Monday, 25 June 2018
Latest Time for Termination of the Underwriting Agreement	5:00 p.m. on Tuesday, 26 June 2018
Announcement of the results of the Open Offer	Tuesday, 3 July 2018
Despatch of certificates for the Offer Shares	Wednesday, 4 July 2018
Completion of the Acquisition, the Share Placing and the Disposal	Wednesday, 4 July 2018
Announcement of the completion of the Acquisition, the Share Placing and the Disposal	Wednesday, 4 July 2018
Despatch of refund cheques if the Open Offer is terminated	Wednesday, 4 July 2018
Last day of free exchange of existing certificates for new certificates for Consolidated Shares	Thursday, 5 July 2018
Expected date of Resumption.	Friday, 6 July 2018
Dealing in Consolidated Shares and Offer Shares commences	Friday, 6 July 2018
Odd lot matching arrangement commences	Friday, 6 July 2018
Odd lot matching arrangement ends	Thursday, 26 July 2018

EXPECTED TIMETABLE

All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OFFER SHARES

The latest time for acceptance of and payment for the Offer Shares will be postponed if there is:

- a tropical cyclone warning signal number 8 or above; or
 - a “black” rainstorm warning
- (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the latest time for acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day; or
- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead, the latest time for acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares is postponed in accordance with the foregoing, the dates mentioned in the above “EXPECTED TIMETABLE” may be affected. An announcement will be made by the Company in such event.

SUMMARY

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the EGM in relation to the transactions and the appropriate course of action for yourself. There are risks associated with any business. You should read the section headed “Risk factors” in this circular carefully before making a decision on the transactions.

BACKGROUND

The Group was principally engaged in production, marketing and sales of dairy products and the operation and management of ecological farm and related business in the PRC. As disclosed in the Company’s announcement dated 29 March 2012, during the audit process in respect of the financial year ended 31 December 2011, irregularities were identified by the Predecessor Auditors that (i) certain milk procurement transactions brought to the attention of management of the Company at the material time and were acknowledged by them to be fraudulent; (ii) unexplained differences between sales receipt notes sighted during the Predecessor Auditors’ works in February 2012 and documents purporting to be the same sales receipt notes returned to the Company in March 2012 ostensibly following a Tax Bureau investigation; (iii) the explanation provided by management for removing accounting records which were then not available to the Predecessor Auditors continuously during the audit; (iv) the validity and commercial substance of acquisitions of milk stations, farm houses and Holstein cattle; and (v) difficulties the Predecessor Auditors encountered during their visits to the local branch of one of the Group’s banks (collectively referred to as the “**Irregularities**”). The Predecessor Auditors tendered its resignation as auditors of the Company with effect from 21 March 2012 and trading in Shares on the Stock Exchange has been suspended since 22 March 2012.

By a letter dated 26 May 2016 issued by the Stock Exchange, the Stock Exchange informed that the Company was placed in the third stage of delisting under Practice Note 17 of the Listing Rules and that the Company must submit a viable resumption proposal at least 10 Business Days before 6 December 2016. One of the resumption conditions set out by the Stock Exchange is to demonstrate sufficient operations or assets under Rule 13.24 of the Listing Rules.

On 22 November 2016, the Company submitted to the Stock Exchange the Resumption Proposal which sets out, *inter alia*, the proposed acquisition of the Target Company by the Company. The Target Group is principally engaged in the operation of hotpot restaurants in the PRC. The Acquisition constitutes a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that the Acquisition (i) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratios under Rule 14.07 of the Listing Rules are over 100%; and (ii) involves an acquisition of assets from the Vendors which will result in a change in control (as defined under the Takeovers Code) of the Company immediately after the allotment and issue of the Consideration Shares, the Placing Shares and the Offer Shares. The Acquisition also constitutes a connected transaction of the Company under Rules 14A.28 of the Listing Rules.

SUMMARY

On 16 December 2016, the Company received a letter from the Stock Exchange, which stated that the Stock Exchange agreed to allow the Company to submit a new listing application relating to the Target Group (but not any other proposal) on or before 28 February 2017. If the Company fails to submit a new listing application by 28 February 2017, or the transactions proposed in the Resumption Proposal fail to proceed for any reason, the Stock Exchange will proceed to cancel the listing of the Shares on the Stock Exchange. On 27 February 2017, the Company made the first New Listing Application to the Stock Exchange.

Since six months or more have elapsed, the first New Listing Application and the second New Listing Application have subsequently lapsed. The Company shall resubmit a new listing application to the Stock Exchange to reactivate the listing application pursuant to Rule 9.03(1) of the Listing Rules. The Company resubmitted a third New Listing Application to the Stock Exchange on 6 April 2018.

This circular is to provide the Shareholders with further information in connection with, among other things, (i) the Share Consolidation; (ii) the Acquisition; (iii) reverse takeover involving a New Listing Application; (iv) application for the Whitewash Waiver; (v) the Disposal; (vi) the Share Placing; (vii) the Open Offer; (viii) the appointment of proposed Directors; (ix) the recommendation of the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the Disposal and the transactions contemplated thereunder; and (x) the notice of the EGM. This circular also provides additional information on the Target Group as required under the Listing Rules in connection with the New Listing Application.

CHANGES IN PRINCIPAL BUSINESS ACTIVITIES OF THE ENLARGED GROUP AFTER RESUMPTION

Upon Completion, the Enlarged Group will primarily focus on the operation of hotpot restaurants in the PRC. Other than the introduction of the business of the Target Group and the Acquisition, the Vendors do not intend to introduce any major change to the Enlarged Group's business (including any re-deployment of the Enlarged Group's fixed assets) after Resumption.

In addition to the Acquisition and the Disposal, the Resumption Proposal also involves among other things, (i) the Share Consolidation; (ii) the Share Placing; (iii) the Open Offer; (iv) the Whitewash Waiver, further details of which can be found in the section headed "Letter from the Board" in this circular.

FINANCIAL IMPACT OF THE ACQUISITION ON THE ENLARGED GROUP'S FINANCIAL PERFORMANCE

Based on the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to this circular, if the transactions contemplated under the Resumption Proposal had been completed on 31 December 2017, the Enlarged Group will have total assets of approximately HK\$543.0 million, total liabilities of approximately HK\$491.1 million and net assets value of approximately HK\$52.0 million as disclosed in

SUMMARY

the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2017 under Appendix III to this circular. If the transactions contemplated under the Resumption Proposal had been completed on 1 January 2017, the Enlarged Group will record a loss attributable to owners of the Company of approximately HK\$89.2 million for the year ended 31 December 2017. The loss is mainly due to the transaction costs and the deemed listing expenses of approximately HK\$11.5 million and HK\$90 million respectively, details of which are set out in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2017 of Appendix III to this circular.

BUSINESS OF THE TARGET GROUP

The Target Group ranked fourth in the Cantonese-style hotpot restaurant market in the PRC in terms of sales revenue in 2016 according to the Market Research Report. The hotpot restaurant market in China can be divided into Cantonese-style, Mongolian-style, Sichuan-style, and other-style hotpot. Cantonese-style hotpot restaurants accounted for around 13.8% of the total hotpot restaurant market in 2016 in the PRC. Within the Cantonese-style hotpot restaurants segment, the Target Group had a market share of 1.3% in terms of revenue in 2016. The Target Group accounted for approximately 0.2% of the market share of the overall hotpot market in terms of revenue in 2016 in the PRC. The Target Group specializes in seafood hotpot cuisine with a signature menu which is characterized by the Target Group's aromatic soup base and a wide range of selection of seafood and beef. The Target Group started its first restaurant in Shanghai in 2004 under the brand *Faigo* (“輝哥”) and gradually expanded its restaurant network to other major cities in the PRC including Beijing, Shenzhen, Nanjing and Hangzhou since 2010. As at the Latest Practicable Date, the Target Group owned and operated a total of 97 restaurants. As confirmed by the proposed Directors, the Target Group's operations focus in the PRC and it has no relationship with any seafood hotpot restaurants trading under the name or brand *Fai Gor Seafood Hot Pot Restaurant* (“輝哥火鍋”) in Hong Kong.

The Target Group owned and operated a total of 65 restaurants at the beginning of the Track Record Period and opened a total of 53 new restaurants during the Track Record Period. It has been the Target Group's strategy to grow its business and maintain its market share during the Track Record Period by opening new restaurants.

Since restaurants operating under the brands owned by the Target Group are self-owned except one in Beijing operating under a franchising arrangement and one restaurant to be operated as a joint venture held as to 70% by the Target Group and 30% by an Independent Third Party, this enables the Target Group to closely control the development of businesses in terms of quality of the foods, service standards and brand awareness. The Target Group owns three brands in the PRC, namely, *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”). Out of the 97 restaurants owned and operated by the Target Group as at the Latest Practicable Date, 89 of them are under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) in the PRC, seven are under the brand *Faigo* (“輝哥”) and the remaining one is under the brand *Hong Yuanwai* (“洪員外”). Restaurants operating under the brand *Faigo* (“輝哥”) in the PRC focus on high-end market with an average spending per customer of approximately RMB538.5, RMB639.4 and RMB694.6 for the

SUMMARY

years ended 31 December 2015, 2016 and 2017, respectively while the restaurants operating under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”), one restaurant of which was opened in July 2017, in the PRC target the mid-tier market and appeal to mass public with an average spending per customer of approximately RMB114.9, RMB108.3 and RMB119.0 for the years ended 31 December 2015, 2016 and 2017, respectively.

Looking ahead, the Target Group plans to open 29 new restaurants under the brands *Faigo* (“輝哥”) and *Xiao Faigo Hotpot* (“小輝哥火鍋”) by 31 December 2019 based on its existing business model, which is highly standardized and scalable. The 29 new restaurants include Hefei Huige under the brand *Faigo* (“輝哥”) in Hefei, for which a joint venture has been formed in August 2017 between the Target Group and an Independent Third Party. The capital contribution of the Target Group for the joint venture is RMB1.4 million, representing 70% of the registered capital of the joint venture. The Target Group has also explored a new flavour by launching a Sichuan-style hotpot restaurant under the brand *Hong Yuanwai* (“洪員外”). If the new flavour offered by *Hong Yuanwai* (“洪員外”) in Shanghai is well received by the market, the Target Group may further open one to two restaurants under the brand *Hong Yuanwai* (“洪員外”) in Shanghai. The Target Group will monitor the performance and operation of the new brand and business arrangement closely and to decide the details of the future development plans for these new initiatives.

SUMMARY

KEY OPERATIONAL INFORMATION FOR THE RESTAURANTS OF THE TARGET GROUP

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai (<i>note 1</i>)	409,959,879	389,620,768	388,378,462
Beijing	40,368,679	44,997,958	47,845,440
Wuxi	32,520,208	30,489,719	30,175,250
Nanjing	21,588,553	18,528,775	17,228,713
Hangzhou	14,856,469	13,021,516	9,916,232
Other cities	<u>57,423,008</u>	<u>83,025,153</u>	<u>78,530,182</u>
Nationwide (<i>note 1</i>)	576,716,796	579,683,889	572,074,279
Number of restaurants			
Shanghai (<i>note 2</i>)	47	51	58
Beijing	9	8	9
Wuxi	5	5	5
Nanjing	5	4	3
Hangzhou	4	3	2
Other cities	<u>19</u>	<u>22</u>	<u>22</u>
Nationwide (<i>note 2</i>)	89	93	99
Average customer per day per restaurant			
<i>(note 3)</i>			
Shanghai (<i>note 4</i>)	241.5	194.5	170.2
Beijing	151.0	153.3	133.1
Wuxi	195.9	157.9	139.2
Nanjing	129.7	126.8	135.3
Hangzhou	127.1	124.2	118.7
Other cities	<u>131.6</u>	<u>110.5</u>	<u>90.1</u>
Nationwide (<i>note 4</i>)	199.5	163.6	143.7

SUMMARY

	Year ended 31 December		
	2015	2016	2017
Seat turnover rate per day per restaurant			
<i>(note 5)</i>			
Shanghai <i>(note 6)</i>	2.2	2.1	1.8
Beijing	1.4	1.8	1.5
Wuxi	1.8	1.8	1.6
Nanjing	1.1	1.6	1.7
Hangzhou	1.1	2.1	1.9
Other cities	1.2	1.3	1.1
Nationwide <i>(note 6)</i>	1.8	1.8	1.6
Average daily restaurant sales (in RMB)			
<i>(note 7)</i>			
Shanghai <i>(note 8)</i>	28,618.5	21,719.7	20,654.6
Beijing	17,207.5	17,502.1	16,235.7
Wuxi	21,869.7	16,661.1	16,534.8
Nanjing	14,726.2	12,656.3	15,734.4
Hangzhou	12,359.8	11,859.3	13,584.2
Other cities	13,255.5	10,327.9	9,775.7
Nationwide <i>(note 8)</i>	22,923.8	17,416.1	17,111.5
Average spending per customer (in RMB)			
<i>(note 9)</i>			
Shanghai <i>(note 10)</i>	118.5	113.5	121.3
Beijing	113.9	114.1	122.0
Wuxi	111.7	107.0	118.8
Nanjing	113.5	101.5	116.3
Hangzhou	97.3	97.2	114.5
Other cities	100.7	92.6	108.5
Nationwide <i>(note 10)</i>	114.9	108.3	119.0

Notes:

1. The revenue generated by restaurants in Shanghai for the year ended 31 December 2017 included RMB2.75 million generated by one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
2. The number of restaurants in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
3. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.

SUMMARY

4. The calculation of average customer per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
5. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
6. The calculation of seat turnover per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
7. Calculated by dividing revenue for the year by total restaurant operation days during the year.
8. The calculation of average daily restaurant sales in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
9. Calculated by dividing revenue before business tax/value-added tax for the year by total customer traffic for the year.
10. The calculation of average spending per customer in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

The revenue generated from the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) increased as a whole from 2015 to 2016 as the number of the restaurants in business increased. However, the revenue generated from the restaurants under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) for the year ended 31 December 2017 was less than the revenue generated from the restaurants under the brand *Xiao Faigo* (“小輝哥火鍋”) for the year ended 31 December 2016 because the decline in customer traffic and seat turnover rate outweighed the increase in average spending per customer. The decline in the average customer and seat turnover rate per day per restaurant was primarily due to fierce competition in the supply of catering services in shopping malls. The expanded restaurant network also, to a certain extent, caused competition amongst the restaurant themselves, which lead to decline in the said performance indicators of the restaurants from 2015 to 2017. The average spending per customer of *Xiao Faigo Hotpot* (“小輝哥火鍋”) decreased from RMB114.9 to RMB108.3 from 2015 to 2016 because of the slowing down of the PRC economy. However, increase in selling price of beef and seafood and enhanced promotional activities induced an increase in the average spending per customer of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in 2017, which amounted to approximately RMB119.0.

The restaurant under the brand *Hong Yuanwai* (“洪員外”) was opened in July 2017 and contributed a revenue of RMB2.8 million for the year ended 31 December 2017.

SUMMARY

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brand *Faigo* (“*輝哥*”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai	113,492,488	104,937,803	107,765,544
Beijing	15,219,397	14,511,612	13,263,385
Other cities	<u>10,770,775</u>	<u>8,177,702</u>	<u>7,328,985</u>
Nationwide	139,482,660	127,627,117	128,357,914
Number of restaurants			
Shanghai	5	5	5
Beijing	1	1	1
Other cities	<u>3</u>	<u>2</u>	<u>2</u>
Nationwide	9	8	8
Average customer per day per restaurant <i>(note 1)</i>			
Shanghai	97.8	80.8	73.5
Beijing	69.9	69.5	53.8
Other cities	<u>82.4</u>	<u>63.2</u>	<u>68.2</u>
Nationwide	90.6	75.0	69.9
Seat turnover rate per day per restaurant <i>(note 2)</i>			
Shanghai	0.7	0.6	0.5
Beijing	1.8	1.8	1.4
Other cities	<u>1.0</u>	<u>1.1</u>	<u>1.2</u>
Nationwide	0.8	0.7	0.6
Average daily restaurant sales (in RMB) <i>(note 3)</i>			
Shanghai	62,187.7	55,140.5	58,446.6
Beijing	41,697.0	39,649.2	36,343.5
Other cities	<u>16,123.9</u>	<u>16,678.0</u>	<u>18,564.5</u>
Nationwide	48,804.3	43,588.5	48,575.8

SUMMARY

	Year ended 31 December		
	2015	2016	2017
Average spending per customer (in RMB)			
<i>(note 4)</i>			
Shanghai	635.9	682.2	795.1
Beijing	596.8	570.5	675.2
Other cities	195.7	263.9	272.7
Nationwide	538.5	639.4	694.6

Notes:

1. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.
2. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
3. Calculated by dividing revenue for the year by total restaurant operation days during the year.
4. Calculated by dividing revenue before business tax/value-added tax for the year by total customer traffic for the year.

The revenue generated from the restaurants under the brand *Faigo* (“輝哥”) decreased as a whole from 2015 to 2016 because of the decrease of average number of customer per day per restaurant as a whole and the closure of a restaurant in Tianjin in 2015. For the year ended 31 December 2017, the revenue increased as comparing to the corresponding period in 2016 and such increase was mainly due to an increase in average spending per customer as a result of increase in selling price of beef and seafood and enhanced promotional activities.

The following table sets forth the average annual same-store sales of the restaurants of the Target Group during the Track Record Period. The Target Group defines its same-store to be those restaurants that were in operation throughout the periods in comparison.

Xiao Faigo Hotpot (“小輝哥火鍋”)

	Year ended 31 December		Year ended 31 December	
	2015	2016	2016	2017
No. of same-stores		46		71
Average same-store annual sales (in RMB in million)	10.1	8.0	7.1	6.8
Average same-store growth		-20.3%		-4.7%

SUMMARY

Faigo (“輝哥”)

	Year ended 31 December		Year ended 31 December	
	2015	2016	2016	2017
No. of same-stores		7		7
Average same-store annual sales (in RMB in million)	19.3	17.7	17.7	18.2
Average same-store growth		-8.3%		2.8%

The slowing down of the PRC economy had a negative impact on the same-store revenue for restaurants under both brands *Xiao Faigo Hotpot (“小輝哥火鍋”)* and *Faigo (“輝哥”)*. For the restaurants under the brand *Xiao Faigo Hotpot (“小輝哥火鍋”)*, it was further affected by the fierce competition on catering services in shopping malls and, to a certain extent, the expansion in the restaurants network of the Target Group, which also diverted customer traffic from existing restaurants to the new restaurants.

During the Track Record Period, the performances of the restaurants of the Target Group in Shanghai were better than its restaurants in other regions, primarily due to the fact that Shanghai is the home market of the Target Group, where it has established strong brand recognition and a broad and loyal customer base.

The following tables set forth the comparison of the revenue per restaurant in different regions in the PRC during the Track Record Period:

Xiao Faigo Hotpot (“小輝哥火鍋”) and Hong Yuanwai (“洪員外”)

	Year ended 31 December		
	2015	2016	2017
Revenue per restaurant (in RMB in thousand)			
Shanghai (<i>note</i>)	8,722.6	7,637.0	6,696.2
Beijing	4,485.4	5,624.7	5,316.2
Wuxi	6,504.0	6,097.9	6,035.1
Nanjing	4,317.7	4,632.2	5,742.9
Hangzhou	3,714.1	4,340.5	4,958.1
Other cities	<u>3,022.6</u>	<u>3,780.0</u>	<u>3,569.6</u>
Nationwide (<i>note</i>)	<u><u>6,480.0</u></u>	<u><u>6,233.2</u></u>	<u><u>5,778.5</u></u>

SUMMARY

Faigo (“輝哥”)

	Year ended 31 December		
	2015	2016	2017
Revenue per restaurant (in RMB in thousand)			
Shanghai	22,698.5	20,181.4	21,553.1
Beijing	15,219.4	14,511.6	13,263.4
Other cities	<u>3,590.3</u>	<u>6,104.2</u>	<u>3,664.5</u>
Nationwide	<u>15,498.1</u>	<u>15,953.4</u>	<u>16,044.7</u>

Note: The revenue generated per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

COMPETITIVE STRENGTHS OF THE TARGET GROUP

The proposed Directors believe that the success and future prospects of the Target Group are underpinned by a combination of the following key competitive strengths:

- Mid-tier to high-end hotpot brand recognition;
- Highly scalable and standardised business model;
- Serving fresh, safe and quality foods;
- Refined dining environment and quality of service;
- Carefully chosen and strategic restaurant location; and
- Strong and experienced management team.

CUSTOMERS AND SUPPLIERS

During the Track Record Period, the customers of the Target Group were individual consumers and the Target Group was not dependent on any single customer. During the Track Record Period, suppliers of the Target Group mainly consisted of food ingredient suppliers, beverage suppliers and utensil suppliers. As at the Latest Practicable Date, the Target Group had 106 approved suppliers and the Target Group had two to over ten years of relationship with its top five suppliers. Purchase from the top five suppliers during the Track Record Period were, respectively, approximately 54.9%, 46.1% and 41.8% of the total purchases of the Target Group. Further details about the Target Group’s procurement can be found in the section headed “Business of the Target Group — Procurement” in this circular.

SUMMARY

SIGNIFICANT PORTION OF THE TARGET GROUP'S REVENUE WERE SETTLED BY PREPAID CARDS AND COUPONS

Significant portion of the revenue of the Target Group was settled by prepaid cards or prepaid coupons. For the years ended 31 December 2015, 2016 and 2017, revenue generated from prepaid cards and prepaid coupons amounted to approximately RMB304.8 million, RMB339.3 million and RMB267.3 million, representing approximately 42.6%, 48.0% and 38.2% of the revenue of the Target Group of the corresponding period, respectively. For further details about the prepaid cards and prepaid coupons, please refer to the paragraphs headed “Business of the Target Group — The restaurant operation of the Target Group — Customers of the Target Group” and “Business of the Target Group — Restaurant operations and management — Settlement and cash Management” in this circular.

FOODS AND BEVERAGE AND OTHER MATERIALS CONSUMABLES USED

Foods and beverage and other materials consumables used represent a major cost component of the Target Group's operations. They comprised food ingredients procured from external suppliers and consumables such as utensils, napkins, advertising materials, etc. During the Track Record Period, foods and beverage and other materials consumables used amounted to approximately RMB287.3 million, RMB260.1 million and RMB249.0 million, respectively, representing 40.1%, 36.8% and 35.5% of the revenue of the Target Group for the respective periods. The decrease in proportion of foods and beverage and other materials consumables used was primarily attributable to the expansion of the number of restaurants of the Target Group, which enhance the scalability of the operation of the Target Group, and the impact of the transition from business tax to value-added tax, which enables the Target Group to deduct certain input value-added tax and lower the foods and beverage and other materials consumables used. Please refer to the sub-paragraphs headed “Operating profit margin” and “Taxation” of the section headed “Financial information of the Target Group” for further details about the impact of business tax and value-added tax on the Target Group in this circular.

PROPERTY RENTAL FOR RESTAURANTS

Location of a restaurant is critical to its performance. All restaurants owned and operated by the Target Group are operating in properties leased from third parties, most of which are located in or close to business districts or shopping malls. The Target Group typically seeks to enter into lease with a term of four to eight years. Rent payable under these leases may be fixed or contingent on the performance of the restaurant of the Target Group. Some of the leases will include a minimum rental payment clause and the Target Group is to pay the higher of the minimum rent and the contingent rent. During the Track Record Period, the average monthly rental expense in relation to properties leased for restaurants of the Target Group were approximately RMB9.73 million, RMB10.40 million and RMB10.09 million for the years ended 31 December 2015, 2016 and 2017, respectively.

SUMMARY

EMPLOYEES AND STAFF COSTS

Catering industry is highly service-oriented and customers' experience with frontline restaurant staff is important to the success and recognition of the brands of the Target Group. The Target Group provides training to its employees and adopts a strict set of service standards to ensure quality of services. Recruitment in the restaurant industry is highly competitive and thus the Target Group has offered competitive remuneration to attract and retain quality employees. During the Track Record Period, staff costs of the Target Group were its second largest component of its operating expenses, which represented 22.8%, 25.0% and 26.2% of the revenue of the Target Group.

RISK FACTORS

There are certain risks involved in the business and operations of the Enlarged Group and in connection with the Acquisition. The risks can be categorised into: (i) risks relating to the Acquisition; (ii) risks relating to the Target Group; (iii) risks relating to the PRC in general; and (iv) risks relating to this circular.

These risk factors are further described in the section headed "Risk factors" in this circular. Set forth below are some of the major risks that may materially and adversely affect the Enlarged Group: (i) the Acquisition Completion is subject to the fulfilment of the conditions precedent and there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated; (ii) the shareholding percentage of the existing Shareholders in the Company will be substantially diluted immediately following the completion of the Share Placing and the transactions contemplated under the terms of the Acquisition Agreement; (iii) future growth of the Target Group depends on its ability to open and profitably operate new restaurants; (iv) historical financial and operating results of the Target Group are not indicative of future performance and the Target Group may not be able to achieve and sustain the historical level of growth for revenue and profitability; and (v) results of operations of the Target Group may fluctuate significantly due to various factors that are beyond the control of the Target Group.

MATERIAL NON-COMPLIANCE INCIDENTS OF THE TARGET GROUP

During the Track Record Period, some of the Target Group's restaurants commenced their operations without obtaining all the requisite material licenses, approvals and permits from relevant regulatory authorities, including (i) completion of fire safety inspection; (ii) completion of environmental impact assessment; (iii) completion of environmental protection verification; and (iv) obtaining food business license or food service license and public venue hygiene license. As at the Latest Practicable Date, save for one restaurant that has not completed the environmental protection verification, all 97 restaurants in operation have obtained all the requested material licenses, approvals and permits. For the one restaurant which has not completed the environmental protection verification, it locates in a shopping mall where the owner of the shopping mall has not completed the environmental protection verification, as a result of which the Target Group is not able to submit its own relevant application. The proposed Directors confirmed that the Target Group will submit its own application for the environmental protection verification once

SUMMARY

the owner has completed its own environmental protection verification. As at the Latest Practicable Date, the proposed Directors expect that the Target Group will complete the outstanding environmental protection verification by 2018.

Please refer the section headed “Business of the Target Group — Licenses, regulatory approvals and compliance record” in this circular for further details of the non-compliance incidents of the Target Group.

SUMMARY OF FINANCIAL INFORMATION OF THE TARGET GROUP

The following is a summary of the combined financial information of the Target Group for the periods indicated. The summary is derived from the combined financial information of the Target Group set forth in Appendix I to this circular.

The below summary should be read together with the Accountant’s report of the Target Group in Appendix I to this circular, including the accompanying notes and the information set forth in “Financial information of the Target Group” in this circular. The accountant’s report of the Target Group was prepared in accordance with IFRS.

Summary of combined statements of comprehensive income

The following table sets forth a summary, for the periods indicated, of the combined results of operations of the Target Group. The historical results of the Target Group presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Revenue	716,199	707,311	700,432
Profit before tax	52,858	54,822	37,799
Profit for the year	36,544	38,503	25,652

The decrease in revenue in 2016 compared to 2015 was primarily due to the increase of competition in malls where the restaurants of the Target Group are located and the decrease of average number of customers per day per restaurant in restaurants under the brand *Faigo* (“輝哥”) during the period. The decrease in revenue from the year ended 31 December 2016 to the year ended 31 December 2017 was primarily due to a decreased in revenue generated from *Xiao Faigo Hotpot* (“小輝哥火鍋”) as a result of the decrease in average customer per day per restaurant in *Xiao Faigo Hotpot* (“小輝哥火鍋”).

SUMMARY

Summary of combined statements of financial position

The table below sets forth a summary of the combined statements of financial position of the Target Group as of the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Non-current assets	188,511	163,110	145,554
Current assets	120,745	224,452	243,319
Current liabilities	247,031	243,941	268,484
Net current liabilities	(126,286)	(19,489)	(25,165)
Non-current liabilities	41,235	84,128	70,025
Total equity	20,990	59,492	50,364

The net current liabilities of the Target Group resulted from a combination of factors, including (i) that the liabilities of the Target Group are mostly short term in nature including deferred revenue, dividend payables and other payables and accruals; (ii) the trade receivables are relative smaller than the trade payables mainly attributed to the nature of the business of the Target Group is in cash basis and shorter credit terms for customers than suppliers; and (iii) a large portion of the current liabilities consist of deferred revenue mainly attributed to the advanced payments received from online group-purchasing websites, prepaid cards and cash coupons. Please refer to the paragraph headed “Financial information of the Target Group — Analysis on various items of the Target Group’s combined statements of financial position — Net current liabilities” in this circular, for further details on the changes in the net current liabilities of the Target Group.

As at 31 March 2018, the receivable from related parties was approximately RMB100.1 million. The proposed executive Directors advised that the receivables from related parties of the Target Group will be settled before Resumption.

During the Track Record Period, we financed our operations by cash inflows generated from our operating activities, contributions from the shareholders of the Target Company and borrowings. In view of the financial position of the Target Group and having regards to the reasons attributable to our net current liabilities, the proposed Directors have taken and will continue to take the following measures to improve the net current liabilities position: (i) the proposed Directors will designate Mr. Yuan Mingjie, the proposed executive Director, to review regularly and update the level of the net current liabilities to ensure that it is aligned with the financial position, to review the measure of the net current liabilities to control the liquidity, and to report comprehensively on the net current liabilities and financial position to the proposed Board in every six months; (ii) the management of the Target Group will set annual budgets, which will be supplemented by regular cash flow projections, forecast and manage the cash flows, in particular, prepare cash flow and funding summaries on regular basis to monitor the Target Group’s cash flow in connection with operating costs, financings, lease commitment, plant and equipment, tax payables and

SUMMARY

other expenses; the proposed Directors and senior management will hold regular meetings to review the operating budget plan and cash flow estimates in respect of the business activity; and (iii) the management of the Target Group will continue to assess available resources to finance the Target Group's business needs on ongoing basis and proactively adjust the expansion plans or implement cost control measures if necessitated by the then-existing financial conditions and cash requirements.

Furthermore, the proposed Directors believe the net current liabilities position has not adversely affect the liquidity of the Target Group and/or the Enlarged Group, taking into account (i) the cash and cash equivalents of the Enlarged Group, as if the Completion was completed on 31 December 2017, of approximately HK\$149.1 million, based on the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular; (ii) the receivable from related parties of approximately RMB100.1 million; (iii) the net proceeds from the Share Placing and the Open Offer of approximately HK\$77.7 million and HK\$10.0 million respectively; and (iv) the measures to improve the net current liabilities position as mentioned above. Based on the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, and as if the Completion was completed on 31 December 2017, the Enlarged Group would have net current assets of approximately HK\$3.1 million as at 31 December 2017.

Please refer to the paragraph headed "Risk factors — Risks relating to the Target Group — The Target Group experienced net current liabilities during the Track Record Period" in this circular in relation to the net current liabilities position of the Target Group exposes it to liquidity risk.

SUMMARY

Summary of combined statements of cash flows

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash generated from operating activities	154,604	80,117	18,951
Net cash generated from operating activities	140,802	68,108	1,323
Net cash (used in) investing activities	(127,087)	(54,241)	(9,106)
Net cash (used in)/generated from financing activities	(10,573)	44,725	(2,011)
Net increase/(decrease) in cash and cash equivalents	3,142	58,592	(9,793)
Cash and cash equivalents at end of year	13,125	71,717	60,431

Please refer to the paragraph headed “Financial information of the Target Group — Liquidity, financial resources and capital structure” for further details on the changes in the cash flows of the Target Group.

Net profit and net profit margin

The audited net profit of the Target Group were approximately RMB36.5 million, RMB38.5 million and RMB25.7 million for the years ended 31 December 2015, 2016 and 2017, representing a CAGR of approximately 5.5% from 2015 to 2016 and –33.4% from 2016 to 2017. The net profit margin of the Target Group for each of the years ended 31 December 2015, 2016 and 2017 were, respectively, 5.1%, 5.4% and 3.7%. The increase in the net profit and net profit margin from 2015 to 2016 was mainly attributable to the expansion of the restaurants network of the Target Group during the period as a result of which the Target Group was able to attract more customer traffic as a whole and generated more income from its restaurant operations and at the same time resulting in a dilution of general administrative expenses in the back office. However, there was a decrease in the net profit and net profit margin from 2016 to 2017, which was mainly attributable to (i) transaction expenses incurred in relation to the Resumption Proposal charged to the combined statements of comprehensive income for the year ended 31 December 2017; and (ii) decrease in government subsidies in which offset the benefits obtained from VAT reform. Please refer to the paragraph headed “Financial information of the Target Group — Operating profit margin” of this circular for further details of changes in the operating profit and operating margins of the restaurants operating under the brands *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”), respectively.

SUMMARY

KEY FINANCIAL RATIOS OF THE TARGET GROUP

The table below sets forth a summary of the key financial ratios of the Target Group during the Track Record Period.

	As at/for the year ended 31 December		
	2015	2016	2017
Profitability ratios			
Return on assets (<i>note 1</i>)	11.8%	9.9%	6.6%
Return on equity (<i>note 2</i>)	174.1%	64.7%	50.9%
Liquidity ratios			
Current ratio (<i>note 3</i>)	48.9%	92.0%	90.6%
Quick ratio (<i>note 4</i>)	37.3%	80.4%	80.2%
Capital adequacy ratio			
Gearing ratio (<i>note 5</i>)	—	75.2%	83.0%

Notes:

1. Return on assets is calculated by dividing profit for the year by total assets and multiplying the resulting value by 100%.
2. Return on equity is calculated by dividing profit for the year by total equity and multiplying the resulting value by 100%.
3. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.
4. Quick ratio is calculated as the current assets excluded inventories divided by the total current liabilities as at the respective dates.
5. Gearing ratio is calculated based on the total debts at the end of the year divided by total equity as at the respective dates. Total debt includes payables incurred not in the ordinary course of business.

CONTROLLING SHAREHOLDER

Immediately following the Acquisition Completion and completion of the Share Placing and the Open Offer but before the issue and allotment of the Conversion Shares to be issued upon the exercise of the conversion rights under the Consideration CBs, Mr. Hung, his associates and parties acting in concert with them will be interested in approximately 73.53% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares and the Offer Shares but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs. Accordingly, Mr. Hung will be the Controlling Shareholder.

SUMMARY

Apart from the Target Group, during the Track Record Period and as at the Latest Practicable Date, Mr. Hung held interests in companies that operate certain restaurants in the PRC, which had either ceased to operate as at the Latest Practicable Date, or were not in competition with the existing business of the Enlarged Group, in light of their size, nature and/or target customers. Nevertheless, to ensure that competition will not exist in the future, the Controlling Shareholder will enter into the Deed of Non-Competition with the Company to the effect that the Controlling Shareholder will not, and will procure his close associates not to, directly or indirectly, participate in, engage in, or conduct any business which may be in competition with the business of the Enlarged Group. For further details of the Controlling Shareholder, please refer to the section headed “Relationship with Controlling and Substantial Shareholder” in this circular.

DIVIDEND

During the years ended 31 December 2015 and 2016, the Company and the Target Group have not declared any dividend. Subsequent to 31 December 2016, the Target Group declared dividends of approximately HK\$40 million (equivalent to approximately RMB33.4 million) on 15 February 2017 which was funded by the retained earnings of the Target Group. The Company and the Target Group currently do not have any predetermined dividend payout ratio nor any dividend policies. The Board has the discretion to determine whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Other than the dividend of approximately HK\$40 million (equivalent to approximately RMB33.4 million) declared on 15 February 2017, the proposed Directors has no plan to distribute any profits from its undistributed profits of the Target Group earned up to 31 December 2017 in the foreseeable future. The payment and the amount of any future dividend will be made at the discretion of the Board and will be based upon the Enlarged Group’s earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Board deems relevant.

As at 31 March 2018, the dividend payable was approximately RMB33.4 million. The proposed executive Directors advised that the dividend payable of the Target Company will be settled by cash before Resumption.

SUMMARY

SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The table below sets out selected unaudited pro forma financial information of the Enlarged Group as at 31 December 2017. For more details, please refer to the section headed “Unaudited pro forma financial information of the Enlarged Group” set out in Appendix III to this circular.

	Unaudited consolidated net tangible liabilities of the Company <i>HK\$'000</i>	Unaudited consolidated net tangible liabilities of the Company per share <i>HK\$</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per share <i>HK\$</i>
Consolidated net tangible (liabilities)/assets	(43,307)	(0.043)	93,055	0.015

TRANSACTION EXPENSES

The aggregate fees, together with the Stock Exchange listing fee, legal and other professional fees, printing and other expenses relating to, among other things, the Acquisition, the Disposal, the Open Offer, the Share Placing and the Share Consolidation are estimated to be approximately HK\$31.3 million, of which HK\$5.7 million and HK\$25.6 million are payable by the Company and the Target Group respectively. The Target Group charged HK\$7.5 million and HK\$8.3 million to its combined profit or loss accounts for the years ended 31 December 2016 and 2017, respectively and the remaining HK\$9.8 million will be charged to its combined profit or loss accounts for the year ending 31 December 2018. The Company has charged HK\$2.3 million and HK\$1.7 million to its profit or loss accounts for the years ended 31 December 2016 and 2017, respectively and the remaining HK\$1.7 million will be charged to its combined profit or loss accounts for the year ending 31 December 2018.

RECENT DEVELOPMENT

Set forth below are certain material developments on the business and results of operations of the Target Group after 31 December 2017, which is the end of the Track Record Period:

- The Target Group has entered into leases, the terms of which commenced after 31 December 2017 but before the Latest Practicable Date, for one new restaurant planned to commence operations in 2018.

SUMMARY

- The Target Group has opened one restaurant from 1 January 2018 to the Latest Practicable Date.

The Target Group recorded a revenue of RMB700.4 million during the year ended 31 December 2017, which was 1.0% lower than the revenue recorded during the corresponding period in 2016. The decrease in revenue of the Target Group was mainly attributable to weakened customer traffic and seat turnover rate as a result of fierce competition in the supply of catering services in the PRC, especially in the shopping malls where the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) were situated in. The audited net profit of the Target Group for the year ended 31 December 2017 decreased by approximately RMB12.9 million comparing to the corresponding period in 2016.

After due and careful consideration, the proposed Directors confirm that, up to the date of this circular, there has been no material adverse change in the financial and trading position or prospects of the Target Group since 31 December 2017, and there is no event since 31 December 2017 which would materially affect the information shown in Appendix I to this circular.

LEGAL AND REGULATORY MATTERS

During the Track Record Period, the Target Group was involved in certain non-compliance incidents. The Vendors have undertaken to indemnify the Enlarged Group against the liabilities arising from the non-compliance incidents. For details, please refer to the section headed “Business of the Target Group — Licenses, regulatory approvals and compliance record” in this circular.

RECOMMENDATIONS AND THE EGM

The Board has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, among other things, the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder. The Independent Financial Adviser is of the view that the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder are on normal commercial terms and the terms are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder to be proposed at the EGM.

A notice of the EGM to be held at Dynasty I of the Dynasty Club, 7/F., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, on Monday, 28 May 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular for the purpose of considering and, if thought fit, approving (i) the Share Consolidation; (ii) the Acquisition; (iii) the Disposal; (iv) the Share Placing; (v) the appointment of proposed Directors; and (vi) the Whitewash Waiver, and the transactions contemplated thereunder. Voting on the resolutions at the EGM will be taken by poll.

SUMMARY

APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Concert Group are not interested in any Shares. Upon the implementation of the transactions contemplated under this circular, including but not limited to the Acquisition, the Share Placing and the Open Offer but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs, the Concert Group will, in aggregate, hold approximately 73.53% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Offer Shares and the Placing Shares, but before the allotment and issue of any of the Conversion Shares.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights to 30% or more will trigger an obligation on the Vendors to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM by way of poll.

The Vendors has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll, in which the Concert Group and those who are involved in or interested in the Acquisition will abstain from voting on the relevant solution(s).

If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Concert Group may exceed 50%, in which event the Vendors may further increase their shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

DEFINITIONS

In this circular, unless the context otherwise requires, the capitalised terms used herein shall have the following meanings:

“Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company pursuant to the terms and conditions under the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 21 November 2016 (as amended and restated on 20 February 2017 and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018) entered into between the Company and the Vendors in relation to the Acquisition
“Acquisition Completion”	completion of the Acquisition
“acting in concert”	has the meaning given to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 7 August 2017 in relation to, among other things, the Share Consolidation, the Acquisition, reverse takeover involving New Listing Application, the Disposal, the Share Placing, the Open Offer, the application of Whitewash Waiver and the change of Directors
“associates”	has the meaning given to it under the Takeovers Code
“Beijing Huige”	北京輝哥餐飲管理有限公司 (Beijing Huige Catering Management Company Limited*), a company established in the PRC with limited liability on 7 April 2010 and an indirect wholly-owned subsidiary of the Target Company
“Billion Express”	Billion Express International Limited (億通國際有限公司), a company incorporated in Hong Kong with limited liability on 10 December 2009 and, upon the completion of the Reorganisation, an indirect wholly-owned subsidiary of the Target Company
“Billion Great”	Billion Great International Limited (億高國際有限公司), a company incorporated in Hong Kong with limited liability on 10 December 2009 and, upon the completion of the Reorganisation, an indirect wholly-owned subsidiary of the Target Company
“Board”	the board of Directors

DEFINITIONS

“Business Day(s)”	a day (other than a Saturday, a Sunday or public holidays and days on which a tropical cyclone warning signal no.8 or above or a black rainstorm warning is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are generally open for business throughout their normal business hours in Hong Kong
“BVI”	British Virgin Islands
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“Changqing Dairy”	黑龍江常慶乳業有限責任公司 (Heilongjiang Chang Qing Dairy Products Co., Limited*), a company established in the PRC on 7 August 2008 with limited liability which is an indirect wholly-owned subsidiary of the Company and will cease to be a subsidiary of the Company upon Disposal Completion
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	Daqing Dairy Holdings Limited (大慶乳業控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1007)
“Completion”	Acquisition Completion and Disposal Completion
“Concert Group”	the Vendors and the parties acting in concert with any of them
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$517,881,250, being the aggregate consideration for the Acquisition
“Consideration CBs”	the 5-year zero coupon convertible bonds in the aggregate principal amount of HK\$129,470,312.50 to be issued by the Company to the Vendors (or their respective nominees) upon Acquisition Completion pursuant to the terms of the Acquisition Agreement to satisfy part of the Consideration
“Consideration Share(s)”	an aggregate of 3,789,375,000 new Consolidated Shares to be allotted and issued by the Company to the Vendors (or their respective nominees) upon Acquisition Completion at the Issue Price pursuant to the terms of the Acquisition Agreement to satisfy part of the Consideration

DEFINITIONS

“Consolidated Share(s)”	ordinary shares of HK\$0.00002 each in the share capital of the Company upon the Share Consolidation becoming effective
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and refers to Mr. Hung
“Conversion Price”	the initial conversion price of HK\$0.1025 per Conversion Share (subject to adjustment)
“Conversion Share(s)”	a maximum of 1,263,125,000 new Consolidated Shares to be allotted and issued upon exercise of the conversion rights attaching to the Consideration CBs
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Creative Corporate”	Creative Corporate Development Limited (創盈企業發展有限公司), a company incorporated in the BVI with limited liability on 2 January 2013, the entire issued share capital of which is owned by Ms. Hung as at the Latest Practicable Date and, upon completion of the Reorganisation, will become a wholly-owned subsidiary of the Target Company
“CWUMPO”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
“Daqing Dairy PRC”	大慶乳品廠有限責任公司 (Da Qing Dairy Limited), a company established in the PRC on 29 October 1997 with limited liability, which is an indirect wholly-owned subsidiary of the Company. Its predecessor is 大慶市牧工商聯合公司乳品廠 (Daqing City Animal Husbandry Trade Joint Company’s Dairy Factory*) which was established on 1 December 1970
“Decision Announcement”	the announcement of the Company dated 21 December 2016 in relation to, among other things, the decision of the Stock Exchange which agreed to allow the Company to submit a new listing application relating to the Target Group (but not any other proposal)
“Deed of Indemnity”	the deed of indemnity to be entered into by the Vendors in favour of the Enlarged Group upon Acquisition Completion pursuant to the terms of the Acquisition Agreement
“Deed of Non-Competition”	the deed of non-competition to be entered into by the Controlling Shareholder upon Acquisition Completion
“Directors”	directors of the Company

DEFINITIONS

“Disposal”	the proposed disposal of the entire issued share capital of Global Milk Singapore and its subsidiaries pursuant to the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the conditional sale and purchase agreement dated 21 November 2016 (and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018) entered into between the Company and the Disposal Purchaser in relation to the Disposal
“Disposal Completion”	completion of the Disposal
“Disposal Consideration”	HK\$1.00, being the consideration for the Disposal
“Disposal Group”	Global Milk Singapore and its subsidiaries in the PRC
“Disposal Purchaser” or “Mr. Jiang”	Mr. Jiang Jianhui (姜建輝), the purchaser of the Disposal Group under the Disposal Agreement, together with the parties acting in concert with him, who are Independent Third Parties and independent to the Vendors, are not interested in any Shares as at the Latest Practicable Date
“Dr. Choi”	Dr. Choi Chiu Fai Stanley, the chairman of the Board and an executive Director
“Dragonfair”	Dragonfair International Limited, a company incorporated in the BVI with limited liability on 17 August 2007, the entire issued share capital of which is held by Mr. Hung as at the Latest Practicable Date and, upon completion of the Reorganisation, will become a wholly-owned subsidiary of the Target Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, among other things, seeking approval from the Independent Shareholders in respect of (i) the Share Consolidation; (ii) the Acquisition; (iii) the Whitewash Waiver; (iv) the Disposal; (v) the Share Placing; and (vi) the appointment of proposed Directors, and the transactions contemplated thereunder
“Enhanced Securities”	Enhanced Securities Limited, a licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the Underwriter under the Underwriting Agreement and the Placing Agent under the Placing Agreement
“Enlarged Group”	the Group as enlarged by the Target Group and excluding the Disposal Group upon Completion

DEFINITIONS

“Excluded Shareholder(s)”	those Overseas Shareholders whom the Directors, after making relevant enquiry as required under the Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient on account of either the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an Independent Third Party, being a professional market research company engaged by the Company and the Target Company to prepare the Market Research Report
“Fuze Developments”	Fuze Developments Limited (富澤發展有限公司), a company incorporated in the BVI with limited liability on 23 August 2012, the entire issued share capital of which was held by Mr. Hung as at the Latest Practicable Date and, upon completion of the Reorganisation, will become a wholly-owned subsidiary of the Target Company
“GFA”	gross floor area
“Global Courage”	Global Courage Limited, a company incorporated in the BVI with limited liability, which is ultimately owned by Dr. Choi
“Global Milk Singapore”	Global Milk Products Pte. Ltd., a company incorporated in Singapore on 15 September 2006 with limited liability and an direct wholly-owned subsidiary of the Company, which will cease to be a subsidiary of the Company upon Disposal Completion
“Grand Rock”	Grand Rock International Limited (錦石國際有限公司), a company incorporated in the BVI with limited liability on 23 July 2012, the entire issued share capital of which is owned by Mr. So as at the Latest Practicable Date and, upon completion of the Reorganisation, will become a wholly-owned subsidiary of the Target Company
“Group”	the Company and its subsidiaries from time to time

DEFINITIONS

“Hefei Huige”	合肥輝哥餐飲管理有限公司 (Hefei Huige Catering Management Company Limited*), a company established in the PRC with limited liability on 30 August 2017 and is indirectly owned as to 70% of its equity interest by the Target Company and as to 30% of its equity interest by 合肥蜚翔餐飲服務有限公司 (Hefei Feixiang Catering Services Company Limited*), which is an independent third party of the Target Company and will become a connected person of the Company at the subsidiary level upon Completion
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“IFRSs”	International Financial Reporting Standards
“Independent Board Committee”	an independent committee of the Board which comprises all the independent non-executive Directors, namely, Mr. Ha Kee Choy Eugene, Mr. Szeto Tat Kwan and Mr. Fok Wai Ming Eddie
“Independent Financial Adviser”	Hooray Capital Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder
“Independent Shareholder(s)”	the Shareholders, excluding (i) the Concert Group, (ii) those who are involved or interested in a way which is different to other Shareholders in the Resumption Proposal and (iii) those who are required to abstain from voting at the EGM to be convened in accordance with the Listing Rules, the Takeovers Code and other applicable laws, rules and regulations
“Independent Third Party(ies)”	individual(s) or company(ies) who or which as far as the Directors are aware after having made all reasonable enquiries is/are not connected with the Company and its connected persons
“Issue Price”	HK\$0.1025 per Consideration Share

DEFINITIONS

“Last Trading Day”	21 March 2012, being the last trading day of the Shares prior to the Suspension
“Latest Practicable Date”	4 May 2018, being the latest practicable date for ascertaining certain information prior to the printing of this circular
“Latest Time for Acceptance”	4:00 p.m. on Monday, 25 June 2018 or such other time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the Offer Shares as described in the Open Offer Prospectus
“Latest Time for Termination”	5:00 p.m. on Tuesday, 26 June 2018 or such other time as may be agreed between the Company and the Underwriter, being the Business Day after the Latest Time for Acceptance
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange
“Market Research Report”	a commissioned research report from Frost & Sullivan for use in part in this circular to provide the Shareholders with information relating to the catering industry in the PRC
“Max Composed”	Max Composed Global Investments Limited (兆泰環球投資有限公司), a company incorporated in the BVI with limited liability on 18 January 2011, the entire issued share capital of which is owned by Ms. Hung as at the Latest Practicable Date and will, upon completion of the Reorganisation, become a wholly-owned subsidiary of the Target Company
“New Listing Application”	the deemed new listing application made by the Sponsor on behalf of the Company to the Listing Committee for the listing and permission to deal in the Consolidated Shares in issue upon Resumption
“Offer Price”	HK\$0.1025 per Offer Share
“Offer Share(s)”	101,050,000 new Consolidated Shares to be issued by the Company pursuant to the Open Offer
“Open Offer”	the proposed issue of the Offer Shares at the Offer Price on the basis of one (1) Offer Share for every five (5) Consolidated Shares held on the Record Date

DEFINITIONS

“Open Offer Posting Date”	Friday, 8 June 2018 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Open Offer Prospectus Documents to the Qualifying Shareholders or the Open Offer Prospectus to the Excluded Shareholders
“Open Offer Prospectus”	the prospectus to be issued by the Company in connection with the Open Offer
“Open Offer Prospectus Documents”	the Open Offer Prospectus and the application forms to be despatched by the Company to the Qualifying Shareholders in connection with the Open Offer
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are in (a) place(s) outside Hong Kong
“Placee(s)”	any individuals, corporate, institutional investors or other investors to be procured by the placing agent and/or its sub-placing agent(s) under the Share Placing
“Placing Agent”	Enhanced Securities
“Placing Agreement”	a placing agreement dated 2 May 2018 entered into between the Company and the Placing Agent in relation to the Share Placing
“Placing Price”	HK\$0.1025 per Placing Share
“Placing Shares”	757,875,000 new Consolidated Shares to be issued by the Company pursuant to the Share Placing
“PRC” or “China”	People’s Republic of China, which, for the purpose of this circular and for geographical reference only, excludes Taiwan, the Macao Special Administrative Region of the PRC and Hong Kong (unless otherwise indicated)
“PRC Legal Advisers”	Haiwen & Partners, the legal advisers of the Company as to PRC laws
“Predecessor Auditors” or “Deloitte”	Deloitte Touche Tohmatsu, the predecessor auditors of the Company
“Qualifying Shareholder(s)”	the Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company on the Record Date

DEFINITIONS

“Record Date”	Thursday, 7 June 2018, or such other date as may be agreed between the Company and the Underwriter in writing for the determination of the entitlements under the Open Offer
“Relevant Period”	the period commencing on the date which is six months prior to the date of publication of the Decision Announcement on 21 December 2016 and ending on the Latest Practicable Date
“Reorganisation”	the reorganisation of the Target Group in preparation for the New Listing Application, details of which are set out in the section headed “Reorganisation of the Target Group” in this circular
“Resumption”	the resumption of trading in the shares of the Company on the Stock Exchange
“Resumption Date”	the date on which dealings in the shares of the Company on the Main Board resumes
“Resumption Proposal”	the resumption proposal (as supplemented by subsequent submission(s) by the Company) submitted by the Company to the Stock Exchange on 22 November 2016 for the purpose of the Resumption which includes, among other things, the Acquisition, the Disposal, the Share Placing, the Open Offer and information of the Target Group
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSM”	RSM Nelson Wheeler Corporate Advisory Limited, the forensic accountant engaged by the Company
“SAFE”	The State Administration for Foreign Exchange of the PRC
“Sale Share(s)”	10,000 ordinary shares of US\$1.00 each, representing the entire issued share capital of the Target Company to be owned by the Vendors immediately prior to Acquisition Completion, among which 9,362 shares or 93.62% of the Sales Shares shall be held by Vendor I, 294 shares or 2.94% of the Sales Shares shall be held by Vendor II, 223 shares or 2.23% of the Sales Shares shall be held by Vendor III, 118 or 1.18% of the Sales Shares shall be held by Vendor IV and 3 shares or 0.03% of the Sales Shares shall be held by Vendor V (as trustee for Vendor I)
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

DEFINITIONS

“Shanghai Huige”	上海輝哥海鮮火鍋餐飲有限公司 (Shanghai Huige Seafood Hotpot Catering Company Limited*), a company established in the PRC with limited liability on 22 November 2004 and an indirect wholly-owned subsidiary of the Target Company
“Shanghai Longhui”	上海龍輝餐飲管理有限公司 (Shanghai Longhui Catering Management Company Limited*), a company established in the PRC with limited liability on 3 March 2009 and an indirect wholly-owned subsidiary of the Target Company
“Shanghai Qiaowei”	上海喬威投資諮詢有限公司 (Shanghai Qiaowei Investment Consulting Company Limited*), a company established in the PRC with limited liability on 19 October 2010 and an indirect wholly-owned subsidiary of the Target Company
“Shanghai Shengdisi”	上海聖迪斯企業發展有限公司 (Shanghai Shengdisi Corporate Development Company Limited*), a company established in the PRC with limited liability on 14 July 2004
“Shanghai Xiangwen”	上海向文餐飲管理有限公司 (Shanghai Xiangwen Catering Management Limited*) (formerly known as 上海食有軒餐飲管理有限公司 (Shanghai Shiyouxuan Catering Management Company Limited*)), a company established in the PRC with limited liability on 29 September 2009, 33% of its equity interest was previously held by Shanghai Longhui, which was transferred to an Independent Third Party on 25 August 2016
“Share(s)”	the ordinary share(s) of HK\$0.00001 each in the share capital of the Company
“Share Consolidation”	the consolidation of every two (2) issued and unissued Shares of HK\$0.00001 each into one (1) Consolidated Share of HK\$0.00002
“Share Option Scheme”	the share option scheme of the Company adopted pursuant to the written resolutions of the Shareholders passed on 10 October 2010
“Share Placing”	the proposed placing of the Placing Shares at the Placing Price on a fully underwritten basis to not less than six (6) Places, whom and whose ultimate beneficial owners are Independent Third Parties and independent to the Concert Group, for subscription of the Placing Shares
“Shareholder(s)”	holders of the Shares, or the Consolidated Shares, as the case may be
“Singapore”	the Republic of Singapore

DEFINITIONS

“Sponsor” or “Success New Spring”	Success New Spring Capital Limited (formerly known as New Spring Capital Limited), a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the sponsor to the New Listing Application
“Specified Event”	any event occurring or matter arising on or after the date of the Placing Agreement and the Underwriting Agreement (as the case maybe) and prior to Completion or the Latest Time for Termination, which if it had occurred or arisen before the date of the Placing Agreement and the Underwriting Agreement (as the case maybe) would have rendered any of the undertakings, warranties and representations contained in the Placing Agreement or the Underwriting Agreement (as the case maybe), untrue or incorrect and such would have an adverse impact or effect on the Share Placing or the Open Offer, as the case may be
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Suspension”	the suspension of trading in the Shares since 22 March 2012
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Target Company”	Longhui International Catering Management Holdings Limited (龍輝國際餐飲管理控股有限公司), a company incorporated in the Cayman Islands with limited liability on 19 August 2016
“Target Group”	the Target Company and its subsidiaries upon completion of the Reorganisation, comprising Fuze Developments, Dragonfair, Max Composed, Grand Rock, Creative Corporate, Billion Express, Billion Great, Shanghai Longhui, Shanghai Qiaowei, Wuhan Huige, Beijing Huige, Shanghai Huige and Hefei Huige, and each of them, a “Target Group Company”
“Tianjin Huige”	天津輝哥海鮮火鍋餐飲有限公司 (Tianjin Huige Seafood Hotpot Catering Company Limited*), a company established in the PRC with limited liability on 25 January 2013 and an indirect wholly-owned subsidiary of the Target Company and was deregistered on 16 December 2016
“Track Record Period”	the years ended 31 December 2015, 2016 and 2017
“Underwriter”	Enhanced Securities

DEFINITIONS

“Underwriting Agreement”	an underwriting agreement dated 2 May 2018 entered into between the Company and the Underwriter in relation to the Open Offer
“Underwritten Shares”	an aggregate of 36,882,338 Offer Shares underwritten by the Underwriter
“US\$” or “US dollar”	United States dollars, the lawful currency of the United States of America
“Veda Capital”	Veda Capital Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the financial adviser to the Company
“Vendor I” or “Mr. Hung”	Mr. Hung Shui Chak (洪瑞澤) (formerly known as Hung Pan (洪斌))
“Vendor II” or “Ms. Hung”	Ms. Hung Ying (洪瑩), elder sister of Mr. Hung
“Vendor III” or “Mr. Ho”	Mr. Ho, Roy Poon Kwong (何磐光)
“Vendor IV” or “Mr. So”	Mr. So Kam Chuen (蘇錦存)
“Vendor V” or “Ms. Sezto”	Ms. Sezto Yuen Man (司徒婉雯) (as trustee for Mr. Hung)
“Vendors”	Vendor I, Vendor II, Vendor III, Vendor IV and Vendor V, collectively, who are all Independent Third Parties and independent to the Disposal Purchaser (together with the parties acting in concert with him)
“Whitewash Waiver”	a waiver from the obligation of the Vendors to make a mandatory general offer to other Shareholders in respect of the Consolidated Shares (other than those already owned or agreed to be acquired by the Vendors) as a result of the allotment and issue of Consideration Shares pursuant to Note 1 on the dispensations from Rule 26 of the Takeovers Code
“Wuhan Huige”	武漢輝哥火鍋餐飲有限公司 (Wuhan Huige Hotpot Catering Company Limited*), a company established in the PRC with limited liability on 26 September 2011 and an indirect wholly-owned subsidiary of the Target Company
“%”	per cent.

* For identification purpose only

DEFINITIONS

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1=HK\$1.12. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or RMB have been, could have been or may be converted at such or any other rate or at all.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails. English translation of company names in Chinese or another language which are marked with “” are for identification purpose only.*

The English language version of this circular has been translated into the Chinese language and English and Chinese versions of this circular are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations and definitions of certain terms used in this circular in connection with the Target Group and its business. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“CAGR”	compound annual growth rate
“cash investment payback”	the amount of time it takes for the accumulated operating profit from a restaurant to cover the costs of operating
“high-end” or “high-end market”	the market segment of the Cantonese-style hotpot restaurant market where average spending per customer is RMB300 or above
“mid-tier” or “mid-tier market”	the market segment of the Cantonese-style hotpot restaurant market where average spending per customer ranges from RMB100 to RMB299
“monthly break-even”	the point at which the monthly revenue of a newly opened restaurant is at least equal to monthly expenses

CORPORATE INFORMATION

The following sets out the corporate information relating to the Enlarged Group upon Resumption.

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Room 2512, 25/F Cosco Tower 183 Queen's Road Central Hong Kong
Company's website	http://www.cre8ir.com/daqingdairy/
Company secretary	Mr. Wong Chun Kit (<i>HKICS</i>) Room 2512, 25/F Cosco Tower 183 Queen's Road Central Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Hung Shui Chak Flat C, 39/F, Block 2, Robinson Place 70 Robinson Road, Mid-Level Hong Kong Mr. Yuan Mingjie Suite 2801, No. 14, Lane 258 Hongrun International Garden Tiandong Road, Shanghai, 200235 China
Audit committee	Mr. Ha Kee Choy Eugene (<i>Chairman</i>) Mr. Chan Chun Yiu Thomas Mr. Mai Guangfan
Remuneration committee	Mr. Mai Guangfan (<i>Chairman</i>) Mr. Chan Chun Yiu Thomas Mr. Ha Kee Choy Eugene
Nomination committee	Mr. Chan Chun Yiu Thomas (<i>Chairman</i>) Mr. Ha Kee Choy Eugene Mr. Hung Shui Chak

CORPORATE INFORMATION

Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F Hopewell Centre 183 Queen’s Road East Wan Chai Hong Kong
Compliance adviser	HeungKong Capital Limited Suite 622 Ocean Centre Harbour City Tsim Sha Tsui Kowloon, Hong Kong
Principal bankers	China Merchants Bank Co., Ltd. 21/F Bank of America Tower 12 Harcourt Road Central, Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central, Hong Kong Wing Lung Bank Ltd. 45 Des Voeux Road Central, Hong Kong The Hongkong and Shanghai Banking Corporation Limited 1 Queen’s Road Central Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED

Sponsor	Success New Spring Capital Limited Unit 2108, 21st Floor China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Sheung Wan Hong Kong
Financial adviser to the Company	Veda Capital Limited Room 1106, 11/F Wing On Centre 111 Connaught Road Central Hong Kong
Independent Financial Adviser to the Independent Shareholders and the Independent Board Committee	Hooray Capital Limited 1/F Guangdong Investment Tower 148 Connaught Road Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong Law:</i> Michael Li & Co. 19/F., Prosperity Tower No. 39 Queen's Road Central Central Hong Kong <i>As to PRC Law:</i> Haiwen & Partners Unit 2605, Jing An Kerry Center Tower 1 1515 Nanjing West Road Jing An District Shanghai 200040 PRC <i>As to Cayman Islands Law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

DIRECTORS AND PARTIES INVOLVED

Legal adviser to the Sponsor	<p><i>As to Hong Kong Law:</i> CFN Lawyers 27/F., Neich Tower 128 Gloucester Road Wan Chai Hong Kong</p> <p><i>As to PRC Law:</i> AllBright Law Offices Room 02-07, 33/F Guangzhou International Finance Center No.5 Zhujiang West Road Tianhe District, Guangzhou Guangdong 510623 PRC</p>
Reporting accountant and auditors of the Company	<p>HLB Hodgson Impey Cheng Limited <i>Certified Public Accountants</i> 31/F, Gloucester Tower The Landmark, 11 Pedder Street Central, Hong Kong</p>
Reporting accountant and independent auditor to the Target Group	<p>PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong</p>
Industry consultant	<p>Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai, 200232 PRC</p>
Internal control consultant	<p>Protiviti Shanghai Co., Ltd. Room 2618-38 Central Plaza No. 381 Huai Hai Zhong Road Shanghai PRC</p>

DIRECTORS AND PARTIES INVOLVED

The following are the existing Directors who will resign as Directors upon Resumption except Mr. Ha Kee Choy Eugene:

Name	Address	Nationality
<i>Executive Directors</i>		
Dr. Choi Chiu Fai Stanley (蔡朝暉)	Flat A, 6th Floor The Albany No.1 Albany Road Hong Kong	Chinese
Mr. Choi Ka Wai (蔡嘉偉)	Flat C, 34/F. Mei Hong Court South Horizons Phase 3 Ap Lei Chau Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Ha Kee Choy Eugene (夏其才)	Flat E, 26/F. Hsia Kung Mansion 24 Taikoo Shing Road Hong Kong	Chinese
Mr. Szeto Tat Kwan (司徒達坤)	Flat B, 40/F., Tower 13 Ocean Shores Tseung Kwan O Kowloon Hong Kong	Chinese
Mr. Fok Wai Ming Eddie (霍偉明)	Flat G, 17/F., Block 1 San Po Kong Plaza 33 Shung Ling Street San Po Kong, Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED

The following are the proposed Directors whom the Company proposed to appoint upon Resumption:

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Hung Shui Chak (洪瑞澤)	Flat C, 39/F, Block 2 Robinson Place 70 Robinson Road Mid-level, Hong Kong	Chinese
Mr. So Kam Chuen (蘇錦存)	Room 329 Wai Sum House Lung Heng Estate Shatin, New Territories Hong Kong	Chinese
Mr. Yuan Mingjie (袁明捷)	Suite 2801, No. 14, Lane 258 Hongrun International Garden Tiandong Road, Shanghai, 200235 China	Chinese
Mr. Chen Jun (陳軍)	Room 1201, No.7 3468 Nong, Hunan Road Mei Lin Residential Quarter Shanghai PRC	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Chan Chun Yiu Thomas (陳浚耀)	Flat D, 2/F, Nga Yuen 66-68 Village Road Happy Valley, Hong Kong	Chinese
Mr. Mai Guangfan (麥廣帆)	Flat A, 10/F, Block 2 Oscar By The Sea Tseung Kwan O, NT Hong Kong	Chinese



DAQING DAIRY HOLDINGS LIMITED

大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

Executive Directors

Dr. Choi Chiu Fai Stanley

Mr. Choi Ka Wai

Independent non-executive Directors

Mr. Ha Kee Choy Eugene

Mr. Szeto Tat Kwan

Mr. Fok Wai Ming Eddie

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business

in Hong Kong:

Room 2512, 25/F.

Cosco Tower

183 Queen's Road

Central

Hong Kong

9 May 2018

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED SHARE CONSOLIDATION ON THE BASIS OF EVERY TWO ISSUED AND UNISSUED EXISTING SHARES INTO ONE CONSOLIDATED SHARE;
- (2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LONGHUI INTERNATIONAL CATERING MANAGEMENT HOLDINGS LTD.;
- (3) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;
- (4) APPLICATION FOR WHITEWASH WAIVER;
- (5) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF GLOBAL MILK PRODUCTS PTE. LTD.;
- (6) PROPOSED PLACING OF CONSOLIDATED SHARES;
- (7) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE;
- (8) CHANGE OF DIRECTORS;
- AND
- (9) NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

INTRODUCTION

References are made to the announcements of the Company dated 7 June 2016, 21 December 2016, 21 February 2017, 28 February 2017, 4 May 2017, 5 June 2017, 7 August 2017, 28 August 2017, 20 September 2017, 6 April 2018 and 2 May 2018, respectively.

Trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 22 March 2012. On 26 May 2016, the Stock Exchange issued a letter to the Company stating that: (i) the second delisting stage expired on 18 May 2016 but the Company has not submitted any resumption proposal before the deadline; and (ii) the Stock Exchange decided to place the Company in the third delisting stage under Practice Note 17 to the Listing Rules. Accordingly, the third delisting stage commenced on 7 June 2016 and expired on 6 December 2016. The conditions for the Resumption are set out as follows:

- (i) demonstrate sufficient operations or assets under rule 13.24 of the Listing Rules;
- (ii) conduct forensic investigation on the issues raised by Deloitte, disclose the findings of the investigation and take any remedial actions;
- (iii) demonstrate that there is no reasonable regulatory concern about the integrity of the Company's management which will pose a risk to investors and damage market confidence;
- (iv) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet obligations under the Listing Rules; and
- (v) inform the market of material information for the shareholders and the investors to appraise the Group's position.

On 21 November 2016, the Company (as the purchaser) and the Vendors (as the vendor) entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital of the Target Company at the Consideration of HK\$517,881,250.

On 22 November 2016, the Resumption Proposal was submitted to the Stock Exchange by the Company to demonstrate to the Stock Exchange that when the Resumption Proposal is successfully implemented, the conditions for the Resumption will be satisfied.

On 16 December 2016, the Company received a letter from the Stock Exchange, which stated that the Stock Exchange agreed to allow the Company to submit a New Listing Application relating to the Acquisition (but not any other proposal) on or before 28 February 2017.

On 27 February 2017, the Company made the first New Listing Application to the Stock Exchange.

LETTER FROM THE BOARD

Since six months or more have elapsed, the first New Listing Application and the second New Listing Application have subsequently lapsed respectively. The Company shall resubmit a new listing application to the Stock Exchange to reactivate the listing application pursuant to Rule 9.03(1) of the Listing Rules. The Company resubmitted a third New Listing Application to the Stock Exchange on 6 April 2018.

The purpose of this circular is to provide the Shareholders with further details of, among other things, (i) the Share Consolidation; (ii) the Acquisition; (iii) reverse takeover involving a New Listing Application; (iv) application for the Whitewash Waiver; (v) the Disposal; (vi) the Share Placing; (vii) the Open Offer; (viii) the appointment of proposed Directors; (ix) the recommendation of the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the Disposal and the transactions contemplated thereunder; and (x) the notice of the EGM.

This circular also provides additional information on the Group and the Target Group as required under the Listing Rules in connection with the New Listing Application.

1. PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation on the basis that every two (2) issued and unissued Shares of HK\$0.00001 each will be consolidated into one (1) Consolidated Share of HK\$0.00002 each.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon:

- (i) passing of an ordinary resolution to approve the Share Consolidation by the Shareholders by way of poll at the EGM;
- (ii) the Listing Committee granting approval to the listing of, and the permission to deal in, the Consolidated Shares; and
- (iii) without prejudice to the above, all necessary consents and approvals regarding the Share Consolidation having been obtained by the Company.

The Share Consolidation is not conditional upon other transactions contemplated under this circular, and is expected to become effective on the day immediately after the EGM and before Acquisition Completion, the completion of Share Placing and the completion of Open Offer.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$380,000 divided into 38,000,000,000 Shares of HK\$0.00001 each, of which 1,010,500,000 Shares have been issued and fully paid or credited as fully paid.

LETTER FROM THE BOARD

Assuming that no further Shares will be allotted and issued or repurchased between the Latest Practicable Date and the date of the EGM, immediately after the Share Consolidation becoming effective, the authorised share capital of the Company will be HK\$380,000 divided into 19,000,000,000 Consolidated Shares of HK\$0.00002 each, of which 505,250,000 Consolidated Shares will be in issue.

The Consolidated Shares will rank *pari passu* in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders. Fractional Consolidated Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company, if feasible and applicable.

Save for the necessary professional expenses for the implementation of the Share Consolidation, the implementation of the Share Consolidation will not alter the underlying assets, business operation, management or financial position of the Company and the interests and rights of the Shareholders. The Directors believe that the Share Consolidation will not have any material adverse effect on the financial position of the Group.

Application for listing of the Consolidated Shares

Application will be made by the Company to the Listing Committee for the listing of, and the permission to deal in, the Consolidated Shares. All necessary arrangements will be made for the Consolidated Shares to be admitted into the CCASS.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

None of the Shares are listed or dealt in any other stock exchange other than the Stock Exchange, and at the time the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

LETTER FROM THE BOARD

Reasons for and benefits of the Share Consolidation

The Share Consolidation will increase the nominal value of the Shares and it is expected to bring about corresponding upward adjustment in the trading price of the Consolidated Shares. In addition, the Share Consolidation will increase the market value per board lot of the Shares, which will reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, as well as to satisfy the minimum value per board lot of HK\$2,000 as required under the “Guide on Trading Arrangements for Selected Types of Corporate Actions” published by Stock Exchange on 28 November 2008. Certain brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced shares or tend to discourage individual brokers from recommending low-priced shares to their customers. Therefore, with a higher trading price of the Consolidated Shares and reduction of the transaction and handling costs as a proportion of the market value of each board lot, the Company believes that the Share Consolidation will make investing in Shares more attractive to a broader range of institutional and professional investors and other members of the investing public. As such, the Board believes that the Share Consolidation may attract more investors and extend the shareholders’ base of the Company.

As at the Latest Practicable Date, the Company has no intention to conduct any corporate actions or fundraising activities in at least the forthcoming twelve months which may have negative impact on the share price of the Company. Moreover, if the share price of the Company in the future would be close to the extremities of HK\$0.01 or HK\$9,995,000 (for the illustration purpose), the Company may be required to take further action, such as to change the trading method or to proceed with a consolidation or subdivision of its securities pursuant to Rule 13.64 of the Listing Rules. In view of the above, the Board considers all the relevant factors and takes reasonable steps to ensure the Share Consolidation serves the aforesaid intended purpose and are of the view that the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

Save for the necessary professional expenses for the implementation of the Share Consolidation, the implementation of the Share Consolidation will not alter the underlying assets, business operation, management or financial position of the Company and the interests and rights of the Shareholders.

Change in board lot size

Prior to the Suspension, the existing Shares were traded on the Stock Exchange in board lot size of 1,000 Shares. Following the implementation of the Share Consolidation, the board lot size for trading in the Consolidated Shares will be changed to 20,000 Consolidated Shares.

Based on the Issue Price, the Conversion Price, the Offer Price and the Placing Price of HK\$0.1025 per Consolidated Share, the value of each board lot of 20,000 Consolidated Shares, assuming the Share Consolidation becoming effective, would be HK\$2,050.

LETTER FROM THE BOARD

Free exchange of the Consolidated Shares' certificates and trading arrangement

Subject to the Share Consolidation becoming effective, Shareholders may, during a period from 9:00 a.m. on Tuesday, 29 May 2018 to 4:30 p.m. on Thursday, 5 July 2018 (both dates inclusive), submit share certificates for the existing Shares in board lot of 1,000, which are blue in colour, to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at the expense of the Company, to exchange the new share certificates for the Consolidated Shares, which will be silver grey in color. Thereafter, each existing share certificate for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each existing share certificate of the Shares cancelled or issued is higher.

Nevertheless, existing certificates for the Shares will continue to be good evidence of legal title and will be valid for dealings, trading and settlement purpose after the Share Consolidation has become effective and may be exchanged for certificates for the Consolidated Shares at any time in accordance with the foregoing.

Odd lots arrangement and matching services

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint an agent to provide matching services for sale and purchase of odd lots of Consolidated Shares at the relevant market price per Consolidated Share for Shareholders, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares from Friday, 6 July 2018 to Thursday, 26 July 2018. Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who has any doubt about the odd lots arrangement, is recommended to consult his/her/its own professional advisers.

2. THE ACQUISITION

On 21 November 2016, the Company (as the purchaser) and the Vendors (as the vendors) entered into the Acquisition Agreement (as amended and restated on 20 February 2017 and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018), pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the Sale Shares for a total consideration of HK\$517,881,250 which will be satisfied as to (i) HK\$388,410,937.50 by way of allotment and issue of 3,789,375,000 Consideration Shares at the Issue Price of HK\$0.1025 per Consideration Share; and (ii) HK\$129,470,312.50 by way of issue of Consideration CBs in the aggregate principal amount of HK\$129,470,312.50 entitling the Vendors (or their respective nominees) to convert into a maximum of 1,263,125,000 Conversion Shares based on the initial conversion price of HK\$0.1025 per Conversion Share (subject to adjustment for the common antidilutive effects).

LETTER FROM THE BOARD

The Acquisition Agreement

Date: 21 November 2016 (as amended and restated on 20 February 2017 and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018)

Parties: Purchaser: The Company

Vendors: Mr. Hung, as the Vendor I;
Ms. Hung, as the Vendor II;
Mr. Ho, as the Vendor III;
Mr. So, as the Vendor IV; and
Ms. Sezto, as the Vendor V (as trustee for Mr. Hung)

The entire issued share capital of the Target Company, upon completion of Reorganisation, will be held as to 93.62%, 2.94%, 2.23%, 1.18% and 0.03% by Vendor I, Vendor II, Vendor III, Vendor IV and Vendor V (as trustee for Vendor I) respectively. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are Independent Third Parties and independent to the Disposal Purchaser (together with the parties acting in concert with him) as at the Latest Practicable Date.

Assets to be acquired

Pursuant to and upon the terms and conditions of the Acquisition Agreement, the Vendors have conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, being the entire issued share capital of the Target Company, free from all encumbrances together with all rights now and hereafter attaching thereto including but not limited to all dividends paid, declared or made in respect thereof at any time on or after the date of the Acquisition Completion.

Further information on the Target Group is set out in the sections headed "History and background of the Target Group" and "Business of the Target Group" in this circular, respectively.

The Consideration

The Consideration is HK\$517,881,250, of which, upon Acquisition Completion:

- (i) HK\$388,410,937.50 will be satisfied by way of allotment and issue of an aggregate of 3,789,375,000 Consideration Shares at the Issue Price of HK\$0.1025 per Consideration Share, credited as fully paid, to the Vendors (or their respective nominees) in proportion to their respective shareholding in the Target Company; and
- (ii) HK\$129,470,312.50 will be satisfied by way of issue of the Consideration CBs in the aggregate principal amount of HK\$129,470,312.50 entitling the Vendors (or their respective nominees) to convert into a maximum of

LETTER FROM THE BOARD

1,263,125,000 Conversion Shares based on the initial conversion price of HK\$0.1025 per Conversion Share to the Vendors (or their respective nominees) in proportion to their respective shareholding in the Target Company.

The Consideration Shares and the Conversion Shares will be allotted and issued pursuant to the grant of a specific mandate proposed to be obtained at the EGM.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects inter se and with all the other Consolidated Shares in issue as at the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Directors are of the view that the settlement of part of the Consideration with the inclusion of the issue of the Consideration CBs to be advantageous for the Group having considered the following reasons:

- (i) the issue of the Consideration CBs to settle part of the Consideration will reduce the immediate dilution impact on the existing Shareholders;
- (ii) as compared to cash and/or the issue of the promissory notes, the issue of the Consideration CBs will not adversely affect the cash position and development of the Group in the short to medium term; and
- (iii) the exercise of the conversion rights attaching to the Consideration CBs are subject to, among other restriction, the Company meeting the minimum public float requirement under Rule 8.08 of the Listing Rules such that no conversion of which would result in the Company not meeting the minimum public float as required under the Listing Rules.

The Consideration was arrived at after arm's length negotiations among the Company and the Vendors on normal commercial terms with reference to a number of factors at the material time, including but not limited to (i) the audited net profit of the Target Group attributable to the equity shareholders of the Target Company of approximately RMB36.5 million (equivalent to approximately HK\$40.9 million), for the year ended 31 December 2015; (ii) the potential business prospect of the Target Group; and (iii) the management's assessment on the price-to-earnings ratio ("**P/E Ratio**") of four comparable companies listed on the Stock Exchange on a best effort basis, which are principally engaged in the operation of Chinese cuisine restaurants and have substantial business in the PRC, including (i) XiabuXiabu Catering Management (China) Holdings Co., Limited (Stock Code: 520) with a P/E Ratio of 17.3; (ii) Tang Palace (China) Holdings Limited (Stock Code: 1181) with a P/E Ratio of 18.7; (iii) Tao Heung Holdings Limited (Stock Code: 573) with a P/E Ratio of 13.0; and (iv) TANSH Global Food Group Co., Limited (formerly known as Xiao Nan Guo Restaurants Holdings Limited) (Stock Code: 3666) which was excluded from the management's assessment due to its negative earnings for the year ended 31 December 2015.

LETTER FROM THE BOARD

Having considered the above factors, the Directors are of the opinion that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Consideration Shares and the Issue Price

Pursuant to the Acquisition Agreement, the Company will allot and issue, credited as fully paid, 3,789,375,000 Consideration Shares at the Issue Price to the Vendors (or their respective nominees), as part of the Consideration.

The Consideration Shares represents:

- (i) approximately 7.50 times of the entire issued share capital of the Company (assuming the Share Consolidation becoming effective) as at the Latest Practicable Date;
- (ii) approximately 88.24% of the issued share capital of the Company (assuming the Share Consolidation becoming effective) as enlarged by the allotment and issue of the Consideration Shares but before the allotment and issue of Conversion Shares;
- (iii) approximately 68.18% of the issued share capital of the Company (assuming the Share Consolidation becoming effective) as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise of the Consideration CBs in full;
- (iv) approximately 60.00% of the issued share capital of the Company (assuming the Share Consolidation becoming effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of Consideration CBs in full and allotment and issue of all Placing Shares; and
- (v) approximately 59.06% of the issued share capital of the Company (assuming the Share Consolidation becoming effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of Consideration CBs in full, allotment and issue of all the Placing Shares and Offer Shares.

The Issue Price of HK\$0.1025 per Consideration Share represents:

- (i) a discount of approximately 96.95% to the equivalent closing price of approximately HK\$3.360 per Consolidated Share based on the closing price of approximately HK\$1.680 per Share as quoted on the Stock Exchange on the Last Trading Day after taking into account the effect of the Share Consolidation;

LETTER FROM THE BOARD

- (ii) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.724 per Consolidated Share based on the average closing price of approximately HK\$1.862 per Share as quoted on the Stock Exchange for the last five full trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (iii) a discount of approximately 97.36% to the equivalent average closing price of approximately HK\$3.882 per Consolidated Share based on the average closing price of approximately HK\$1.941 per Share as quoted on the Stock Exchange for the last ten full trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (iv) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.729 per Consolidated Share based on the average closing price of approximately HK\$1.864 per Share as quoted on the Stock Exchange for the last thirty full trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (v) a premium of approximately HK\$0.1882 over the audited net liabilities value per Consolidated Share of approximately HK\$0.0857 based on the published audited consolidated net liabilities of the Company of approximately HK\$43.31 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective; and
- (vi) a discount of approximately 0.29% to the unaudited net assets value per Consolidated Share of approximately HK\$0.1028 based on the unaudited pro forma consolidated net assets of the Enlarged Group of approximately HK\$51.96 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective.

The Issue Price was determined after arm's length negotiations among the Company and the Vendors taking into account (i) the prolonged suspension of trading in the Shares; (ii) the net liabilities position of the Group as at 30 June 2016; (iii) the consecutive loss making recorded by the Group in recent years; (iv) the business and prospects of the Target Group; and (v) the fund required for the continuing operation of the Enlarged Group. The Directors consider that the Issue Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Consideration Shares shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issuance including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of issuance and allotment.

LETTER FROM THE BOARD

The Consideration CBs

The principal terms of the Consideration CBs are summarised as below:

Issuer:	The Company
Aggregated principal amount:	HK\$129,470,312.50
Interest:	The Consideration CBs do not carry any interest
Maturity:	The date falling on the fifth anniversary of the date of issue of the Consideration CBs (the “ Maturity Date ”)
Conversion period:	From the date of issue of the Consideration CBs up to and including the Maturity Date (the “ Conversion Period ”)
Conversion Price:	Initially HK\$0.1025 per Consolidated Share (subject to adjustment)
Underlying number of Shares	Based on the Conversion Price, a maximum of 1,263,125,000 Conversion Shares may fall to be allotted and issued upon exercise of the conversion rights attaching to the Consideration CBs in full

LETTER FROM THE BOARD

- Conversion rights and restrictions: Provided that (i) any conversion of the Consideration CBs does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the bondholder exercising the conversion rights, whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Consideration CBs (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the Consideration CBs) represents more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) the public float of the Consolidated Shares shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Consolidated Shares of the Company at any one time in compliance with the Listing Rules and the bondholder shall, subject to compliance with the procedures set out in the conditions, have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Consideration CBs registered in its name into Consolidated Shares
- Voting: The holders of the Consideration CBs (in their capacity as such) shall not be permitted to attend or vote at any meetings of the Shareholders
- Redemption:
- (i) any amount of the Consideration CBs which is converted will forthwith be cancelled. Certificate in respect of the Consideration CBs cancelled will be forwarded to or to the order of the Company and such Consideration CBs may not be reissued or resold;
 - (ii) any amount of the Consideration CBs which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount; and
 - (iii) the Company shall not be entitled to redeem any part of the Consideration CBs prior to the Maturity Date

LETTER FROM THE BOARD

- Transferability: Subject to the non-disposal undertaking as disclosed in the paragraph headed “Non-Disposal Undertakings” in the section headed “Relationship with Controlling and Substantial Shareholder”, and with the prior notification to the Company, the Consideration CBs may be transferable provided that the Consideration CBs may not be transferred to any connected person of the Company (as defined under the Listing Rules) without prior written consent of the Company
- Ranking: The Conversion Shares issued upon conversion of the Consideration CBs will in all respects rank *pari passu* with the Consolidated Shares in issue on the date of allotment and issue of such Conversion Shares and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant conversion date. A holder of Conversion Shares issued on conversion of the Consideration CBs shall not be entitled to any rights the record date for which precedes the relevant conversion date

LETTER FROM THE BOARD

- Adjustment events: The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events:
- (i) consolidation or subdivision of the Consolidated Shares;
 - (ii) capitalisation of profits or reserves;
 - (iii) capital distribution;
 - (iv) offer to the Shareholders of Consolidated Shares for subscription by way of rights, or a grant of options or warrants to subscribe for Consolidated Shares, at a price which is less than 80% of the market price per Consolidated Share;
 - (v) issue wholly for cash or for reduction of liabilities of securities convertible into or exchangeable for or carrying rights of subscription for Consolidated Shares, if in any case the total effective consideration per Consolidated Share receivable (or in the case of reduction in liabilities, the amount of liabilities to be reduced) is less than 80% of the market price, or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration receivable is less than 80% of such market price per Consolidated Share;
 - (vi) issue of Consolidated Shares being made wholly for cash or for reduction of liabilities at a price less than 80% of the market price per Consolidated Share;
 - (vii) issue of Consolidated Shares for the acquisition of asset at a total effective consideration per Consolidated Share which is less than 80% of the market price per Consolidated Share; and
 - (viii) issue of securities convertible into or exchangeable for or carry rights of subscription for new Consolidated Shares for the acquisition of asset at a total effective consideration per Consolidated Share which is less than 80% of the market price per Consolidated Share
- Listing: No listing will be sought for the Consideration CBs on the Stock Exchange or any other stock exchange

LETTER FROM THE BOARD

The Conversion Price, which is equivalent to the Issue Price, the Offer Price and the Placing Price, was determined after arm's length negotiations among the Company and the Vendors pursuant to the Acquisition Agreement and the Company considers that the terms of Consideration CBs are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Application for the listing of the Consideration Shares and the Conversion Shares

The Company will apply to the Stock Exchange for the listing of, and the permission to deal in, the Consideration Shares and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Consideration CBs. The Consideration Shares and the Conversion Shares shall be allotted and issued under a specific mandate of the Company to be obtained at the EGM.

Acquisition Completion

The Acquisition Completion shall take place at 4:00 p.m. on the third Business Day (or such other date as the Vendors and the Company may agree in writing) after all the conditions precedent under the Acquisition Agreement having been fulfilled or waived (as the case may be) by the relevant parties, which is expected to be on 4 July 2018.

Conditions precedent

Acquisition Completion shall be conditional upon and subject to:

- a. the Company being reasonably satisfied with the results of the due diligence review to be conducted on the Target Group;
- b. all necessary consents, licences and approvals and/or waiver required to be obtained on the part of the Vendors and the Target Group and all matters required to be fulfilled by the Vendors and the Company under or by the Listing Rules, the Takeovers Code, the Stock Exchange, the SFC and/or other regulatory bodies in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- c. all necessary consents, licences and approvals and/or waiver required to be obtained on the part of the Company and all matters required to be fulfilled by the Company under or by the Listing Rules, the Takeovers Code, the Stock Exchange, the SFC and/or other regulatory bodies in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

LETTER FROM THE BOARD

- d. the passing by the Independent Shareholders at the EGM to be convened and held of resolutions to approve the Acquisition Agreement and the transactions contemplated thereby, including but not limited to the issue of the Consideration CBs and the Consideration Shares, the issue of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Consideration CBs, the Whitewash Waiver, as well as the Placing Agreement, the Disposal, the Share Consolidation and other matters, if any and if required, under the Resumption Proposal and the respective transactions contemplated thereunder;
- e. the obtaining of a PRC legal opinion (in form and substance satisfactory to the Company) from a firm of PRC legal advisers in relation to (i) the Acquisition Agreement and the transactions contemplated thereby; and (ii) the due incorporation, assets, business, compliance with laws and other aspects of the Target Group which the Company may reasonably require;
- f. the warranties given by the Vendors in the Acquisition Agreement remaining true and accurate in all material respects;
- g. there having been no material adverse change in the operation, business, assets, finances or prospects of the Target Group since 1 October 2016 and up to Acquisition Completion;
- h. the Disposal Agreement having become unconditional or completed;
- i. the Executive granting the Whitewash Waiver to the Vendors (and such waiver not being subsequently revoked prior to the Acquisition Completion) and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- j. the Listing Committee granting the listing of and permission to deal in the Consideration Shares and the Conversion Shares;
- k. the Stock Exchange granting the approval to the Company for the issue of the Consideration CBs;
- l. the Stock Exchange granting approval for the Resumption;
- m. the issue of this circular by the Company as required under the Listing Rules and the Takeovers Code;
- n. the completion of the Reorganisation and the Company having obtained legal opinion(s) issued by lawyers in relevant jurisdictions in respect of the due completion of the Reorganisation in such form and substance satisfactory to the Company;

LETTER FROM THE BOARD

- o. the Placing Agreement having become unconditional (other than the condition for Acquisition Agreement to become unconditional), if applicable; and
- p. the Share Consolidation having become effective.

The Company may at its absolute discretion at any time waive in writing any of the conditions set out in (a), (e), (f), (g) and (h) (to the extent it is capable of being waived) and such waiver may be made subject to such terms and conditions as are determined by the Company. Other than the conditions set in (a), (e), (f), (g) and (h), all the conditions set out above are not waivable. If the conditions set out in the Acquisition Agreement have not been satisfied (or as the case may be, waived) on or before 31 August 2018 (or such other date as may be agreed between the Vendors and the Company), the Acquisition Agreement shall cease and determine (save and except causes stated in the Acquisition Agreement which shall continue to have full force and effect) notwithstanding any other provisions of the Acquisition Agreement, and thereafter none of the parties shall have any obligations and liabilities towards the others save for any antecedent breaches of the terms of the Acquisition Agreement.

As at the Latest Practicable Date, save for condition (e), none of the above conditions precedent has been fulfilled.

Information on the Vendors

Mr. Hung, being the controlling shareholder of the Target Group, will be primarily responsible for formulating the overall development strategies and business plan of the Enlarged Group. Mr. Hung took the overall business development of the Target Group since 2012 and continues to oversee the management of the operations and business of the Target Group. He has guided the operations and business of the Target Group in adhering to quality and innovation in the operations since he took up the business development of the Target Group in 2009. As at the Latest Practicable Date, Mr. Hung is beneficially interested in 93.62% of the issued share capital of the Target Company.

Ms. Hung, the elder sister of Mr. Hung, is principally engaged in the investment in businesses operating in Hong Kong and China, is beneficially interested in 2.94% of the issued share capital of the Target Company as at the Latest Practicable Date.

Mr. Ho, who has extensive experience in property industry, is beneficially interested in 2.23% of the issued share capital of the Target Company as at the Latest Practicable Date.

Mr. So, joined the Target Group in 2004 and is serving as executive chef and brand general manager of *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) and has gained over 12 years of experience in the catering industry and operations management. As at the Latest Practicable Date, Mr. So is beneficially interested in 1.18% of the issued share capital of the Target Company.

LETTER FROM THE BOARD

Ms. Sezto is engaged in asset management in the PRC, and is legally interested in 0.03% of the issued share capital of the Target Company as at the Latest Practicable Date, which is beneficially held on trust as trustee for Mr. Hung.

To the best of the Directors' knowledge information and belief, having made all reasonable enquiries, the Vendors are Independent Third Parties and independent third parties to the Disposal Purchaser (together with the parties acting in concert with him).

Information on the Target Group

Information on the Target Group is set out in the sections headed "History and background of the Target Group" and "Business of the Target Group" in this circular.

Financial information of the Target Group

Set out below are the key financial information of the Target Group for the three years ended 31 December 2017, which is derived from the consolidated financial information of the Target Group set forth in Appendix I to this circular:

	Year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue	716,199	707,311	700,432
Net profit before taxation	52,858	54,822	37,799
Net profit after taxation	36,544	38,503	25,652

	As 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Total assets	309,256	387,561	388,873
Total equity	20,990	59,492	50,364

The proposed Directors confirm that there have been no material change in the financial or trading position or outlook of the Target Group since 31 December 2017, being the date to which the latest audited consolidated financial statements of the Target Group were made, up to and including the Latest Practicable Date.

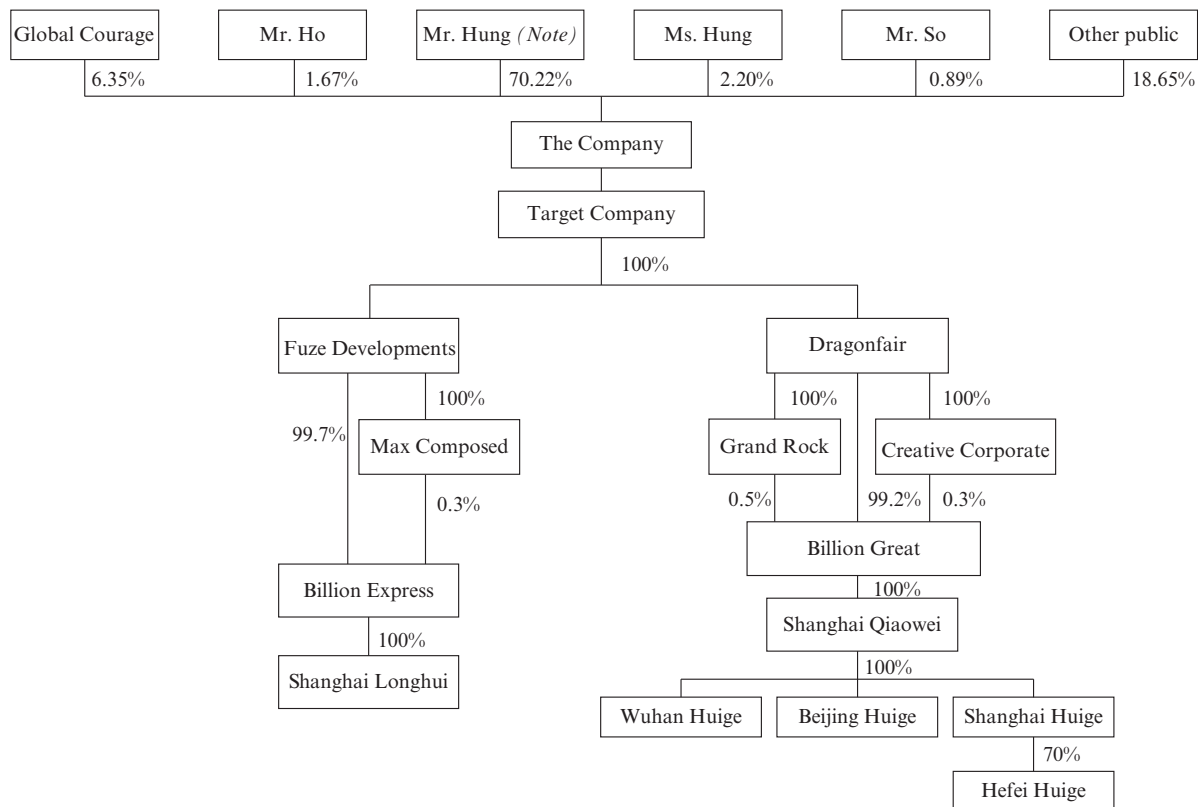
Reorganisation of the Target Group

The Target Group is undergoing the Reorganisation as at the Latest Practicable Date.

LETTER FROM THE BOARD

For details of the Reorganisation, please refer to section headed “Reorganisation of the Target Group” in this circular.

Upon the Acquisition Completion, the structure of the Enlarged Group will be as follow:



Note: Ms. Seztó, as one of the Vendors, was selling her Sale Shares as trustee for Mr. Hung and therefore upon Acquisition Completion she will not receive and hold any Consideration Shares and Consideration CBs, which will be instead allotted and issued to Mr. Hung.

Information on the Group

The Company, principally engaged in investment holding, was incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board. The trading in the Shares has been suspended since 9 a.m. on 22 March 2012.

The Group was principally engaged in production, marketing and sales of dairy products and the operation and management of ecological farm and related business in the PRC. As referred to in the announcement of the Company dated 29 March 2012, during the audit process in respect of the financial year ended 31 December 2011, the irregularities were identified by the Predecessor Auditors. The Predecessor Auditors tendered its resignation as auditors of the Company with effect from 21 March 2012, and the trading in the Shares on the Stock Exchange has been suspended since 22 March 2012.

LETTER FROM THE BOARD

On 6 November 2013, the Company had retained RSM as the forensic accountant to provide independent forensic accounting services to the Company. RSM investigated and evaluated certain potentially fraudulent transactions of the Company raised by the Predecessor Auditors and to identify any person who might be responsible for the potentially fraudulent transactions of the Company, if applicable.

As updated in the announcement of the Company dated 29 January 2014, RSM had commenced its work including but not limited to making inquiries and performing preliminary research on the irregularities. However, as most financial documents and records were said to be damaged and irretrievable within the Group due to the accident occurred in early January 2013 and given the limited knowledge of the current management to the irregularities and the limited resources of the Company, there is a difficulty for the Company to reconstruct or locate such records.

On 4 April 2014, the Company updated the forensic investigation progress that the field work of RSM has yet to commence as the Company has encountered difficulties in procuring the relevant parties including the previous management to cooperate which would allow RSM to commence their field work.

On 13 June 2014, the Company has engaged two PRC law firms with the objectives to: (i) effect the change of legal representatives and board of directors of the PRC Subsidiaries through legal means; and (ii) obtain the information requested by RSM. RSM has also adjusted the direction of its work plan to place more reliance on the information to be obtained from the third parties sources.

Nevertheless, as further disclosed in the announcement of the Company dated 5 September 2014, (i) the Company was still in the process of changing the legal representative of the PRC Subsidiaries; (ii) the field work of RSM has yet to be commenced; and (iii) the existing management of the PRC Subsidiaries were unwilling to assist the field work of the forensic investigation. RSM has revised its work plan to focus on the analysis of information that may be obtained from external sources including the Predecessor Auditors, the PRC lawyers and other parties accordingly.

According to the announcement of the Company dated 28 November 2014, in view of the uncooperative approach of the existing management of the PRC Subsidiaries, RSM and the Company experienced considerable difficulties in obtaining the necessary information for the purpose of the forensic review. The forensic investigation of the Company was still ongoing though at a slow pace in view of the difficulties involved. The Company would devote its highest effort to provide RSM with the necessary information.

Based on the latest information available to the Board at that time, the then Board has reasonable belief that the PRC Subsidiaries were still operating their ordinary business while Changqing Dairy was suspected to have suspended its production. Furthermore, the Company, as the shareholder of its PRC Subsidiaries, has served notice to require the board of directors of the PRC Subsidiaries to effect the change of their respective legal representatives to the person nominated by the Board.

LETTER FROM THE BOARD

On 30 April 2015, due to insufficient financial resources of the Company, the independent forensic accounting review by RSM had been temporarily halted until the existing Board is formed. The independent forensic accounting review has subsequently resumed after the existing Board is formed. According to the forensic memorandum issued by RSM, RSM was unable to proceed any further in the independent forensic accounting review until the Company regains the control of the relevant subsidiaries and/or the Company is in the position to compel the relevant entities and individuals to provide the relevant information and documents for the independent forensic accounting review. Given the above circumstances, the Board is of the view that (i) the forensic investigation is unable to be further proceeded; and (ii) the Disposal shall fulfill the resumption condition of the Company which is related to the forensic investigation. Further detail of the Disposal is set out in the section headed “Disposal” in this letter from the Board.

On 26 May 2016, the Stock Exchange issued a letter to the Company stating that the Stock Exchange decided to place the Company in the third delisting stage, and the Company was required to submit a viable resumption proposal by the end of the third delisting stage. On 22 November 2016, the Resumption Proposal was submitted to the Stock Exchange by the Company to demonstrate to the Stock Exchange that when the Resumption Proposal is successfully implemented, the conditions for the Resumption will be satisfied. On 27 February 2017, the Company made the first New Listing Application to the Stock Exchange.

Since six months or more have elapsed, the first New Listing Application and the second New Listing Application have subsequently lapsed respectively. The Company shall resubmit a new listing application to the Stock Exchange to reactivate the listing application pursuant to Rule 9.03(1) of the Listing Rules. The Company resubmitted a third New Listing Application to the Stock Exchange on 6 April 2018.

A disclaimer of opinion was issued by HLB Hodgson Impey Cheng Limited, the auditors of the Company, on the last published audited financial statements of the Company for the year ended 31 December 2017. Details of the disclaimer of opinion were set out in the Company’s annual report for the year ended 31 December 2017 which were extracted in the Appendix II to this circular.

The Board is of the view that, other than the audit qualification in relation to the opening balances and the comparative information, all the audit qualifications shall be removed upon Resumption. The audit qualification in relation to the opening balances and the comparative information shall be removed in the next full financial year after Resumption.

Reasons for and benefits of the Acquisition

The Target Group is one of the top five Cantonese-style hotpot restaurant operators in China in terms of revenue in 2016 in the PRC in accordance with the Market Research Report.

LETTER FROM THE BOARD

The Target Group specialises in seafood hotpot cuisine with a signature menu which is characterised by the Target Group's soup base and a wide range of selection of fresh seafood and fresh beef. The Target Group started its first restaurant in Shanghai in 2004 under the brand *Faigo* (“輝哥”) and gradually expanded its restaurant network to other major cities in the PRC including Beijing, Shenzhen, Nanjing and Hangzhou since 2010.

The Acquisition forms parts of the proposed Resumption. It is expected that upon Acquisition Completion, the Group will have a sufficient level of operation while the implementation of the efficient internal control systems will improve the capital base and the financial and liquidity position of the Group.

Given the foregoing, the Directors are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition Agreement are fair and reasonable.

Financial effects of the Acquisition on the Group

Following Acquisition Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

According to financial information of the Group in Appendix II to this circular, the Group's audited total assets and liabilities as at 31 December 2017 were approximately HK\$0.3 million and approximately HK\$43.6 million respectively, representing a net liability position of approximately HK\$43.3 million.

Based on the unaudited pro forma financial information of the Enlarged Group in accordance with Appendix III to this circular, as if the transactions contemplated under the Resumption Proposal had been completed on 31 December 2017, the Enlarged Group will have total assets of approximately HK\$543.0 million, total liabilities of approximately HK\$491.1 million and net assets value of approximately HK\$52.0 million as disclosed in the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2017 under Appendix III to this circular. If the transactions contemplated under the Resumption Proposal had been completed on 1 January 2017, the Enlarged Group will record a loss attributable to owners of the Company of approximately HK\$89.2 million for the year ended 31 December 2017. The loss is mainly due to the transaction costs and the deemed listing expenses of approximately HK\$11.5 million and HK\$90.0 million respectively, details of which are set out in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2017 of Appendix III to this circular.

Share capital

Please refer to the section headed “Share capital” under appendix IV in this circular for further details.

LETTER FROM THE BOARD

Changes in principal business activities of the Enlarged Group after the Resumption

After Acquisition Completion, the Target Group will become wholly-owned subsidiaries of the Company and the Enlarged Group will primarily focus on the operation of hotpot restaurants in the PRC.

Other than the introduction of the business of the Target Group and the Acquisition, the Vendors do not intend to introduce any major change to the Enlarged Group's business (including any re-deployment of the Enlarged Group's fixed assets) after Resumption.

3. IMPLICATION OF THE ACQUISITION UNDER THE LISTING RULES AND NEW LISTING APPLICATION

The Acquisition constitutes a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that the Acquisition (i) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratios under Rule 14.07 of the Listing Rules are over 100%; and (ii) involves an acquisition of assets from the Vendors which will result in a change in control (as defined under the Takeovers Code) of the Company immediately after the allotment and issue of the Consideration Shares, the Placing Shares and the Offer Shares. As Mr. Hung will become a Controlling Shareholder and an executive Director upon Resumption, the Acquisition will also constitute a connected transaction for the Company pursuant to Rule 14A.28 of the Listing Rules.

Under Rule 14.54 of the Listing Rules, the Company will be treated as if it were a new listing applicant. The Enlarged Group must be able to meet the basic listing eligibility requirements of Rule 8.05 of the Listing Rules and the Enlarged Group must be able to meet all other basic conditions set out in Chapter 8 of the Listing Rules.

The Acquisition is subject to the approval of the Listing Committee. As at the Latest Practicable Date, the New Listing Application has been submitted to the Stock Exchange. The Listing Committee may or may not grant its approval to the New Listing Application. If such approval is not granted by the Listing Committee, the Acquisition Agreement will not become unconditional and the Acquisition will not proceed.

The Acquisition is also subject to the approval of the Independent Shareholders at the EGM. The Consideration Shares and the Conversion Shares will be issued under a specific mandate to be obtained at the EGM.

4. APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Concert Group are not interested in any Shares. Upon the implementation of the transactions contemplated under this circular, including but not limited to the Acquisition, the Share Placing and the Open Offer but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs, the Concert Group will, in aggregate, hold approximately 73.53% of the issued share capital of

LETTER FROM THE BOARD

the Company as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares and the Offer Shares, but before the allotment and issue of any of the Conversion Shares.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights of 30% or more will trigger an obligation on the Vendors to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM by way of poll.

The Vendors have made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll, in which the Concert Group and those who are involved in or interested in the Acquisition will abstain from voting on the relevant resolution(s).

If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Concert Group may exceed 50%, in which event the Vendors may further increase their shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Information required under the Takeovers Code

As at the Latest Practicable Date, other than the Acquisition Agreement and save as disclosed in the section headed “Effect on the shareholding structure of the Company” in the “Letter from the Board”, none of the members of the Concert Group have acquired or entered into any agreement to acquire any voting rights of the Company or deal in the relevant securities of the Company (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Relevant Period. The Vendors also confirm that:

- (i) none of the members of the Concert Group holds, owns, controls or has direction over any Shares, convertible securities, warrants, options or derivatives in respect of the Shares nor has entered into any outstanding derivatives in respect of the securities of the Company;
- (ii) none of the members of the Concert Group has received any irrevocable commitment to vote for or against the proposed resolutions approving the transactions contemplated under this circular at the EGM;
- (iii) there is no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or shares of the members of the Concert Group which might be material to the transactions contemplated under this circular;

LETTER FROM THE BOARD

- (iv) there is no arrangement or agreement to which any of the members of the Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under this circular; and
- (v) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which any of the members of the Concert Group has borrowed or lent.

As at the Latest Practicable Date, the Company does not believe that the transactions contemplated under this circular give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the transactions contemplated under this circular do not comply with other applicable rules and regulations.

5. THE DISPOSAL

On 21 November 2016, the Company (as the vendor) and Mr. Jiang (as the purchaser) entered into the Disposal Agreement (as amended and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018) pursuant to which the Company has conditionally agreed to sell and the Disposal Purchaser has conditionally agreed to purchase the entire issued share capital of Global Milk Singapore for a cash consideration of HK\$1.00.

The Disposal Agreement

Date: 21 November 2016 (as amended and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018)

Parties: Mr. Jiang (as the purchaser)
the Company (as the vendor)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Disposal Purchaser and the parties acting in concert with him, who are Independent Third Parties and independent to the Vendors, are not interested in any Shares as at the Latest Practicable Date.

Disposal Consideration

The Disposal Consideration of HK\$1.00 for the entire issued share capital of the Global Milk Singapore shall be paid by the Disposal Purchaser to the Company in cash upon Disposal Completion.

LETTER FROM THE BOARD

The Disposal Consideration was arrived at after arm's length negotiations between the Company and the Disposal Purchaser on normal commercial terms with reference to (i) the inaccessibility to complete books and records which rendered the Directors unable to form an informed overall assessment on the assets, liabilities, business and operations of the Disposal Group; (ii) the risk of potential liabilities relating to the Disposal Group which could not be made certain due to the loss of books and records not known to the Group; (iii) the Directors' view that the Disposal Group should be considered as distressed assets; (iv) the Disposal Group have been de-consolidated from the consolidated financial statements of the Group since 1 January 2011; (v) the unclear and suspicious transactions in the PRC Subsidiaries in the past; (vi) the undertakings given by the Disposal Purchaser to share and pay a percentage of the proceeds from any future sales or transfers of all or part of the entire issued share capital or any of its economic interests or any assets of any member of the Disposal Group to the Company, and hence effectively serve as a means and offer the possibility for the Company to recover part of its loss; and (vii) the unavailability of information have put the Group in an extremely difficult position to identify and secure potential buyers for valuable consideration of the Disposal Group, the Disposal is the best option available at this moment for the Company to protect itself against any harm to its reputation and businesses by disassociating the legal relationship between the PRC Subsidiaries and the Company and thereby eliminating the potential risk arising from the Disposal Group while at the same time securing for the Company any potential gain that may arise from the net proceeds pursuant to the undertakings under the Disposal Agreement.

The Board believes that Mr. Jiang has taken the abovementioned factors into account and reached an informed commercial decision in entering into the Disposal Agreement, which contains an undertaking to share any net proceeds which Mr. Jiang might be able to receive from the Disposal Group (if any) pursuant to the proportions as set out in the Disposal Agreement.

Therefore, the Directors consider the payment terms of the Disposal Consideration under the Disposal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Undertakings

Pursuant to the Disposal Agreement, the Disposal Purchaser undertakes to the Company that if the Disposal Purchaser (or its nominee): (i) enters into any agreement, arrangement or assignment with any third party for the sale or transfer of any share capital of Global Milk Singapore or any of the economic interests or assets of any Disposal Group; or (ii) recovers any assets from any persons; or (iii) receives any dividend from any members of the Disposal Group (collectively as the "Events") whether by way of liquidation or otherwise:

- a. on or before the first anniversary of the date of Disposal Completion, the Disposal Purchaser agrees to pay the Company, within five Business Days upon receipt of any proceeds from any Event after deducting all reasonable

LETTER FROM THE BOARD

costs and expenses incurred by the Disposal Group and all advancement of loans made or to be made by the Disposal Purchaser to meet funding and working capital requirements of the Disposal Group of the proceeds from any of the Events after deducting the expenses (the “**Net Proceeds**”), a sum equivalent to 50% of the Net Proceeds; or

- b. after the first anniversary of the date of Disposal Completion and up to the fifth anniversary of the date of Disposal Completion, the Disposal Purchaser agrees to pay to the Company, within five Business Days upon receipt of the Net Proceeds, a sum equivalent to 30% of the Net Proceeds.

Pursuant to the Disposal Agreement, the Disposal Purchaser undertakes to the Company that the Disposal Purchaser (or its nominee) shall sell or transfer the share capital of Global Milk Singapore and/or the economic interests or all of the assets of any Disposal Group at a reasonable consideration to third party(ies) independent and not connected with the Disposal Purchaser on or before the date falling two years after the date of Disposal Completion.

The Disposal Purchaser shall or shall procure its nominee to report to the Company in a meeting, via telephone conference, via facsimile or via email within five Business Days after the end of each calendar month after Disposal Completion:

- (i) the progress of any agreement, arrangement or assignment with any third party(ies) for the sale or transfer of any share capital of the Disposal Group or any of the economic interests or any assets of any Disposal Group; and/or
- (ii) the progress of any steps to enter into receivership or liquidation and present petition for winding up or appoint receiver for any Disposal Group, if any.

The Company and the Disposal Purchaser thereby acknowledge and agree in the event that upon Disposal Completion, the Company is unable to transfer and assign the legal title in the sale share of the Global Milk Singapore to the Disposal Purchaser for whatever reason, the Company shall nevertheless execute and deliver all necessary documents (whether designated under the Disposal Agreement or otherwise) pursuant to the clause set out in the Disposal Agreement (to the extent they are within control or possession of the Company) to effect the assignment and transfer of the beneficial interest in the sale share of Global Milk Singapore to the Disposal Purchaser upon Disposal Completion, and in which event: (a) the Company shall continue to hold the sale share of Global Milk Singapore and any interest or benefit it may receive under the sale share of Global Milk Singapore as trustee on trust for and on behalf of the Disposal Purchaser absolutely until the legal title of the sale share of Global Milk Singapore is transferred to the Disposal Purchaser, and (b) the Disposal Purchaser shall assume all the liabilities and obligations as a holder of the sale share of Global Milk Singapore to the exclusion of the Company with effect from Disposal Completion. The parties thereby further undertake to each other that each of them shall promptly execute such further documents or conduct all such acts to complete the transfer of the legal interest in the sale share of Global Milk Singapore from the Company to the Disposal Purchaser as soon as practicable after Disposal Completion.

LETTER FROM THE BOARD

Conditions precedent

Disposal Completion is conditional upon:

- (i) where necessary, the passing by the Shareholders (other than those who are required by the Listing Rules or applicable laws and regulations not to vote or to abstain from voting) at the EGM of an ordinary resolution to approve the Disposal Agreement and the transactions contemplated thereunder;
- (ii) Global Milk Singapore having waived the loan which is amounted to approximately HK\$1,028,000 owing or being incurred by the Company to Global Milk Singapore as at the Latest Practicable Date in form and substance satisfactory to the Company; and
- (iii) all necessary consents, authorisations, licences and approvals for or in connection with the sale and purchase of the entire issued share capital of Global Milk Singapore having been obtained.

If any of the above conditions is not fulfilled at or before 5:00 p.m. on 31 August 2018 or such later date as the Company and the Disposal Purchaser may agree, the Disposal Agreement shall cease and determine pursuant to the Disposal Agreement and no party shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

For the avoidance of doubt, the Disposal is not conditional upon the Resumption and other transactions contemplated under this circular.

Disposal Completion

Disposal Completion shall take place at or before 4:00 p.m. on the second Business Day after all the conditions are being satisfied, or at such time as the Company and the Disposal Purchaser may otherwise agree in writing, which is expected to be on 4 July 2018.

Upon Disposal Completion, the Group will cease to have any beneficial interest in any company in the Disposal Group, and all the companies in the Disposal Group will cease to be subsidiaries of the Company.

Information on the Disposal Group

The Directors are aware that the Disposal Group is principally engaged in manufacture, marketing and sales of dairy products and dairy farming. However, according to the annual results announcement of the Company for the year ended 31 December 2011 and the annual report of the Company for the year ended 31 December 2011, the Disposal Group was deconsolidated from the Group's financial statements since 1 January 2011 due to loss of control by the Company over the Disposal Group.

LETTER FROM THE BOARD

The Disposal Group includes Global Milk Singapore and its wholly-owned subsidiary, namely Daqing Dairy PRC, which held the entire interest of Changqing Dairy and Wuchang Benniu Muye Co., Limited (五常犇牛牧業有限責任公司) (the “Benniu Muye”), being all the subsidiaries, was deconsolidated from the Group’s financial statements.

Information on the Disposal Purchaser

Mr. Jiang, aged 43, is experienced in provision of investment consultancy services in the PRC and was with a major non-banking financial institution in the PRC for approximately 8 years, which was principally engaged in economic contract guarantee (non-financing) and investment consultancy, leaving as General Manager. In addition, Mr. Jiang is experienced in investing companies listed on the Stock Exchange. As at the Latest Practicable Date, Mr. Jiang was a substantial shareholder of Bisu Technology Group International Limited (stock code: 1372) and Sino Golf Holdings Limited (stock code: 361), both companies are listed on the Main Board of the Stock Exchange.

Reasons for and benefits of the Disposal

Under the circumstances that (i) the potential irregularities in respect of certain accounting records and transactions recorded in the books of the PRC Subsidiaries had been identified by the Predecessor Auditors of the Company; (ii) both of the forensic accountants of the Company and the Directors have been unable to get access to the books and records of the PRC Subsidiaries and the Directors have been unable to locate the complete books and records of the Company and Global Milk Singapore; and (iii) the previous management of the Group did not respond to the request for any information of the Group, the Company has excluded the Disposal Group in presenting the financial position, results of operations and cash flows of the Group and did not consolidate the financial statements of the Disposal Group to the Group.

Furthermore, as disclosed in the announcements dated 9 January 2013 and 29 January 2014 respectively, most financial documents and records were said to be damaged and irretrievable within the Group due to the accident which occurred in Daqing City, Heilongjiang Province of the PRC in early January 2013 and given the limited knowledge of the management to the potential irregularities and the limited resources of the Company, there is difficulty for the Company to reconstruct or locate such records of the subsidiaries in the PRC.

The undertakings given by the Disposal Purchaser to the Company was arrived after arm’s length negotiations between the Company and the Disposal Purchaser on the commercial terms, hence, the Directors believe such undertakings effectively serve as a means and offer of the possibility to recover part of loss of the Group.

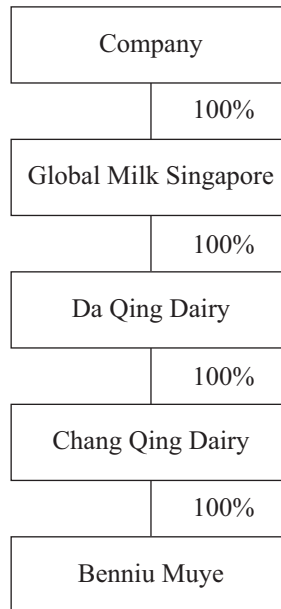
LETTER FROM THE BOARD

Having considered that (i) the loss of control over the Disposal Group and the de-consolidation of the financial statements of the Disposal Group from the consolidated financial statements of the Group; (ii) the loss of most financial documents and records of the Disposal Group; and (iii) the undertakings (as mentioned under the above paragraph headed “Undertakings”) which the Disposal Purchaser has agreed to give, the Directors are of the view that the Disposal will facilitate the process of Resumption.

In light of the foregoing, the Directors are of the view that the terms pursuant to the Disposal Agreement are fair and reasonable and the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole.

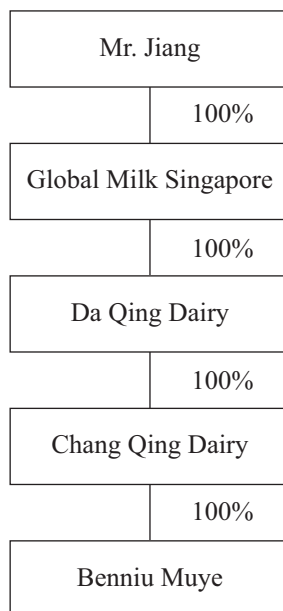
Change of shareholding structure of relevant entities

The diagram below shows the shareholding structure of the Disposal Group immediately before Disposal Completion:



LETTER FROM THE BOARD

The diagram below shows the shareholding structure of the Disposal Group immediately after Disposal Completion:



Financial effect of the Disposal

Upon Disposal Completion, the Directors are of the view that the Disposal shall not have any material financial effect on the Group as (i) the Group has not consolidated the financial statements of the Disposal Group and the financial statements of the Disposal Group has been de-consolidated from the Group since 1 January 2011 for the reason that the Directors have been unable to locate the complete books and records of the Disposal Group; and (ii) the Disposal Consideration is HK\$1.00. The Company will not record any material gain or loss from the Disposal and the Disposal Consideration will be applied as general working capital of the Company.

Listing rules implications

As the highest of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Rule 14.06 of the Listing Rules and is therefore subject to the announcement and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

6. THE SHARE PLACING

The Placing Agreement

On 2 May 2018, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent has conditionally agreed to place an aggregate of 757,875,000 Placing Shares at HK\$0.1025 per Placing Share, on a fully underwritten basis, to not less than six Placees who and whose ultimate beneficial owners are Independent Third Parties and independent to the Concert Group.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent, together with its associates are independent third parties to the Group, the Target Group and the Concert Group, as well as independent third parties to the connected person(s) of the Group, the Target Group and the Concert Group.

The Placees

All the Placing Shares will be placed to not less than six Placees who and whose ultimate beneficial owners (a) are Independent Third Parties; (b) shall be independent of and not be parties acting in concert (as defined in the Takeovers Code) with the Company, the Vendors, other Placee(s) or Shareholder(s) and their respective associates to the effect that any placing to such Placee(s) shall not trigger any mandatory offer obligation under Rule 26.1 of the Takeovers Code; (c) shall be independent of the Vendors, their ultimate beneficial owners and parties acting in concert (as defined in the Takeovers Code) with them; (d) shall be independent of the proposed Directors referred to the section headed "Directors and senior management of the Enlarged Group" in this circular and the core connected persons after the Acquisition Completion; and (e) shall be regarded as public Shareholders (within the meaning as defined under the Listing Rules).

The Placing Shares

The aggregate number of 757,875,000 Placing Shares under the Share Placing represents:

- (i) approximately 1.50 times of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as at the Latest Practicable Date;
- (ii) approximately 60.00% of the issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Placing Shares but before the allotment and issue of Consideration Shares, Conversion Shares and Offer Shares;

LETTER FROM THE BOARD

- (iii) approximately 15.00% of the issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares but before the allotment and issue of Conversion Shares and Offer Shares;
- (iv) approximately 12.00% of the issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Placing Shares, Consideration Shares, the Conversion Shares upon the exercise of Consideration CBs in full and the Placing Shares but before the allotment and issue of the Offer Shares; and
- (v) approximately 11.81% of the issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of Consideration CBs in full, the Placing Shares and Offer Shares.

The Placing Shares will be issued under a specific mandate proposed to be obtained at the EGM. The aggregate nominal value of the Placing Shares under the Share Placing is HK\$15,157.50.

Ranking of the Placing Shares

The Placing Shares will, upon issue, rank *pari passu* in all respects with the Consolidated Shares in issue on the date of allotment and issue of the Placing Shares.

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal, in the Placing Shares.

The Placing Price

The Placing Price represents:

- (i) a discount of approximately 96.95% to the equivalent closing price of HK\$3.360 per Consolidated Share based on the closing price of HK\$1.680 per Share as quoted on the Stock Exchange on the Last Trading Day after taking into account the effect of the Share Consolidation;
- (ii) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.724 per Consolidated Share based on the average closing price of approximately HK\$1.862 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;

LETTER FROM THE BOARD

- (iii) a discount of approximately 97.36% to the equivalent average closing price of approximately HK\$3.882 per Consolidated Share based on the average closing price of approximately HK\$1.941 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (iv) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.729 per Consolidated Share based on the average closing price of approximately HK\$1.864 per Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (v) a premium of approximately HK\$0.1882 over the audited net liabilities value per Consolidated Share of approximately HK\$0.0857 based on the published audited consolidated net liabilities of the Company of approximately HK\$43.31 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective; and
- (vi) a discount of approximately 0.29% to the unaudited net assets value per Consolidated Share of approximately HK\$0.1028 based on the unaudited pro forma consolidated net assets of the Enlarged Group of approximately HK\$51.96 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective.

The Placing Price of HK\$0.1025 per Placing Share, which is equivalent to the Conversion Price, Offer Price and Issue Price, is determined having taken into account, among other things, the prolonged suspension of trading in the Shares.

It is expected that the gross and net proceeds from the Share Placing (after deducting commission) will amount to approximately HK\$77.68 million and approximately HK\$75.74 million respectively. The net placing price of each Placing Share is approximately HK\$0.10.

Commission of the Share Placing

The Placing Agent will receive a placing commission of 2.50% of the amount equal to the Placing Price multiplied by 757,875,000 Placing Shares. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the size, the current market condition and the time allowed for the Placing Agent to procure Placees for the Share Placing. The Directors are of the view that the placing commission payable under the Share Placing is fair and reasonable.

LETTER FROM THE BOARD

Conditions precedent to the Placing Agreement

- (i) the Listing Committee agreeing to grant a listing of, and permission to deal in, the Placing Shares;
- (ii) the passing by the Shareholders (other than those shareholders who are prohibited from or required to abstain from voting on the relevant resolutions under the articles of association of the Company or the Listing Rules and the Takeovers Code) at the EGM of resolution(s) to approve the Placing Agreement and the transaction contemplated thereunder;
- (iii) the Stock Exchange granting approval for the Resumption;
- (iv) the Share Consolidation having become effective; and
- (v) the Acquisition Agreement having become unconditional (other than the condition for the Placing Agreement to become unconditional).

The Company shall use its best endeavours to procure the fulfillment of the conditions as set out thereon and in the event the conditions as set out thereon is not fulfilled by 26 June 2018 (or such later date as may be agreed by the parties in writing hereto), all rights, obligations and liabilities of the parties thereunder in relation to the Share Placing shall cease and determine and neither of the parties shall have any claim against the others in respect of the Share Placing save for any antecedent breach and/or any rights or obligations which may have accrued under the Placing Agreement prior to such termination.

Termination and force majeure of the Placing Agreement

Notwithstanding anything contained in the Placing Agreement to the contrary, the Placing Agent shall be entitled by notice to the Company given prior to 6:00 p.m. on the day immediately preceding the Placing Completion Date to terminate the completion date of the Share Placing if:

- (i) any Specified Event pursuant to the Placing Agreement comes to the notice of the Placing Agent; or
- (ii) there develops, occurs or comes into force:
 - a) any new law or regulation or any change in existing laws or regulations or the interpretation thereof which may in the reasonable opinion of the Placing Agent and in its reasonable discretion may materially and adversely affect the business or financial condition or prospects of the Company as a whole; or

LETTER FROM THE BOARD

- b) any local, regional, national or international event or change (whether or not permanent or forming part of a series of events or changes occurring or continuing, on and/or after the date thereof) of a political, military, economic or other nature (whether or not *ejusdem generis* with the foregoing) which, in the reasonable opinion of the Placing Agent and in its reasonable discretion will, or may be expected to, have a material adverse effect on the Share Placing; or
 - c) any significant change (whether or not permanent) in local, regional, national or international market conditions (or in conditions affecting a sector of the market) which in the reasonable opinion of the Placing Agent and in its reasonable discretion has or may have a material adverse effect on the Share Placing; or
- (iii) there is any adverse change in the business or in the financial or trading position of the Company taken as a whole which being unaware of by the Placing Agent and in the reasonable opinion of the Placing Agent and in its reasonable discretion is material in the context of the Share Placing.

If notice is given pursuant to the Placing Agreement, the Placing Agreement shall terminate and be of no further effect and neither party shall be under any liability to the other party in respect of the Placing Agreement save for any rights or obligations which may have accrued under the Placing Agreement prior to such termination.

Completion of the Share Placing

Completion of the Share Placing will take place on the date of the Acquisition Completion (which will be simultaneously with or immediately after the Acquisition Completion), which is expected to be on 4 July 2018.

Reasons for and benefits of the Share Placing and use of proceeds

The Share Placing is inter-conditional with the Acquisition. The Company and the Vendors have agreed, and are intended, to broaden the Shareholders base of the Company through the Share Placing.

It is expected that the gross and net proceeds from the Share Placing will amount to approximately HK\$77.68 million and approximately HK\$75.74 million respectively. The Company intends to use the net proceeds from the Share Placing to expand and develop the business of the Enlarged Group upon Acquisition Completion. For the details of the expansion plan, please refer to the sub-section headed “Expansion Plans, Site Selection and Development” under “Business of the Target Group” in this circular.

LETTER FROM THE BOARD

The Directors have considered alternative fund raising methods such as bank borrowings and rights issue. However, taking into account: (i) bank loans and/or other borrowings with interest rate will inevitably increase the interest burden and adversely affect the financial position of the Group; (ii) equity fund raising methods will provide a good opportunity to the Company to raise additional funds and enhance its working capital and financial position; and (iii) apart from the proposed Open Offer, the Share Placing will further broaden the Shareholders' base by involving more new independent Shareholders to participate in the development of the Enlarged Group, the Directors are of the view the Share Placing, together with the Open Offer, is in the interests of the Company and the Shareholders as a whole.

7. THE OPEN OFFER

The Company proposes to raise approximately HK\$10.36 million, before expenses, by way of the Open Offer involving the allotment and issue of 101,050,000 Offer Shares at the Offer Price of HK\$0.1025 per Offer Share on the basis of one (1) Offer Share for every five (5) Consolidated Shares held on the Record Date (assuming that no Shares or Consolidated Shares (upon Share Consolidation becoming effective) to be issued or repurchased by the Company except for the allotment and issue of the Consideration Shares, Placing Shares and the conversion of Consideration CBs in full from the Latest Practicable Date and up to the Record Date).

Issue details

Basis of the Open Offer	One (1) Offer Share for every five (5) Consolidated Shares held by the Qualifying Shareholders on the Record Date
Offer Price	HK\$0.1025 per Offer Share
Number of Shares in issue as at the Latest Practicable Date	1,010,500,000 Shares
Number of Consolidated Shares expected to be in issue as at the Record Date	505,250,000 Consolidated Shares
Number of Offer Shares expected to be issued	101,050,000 Offer Shares

The Offer Price

The Offer Price represents:

- (i) a discount of approximately 96.95% to the equivalent closing price of HK\$3.360 per Consolidated Share based on the closing price of HK\$1.680 per Share as quoted on the Stock Exchange on the Last Trading Day after taking into account the effect of the Share Consolidation;

LETTER FROM THE BOARD

- (ii) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.724 per Consolidated Share based on the average closing price of approximately HK\$1.862 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (iii) a discount of approximately 97.36% to the equivalent average closing price of approximately HK\$3.882 per Consolidated Share based on the average closing price of approximately HK\$1.941 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (iv) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.729 per Consolidated Share based on the average closing price of approximately HK\$1.864 per Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day after taking into account the effect of the Share Consolidation;
- (v) a premium of approximately HK\$0.1882 over the audited net liabilities value per Consolidated Share of approximately HK\$0.0857 based on the published audited consolidated net liabilities of the Company of approximately HK\$43.31 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective; and
- (vi) a discount of approximately 0.29% to the unaudited net assets value per Consolidated Share of approximately HK\$0.1028 based on the unaudited pro forma consolidated net assets of the Enlarged Group of approximately HK\$51.96 million as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares upon the Share Consolidation becoming effective.

The Offer Price of HK\$0.1025 per Offer Share, which is equivalent to the Conversion Price, Placing Price and Issue Price, is determined having taken into account, among other things, the prolonged suspension of trading in the Shares.

The Offer Shares

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the Record Date, the maximum number of 101,050,000 Offer Shares to be issued and allotted represents:

- (i) approximately 20.00% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as at the Latest Practicable Date;

LETTER FROM THE BOARD

- (ii) approximately 16.67% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Offer Shares but before the allotment and issue of the Consideration Shares, the Conversion Shares and the Placing Shares;
- (iii) approximately 2.30% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Offer Shares and the Consideration Shares but before the allotment and issue of the Conversion Shares and the Placing Shares;
- (iv) approximately 1.79% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Offer Shares, the Consideration Shares, the Conversion Shares upon the exercise of Consideration CBs in full but before the allotment and issue of the Placing Shares; and
- (v) approximately 1.57% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of the Consideration CBs in full, the Placing Shares and the Offer Shares.

Undertaking

Global Courage, the controlling Shareholder holding approximately 63.50% of the issued share capital of the Company as at the Latest Practicable Date, which is indirectly wholly-owned by Dr. Choi, the chairman of the Board and an executive Director, has given an undertaking in favour of the Company and the Underwriter that it will take up its entitlement under the Open Offer.

Qualifying Shareholders

To qualify for the Open Offer, each Shareholder must be registered as a member of the Company on the Record Date and must be a Qualifying Shareholder.

LETTER FROM THE BOARD

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Consolidated Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 31 May 2018. It is expected that the last day of dealing in the Consolidated Shares on a cum-entitlement basis is Tuesday, 29 May 2018 and the Consolidated Shares will be dealt with on an ex-entitlement basis from Wednesday, 30 May 2018.

Subject to the Open Offer being approved at the EGM and the Share Consolidation becoming effective on Tuesday, 29 May 2018, the Company will despatch the Open Offer Prospectus Documents to each of the Qualifying Shareholders and, for information only, the Open Offer Prospectus to each of the Excluded Shareholders (if any) on or about Friday, 8 June 2018.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of its/his/her entitlement under the Open Offer, its/his/her proportionate shareholding in the Company will be diluted.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading in the assured entitlements on the Stock Exchange.

Rights of the Overseas Shareholders

The Open Offer Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

The Board will make enquiries as to whether the issue of the Offer Shares to the Overseas Shareholders, if any, may contravene the applicable securities legislation of the relevant overseas jurisdictions or the requirements of any relevant regulatory body or stock exchange pursuant to Rule 13.36(2)(a) of the Listing Rules and result of the enquiries will be included in the Open Offer Prospectus. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders, the Open Offer will not be available to the Excluded Shareholders.

As such, the Open Offer will not be extended to the Excluded Shareholders. The Company will send the Open Offer Prospectus to the Excluded Shareholders for their information only but will not send any application forms in respect of the Open Offer to the Excluded Shareholders. The basis of exclusion of the Excluded Shareholders, if any, from the Open Offer will be disclosed in the Open Offer Prospectus.

LETTER FROM THE BOARD

Closure of register of members

The register of members of the Company will be closed from Friday, 1 June 2018 to Thursday, 7 June 2018, both dates inclusive, in order to determine the eligibility of the Shareholders to the Open Offer. No transfers of Consolidated Shares will be registered during such book closure period.

No application for the excess Offer Shares

The Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. All Offer Shares (other than 64,167,662 Offer Shares to be subscribed by Global Courage) not taken up by the Qualifying Shareholders will be underwritten by the Underwriter.

Fractions of the Offer Shares

The Company will not issue any fractions of Offer Shares to the Qualifying Shareholders otherwise entitled thereto. All fractions of Offer Shares will be aggregated and rounded down to the nearest whole number of Offer Shares and taken up by the Underwriter.

Certificates and refund cheques for the Offer Shares

Subject to the Open Offer becoming unconditional, certificates for all fully paid Offer Shares shall be despatched by ordinary post to those Qualifying Shareholders who have accepted and paid for their Offer Shares by Wednesday, 4 July 2018, at their own risk. Refund cheques in respect of the Offer Shares if the Open Offer is terminated shall be despatched by ordinary post to the applicants at their own risk.

Conditions precedent to the Open Offer

Please refer to the below conditions precedents under the section headed “The Underwriting Agreement”.

Application for the Offer Shares

The Company shall make application to the Stock Exchange for the listing of and permission to deal in the Offer Shares.

Listing rules implications

As the Open Offer will not increase the issued share capital or the market capitalisation of the Company by more than 50% within the 12-month period immediately preceding this circular and the Open Offer will be fully underwritten by the Underwriter who is (i) not a director, chief executive or substantial shareholder of the Company or an associate of any of them, and (ii) independent third party to the Concert Group, the Open Offer is not subject to the approval by the Shareholders pursuant to Rule 7.24(5) of the Listing Rules.

LETTER FROM THE BOARD

The Underwriting Agreement

On 2 May 2018, the Company and the Underwriter entered into the Underwriting Agreement pursuant to which the Underwriter has conditionally agreed to fully underwrite the Offer Shares (save for 64,167,662 Offer Shares to be subscribed by Global Courage). Principal terms of the Underwriting Agreement are set out in the following table:

Date	2 May 2018
Parties	(1) the Company; and (2) the Underwriter
Number of the Offer Shares expected to be fully underwritten by the Underwriter	(save for 64,167,662 Offer Shares to be subscribed by Global Courage) an aggregate of 36,882,338 Offer Shares underwritten by the Underwriter
Underwriting commission	2.50%

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter, together with its associates, is an independent third party to the Group, the Target Group and the Concert Group, as well as an independent third party to the connected person(s) of the Group, the Target Group and the Concert Group.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement, if the date of the Latest Time for Termination shall be a business day on which a tropical cyclone warning signal no. 8 or higher or a "black" rainstorm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no tropical cyclone warning signal no. 8 or higher or a "black" rainstorm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

- (i) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Enlarged Group as a whole or is materially adverse in the context of the Open Offer; or

LETTER FROM THE BOARD

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Enlarged Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (iii) any event of force majeure 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.

The Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (i) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (ii) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement (save and except the clause stated in the Underwriting Agreement which shall remain in full force and effect and save further that the Company shall pay the fees and expenses specified in the clause under the Underwriting Agreement) shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches. For the avoidance of doubt, the Underwriter shall not be entitled to give a notice at any time after its obligations have terminated pursuant to the Underwriting Agreement.

LETTER FROM THE BOARD

If the Underwriting Agreement is terminated by the Underwriter at such time before the Latest Time for Termination but after the Underwriter has in accordance with the Underwriting Agreement paid or procured payment to the Company of the aggregate Offer Price in respect of the Underwritten Shares for which the Underwriter is obliged to subscribe or procure subscription under the provisions of the Underwriting Agreement, the Company shall, not later than the end of the second Business Day after (but not including) the date of receipt of the notice of termination issued by the Underwriter pursuant to the Underwriting Agreement, remit to the Underwriter such amount of aggregate Offer Price which it has received from the Underwriter. For the avoidance of doubt, notwithstanding the payment of any sum by or on behalf of the Underwriter to the Company, pursuant to the Underwriting Agreement, shall apply and the amount referred to the Underwriting Agreement in any event shall not be payable.

Rescission or termination of the Underwriting Agreement shall be without prejudice to any rights of any party in respect of any breach by the other prior to such rescission or termination.

Conditions precedent to the Underwriting Agreement

The Open Offer is conditional upon:

- i. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the CWUMPO not later than Open Offer Posting Date;
- ii. the posting of the Open Offer Prospectus Documents to the Qualifying Shareholders and the posting of the Open Offer Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Open Offer Posting Date;
- iii. the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings;
- iv. the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- v. the Listing Division of the Stock Exchange has approved in principle of the resumption of the trading of the Consolidated Shares;
- vi. the Share Consolidation having become effective;

LETTER FROM THE BOARD

- vii. compliance with and performance of all undertakings and obligations of Global Courage under its undertaking;
- viii. all necessary consents and approvals required to be obtained on the part of the Company in respect of the Underwriting Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect; and
- ix. all necessary consents and approvals required to be obtained on the part of the Underwriter in respect of the Underwriting Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect.

The Company shall use all reasonable endeavours to procure the fulfillment of the conditions set out above by the Latest Time for Termination for the Open Offer under the Underwriting Agreement or such other time as stated in the Underwriting Agreement and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may be necessary in connection with the listing of the Offer Shares.

All the conditions set out in conditions precedent are incapable of being waived. If the conditions above are not satisfied by the Latest Time for Termination for the Open Offer, or where appropriate, the times stipulated under the Underwriting Agreement, or such later date or dates as the Underwriter may agree with the Company in writing, the underwriting shall terminate and (save in respect of any provisions under the Underwriting Agreement and any rights or obligations which may accrue under the underwriting prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise.

Reasons for and benefits of the Open Offer and use of proceeds

The gross proceeds from the Open Offer are approximately HK\$10.36 million and the net proceeds is estimated to be approximately HK\$10.26 million. The net proceeds will be used by the Company for general working capital.

The Directors consider that the Open Offer will enlarge the capital base and strengthen the financial position of the Company so as to facilitate the Enlarged Group's long term development. Also, the Directors believe that it is in the interest of the Company to raise additional capital by way of the Open Offer under which the existing Shareholders are given equal opportunities to participate in the enlargement of capital base of the Company as well as enabling the existing Shareholders to continue to participate in the future development of the Enlarged Group upon completion of all the transactions under the Resumption Proposal at their own wish.

Fund raising activities involving issue of securities in the past 12 months

The Company has not conducted any equity fund raising activities in the previous 12 months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

Effect on the shareholding structure of the Company

For illustration purpose, the following tables illustrate the shareholding of the Company upon the completion of the transactions contemplated in this circular:

(i) Assume full acceptance of the Open Offer

	As at the Latest Practicable Date		(i) Upon the Share Consolidation becoming effective		(ii) immediately after the issue and allotment of Consideration Shares and the completion of Share Placing but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs		(iii) immediately after the issue and allotment of Consideration Shares, the completion of Share Placing and the completion of Open Offer (assume full acceptance) but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs		(iv) immediately after the issue and allotment of Consideration Shares and Conversion Shares pursuant to the exercise of the Consideration CBs in full, the completion of Share Placing and the completion of Open Offer (assume full acceptance)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Global Courage <i>(Note 1)</i>	641,676,629	63.50	320,838,314	63.50	—	—	—	—	—	—
The Concert Group										
— Vendor I	—	—	—	—	3,547,612,875	70.22	3,547,612,875	68.84	4,730,150,500	73.72
— Vendor II	—	—	—	—	111,407,625	2.20	111,407,625	2.16	148,543,500	2.31
— Vendor III	—	—	—	—	84,503,062	1.67	84,503,062	1.64	112,670,750	1.76
— Vendor IV	—	—	—	—	44,714,625	0.89	44,714,625	0.87	59,619,500	0.93
— Vendor V	—	—	—	—	1,136,813	0.02	1,136,813	0.02	1,515,750	0.02
Sub-total	—	—	—	—	3,789,375,000	75.00	3,789,375,000	73.53	5,052,500,000	78.74
Public Shareholders										
— Existing public Shareholders	368,823,371	36.50	184,411,686	36.50	184,411,686	3.65	221,294,024	4.29	221,294,024	3.45
— Global Courage <i>(Note 1)</i>	—	—	—	—	320,838,314	6.35	385,005,976	7.47	385,005,976	6.00
— Places of Share Placing	—	—	—	—	757,875,000	15.00	757,875,000	14.71	757,875,000	11.81
Sub-total	368,823,371	36.50	184,411,686	36.50	1,263,125,000	25.00	1,364,175,000	26.47	1,364,175,000	21.26
Total	1,010,500,000	100.00	505,250,000	100.00	5,052,500,000	100.00	5,153,550,000	100.00	6,416,675,000	100.00

LETTER FROM THE BOARD

(ii) Assume no acceptance of the Open Offer

	As at the Latest Practicable Date		(i) Upon the Share Consolidation becoming effective		(ii) immediately after the allotment and issue of Consideration Shares and the completion of Share Placing but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs		(iii) immediately after the allotment and issue of Consideration Shares, the completion of Share Placing and the completion of Open Offer (assume no acceptance from the existing public Shareholders) but before the Conversion Shares to be issued pursuant to the exercise of the Consideration CBs		(iv) immediately after the issue and allotment of Consideration Shares and Conversion Shares pursuant to the exercise of the Consideration CBs in full, the completion of Share Placing and the completion of Open Offer (assume no acceptance from the existing public Shareholders)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Global Courage (Note 1)	641,676,629	63.50	320,838,314	63.50	—	—	—	—	—	—
The Concert Group										
— Vendor I	—	—	—	—	3,547,612,875	70.22	3,547,612,875	68.84	4,730,150,500	73.72
— Vendor II	—	—	—	—	111,407,625	2.20	111,407,625	2.16	148,543,500	2.31
— Vendor III	—	—	—	—	84,503,062	1.67	84,503,062	1.64	112,670,750	1.76
— Vendor IV	—	—	—	—	44,714,625	0.89	44,714,625	0.87	59,619,500	0.93
— Vendor V	—	—	—	—	1,136,813	0.02	1,136,813	0.02	1,515,750	0.02
Sub-total	—	—	—	—	3,789,375,000	75.00	3,789,375,000	73.53	5,052,500,000	78.74
Public Shareholders										
— Existing public Shareholders	368,823,371	36.50	184,411,686	36.50	184,411,686	3.65	184,411,686	3.57	184,411,686	2.87
— Global Courage (Note 1)	—	—	—	—	320,838,314	6.35	385,005,976	7.47	385,005,976	6.00
— Placees of Share Placing	—	—	—	—	757,875,000	15.00	757,875,000	14.71	757,875,000	11.81
— The Underwriter	—	—	—	—	—	—	36,882,338	0.72	36,882,338	0.58
Sub-total	368,823,371	36.50	184,411,686	36.50	1,263,125,000	25.00	1,364,175,000	26.47	1,364,175,000	21.26
Total	1,010,500,000	100.00	505,250,000	100.00	5,052,500,000	100.00	5,153,550,000	100.00	6,416,675,000	100.00

Note:

- (1) The 641,676,629 Shares, prior to the Share Consolidation becoming effective, are held by Global Courage Limited. Global Courage Limited is wholly-owned by Head and Shoulders Direct Investment Limited, which in turn is wholly-owned by Dr. Choi. Thus, Head and Shoulders Direct Investment Limited and Dr. Choi are deemed to be interested in the 641,676,629 Shares held by Global Courage Limited pursuant to the SFO. Upon Resumption, Dr. Choi will resign as executive Director.

LETTER FROM THE BOARD

8. CHANGE OF DIRECTORS

Resignation of Directors

The Board announces that Dr. Choi and Mr. Choi Ka Wai will resign as executive Directors; and Mr. Szeto Tat Kwan and Mr. Fok Wai Ming Eddie will resign as independent non-executive Directors, all with effect upon Resumption.

Mr. Ha Kee Choy Eugene will remain on the Board as an independent non-executive Director.

Appointment of Directors

The Board also announces that, subject to approval by Shareholders at the EGM, (i) Mr. Hung Shui Chak, Mr. So Kam Chuen, Mr. Yuan Mingjie and Mr. Chen Jun will be appointed as executive Directors; and (ii) Mr. Chan Chun Yiu Thomas and Mr. Mai Guangfan will be appointed as independent non-executive Directors, all with effect from the Resumption Date.

Their respective biographical details are set out in the section headed “Directors and senior management of the Enlarged Group” in this circular.

9. NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice of the EGM to be held at Dynasty I of the Dynasty Club, 7/F., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 May 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular for the purpose of considering and, if thought fit, approving (i) the Share Consolidation; (ii) the Acquisition; (iii) the Whitewash Waiver; (iv) the Disposal; (v) the Share Placing; (vi) the appointment of proposed Directors, and the transactions contemplated thereunder. Voting on the resolutions at the EGM will be taken by poll.

Dr. Choi, who is the chairman of the Company and executive Director, is beneficially interested in 641,676,629 Shares, representing approximately 63.50% of the issued share capital as at the Latest Practicable Date through his indirect interest in Global Courage, and thereby Global Courage will abstain from voting at the EGM in accordance with the Takeovers Code.

Save for Dr. Choi, none of any other Director or Shareholder has any material interest in (i) the Share Consolidation; (ii) the Acquisition; (iii) the Whitewash Waiver; (iv) the Disposal; (v) the Share Placing; and (vi) the appointment of proposed Directors, and the transactions contemplated thereunder, therefore, none of any other Director and Shareholder is required to abstain from voting on the resolutions for considering and approving (i) the Share Consolidation; (ii) the Acquisition; (iii) the Whitewash Waiver; (iv) the Disposal; (v) the Share Placing; and (vi) the appointment of proposed Directors, and the transactions contemplated thereunder.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed in this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM, or the adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

10. GENERAL

It should be noted that the transactions contemplated in this circular are subject to a number of conditions, which may not be fulfilled. In addition, the approval of (i) the Share Consolidation; (ii) the Acquisition; (iii) the Disposal; (iv) the Share Placing; (v) the appointment of the proposed Directors; and (vi) the Whitewash Waiver, and the transactions contemplated thereunder may or may not be granted. Shareholders and potential investors should exercise caution when they deal or contemplated dealing in the Shares or other securities of the Company.

11. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Ha Kee Choy Eugene, Mr. Szeto Tat Kwan and Mr. Fok Wai Ming Eddie has been established to advise the Independent Shareholders in connection with the Acquisition, the Whitewash Waiver, the Disposal and the transactions contemplated thereunder.

Hooray Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The appointment of Hooray Capital Limited as the Independent Financial Adviser is approved by the Independent Board Committee.

12. RECOMMENDATIONS

The Independent Board Committee, having considered the terms and conditions of the Acquisition, the Whitewash Waiver, the Disposal and the transactions contemplated thereunder and after taking into account the advice from the Independent Financial Adviser, consider that the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee accordingly recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Hooray Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The text of the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 93 to 94 of this circular. The text of the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition, the Disposal, Whitewash Waiver and the transactions contemplated thereunder. The principal factors and reasons which it has taken into account in arriving at its advice, are set out on pages 95 to 129 of this circular.

Furthermore, with reference to the sections above, the Directors are of the view that (i) the Share Consolidation, (ii) the Acquisition; (iii) the Disposal; (iv) the Share Placing; (v) the appointment of the proposed Directors; and (vi) the Whitewash Waiver, and the transactions contemplated thereunder, are in the interests of the Company and the Shareholders as a whole and accordingly recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (i) the Share Consolidation; (ii) the Acquisition; (iii) the Disposal; (iv) the Share Placing; (v) the appointment of the proposed Directors; and (vi) the Whitewash Waiver, and the transactions contemplated thereunder.

13. FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Group, the Target Group and other information required to be disclosed under the Listing Rules.

By order of the Board
Daqing Dairy Holdings Limited
Choi Chiu Fai Stanley
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the Acquisition, the Disposal, the Whitewash Waiver and the transactions contemplated thereunder for inclusion in this circular.



DAQING DAIRY HOLDINGS LIMITED

大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

9 May 2018

To the Independent Shareholders

Dear Sirs or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION;
(2) APPLICATION FOR WHITEWASH WAIVER;
AND
(3) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF
GLOBAL MILK PRODUCTS PTE. LTD.**

We refer to the circular of the Company dated 9 May 2018 (the “**Circular**”), of which this letter forms part. Unless otherwise specified, capitalised terms defined in the Circular shall have the same meanings when used herein.

We, being the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders in connection with the Acquisition, the Whitewash Waiver, the Disposal and the transaction contemplated thereunder. Hooray Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The text of the letter of advice from the Independent Financial Adviser containing its recommendations and the principal factors it has taken into account in arriving at its recommendations are set out on pages 95 to 129 of the Circular.

Having considered, among other matters, the principal factors and reasons considered by and the advice and recommendation of the Independent Financial Advisor, we consider that although the Acquisition and the Disposal are not in the ordinary course of business of the Group, the Acquisition Agreement and the Disposal Agreement are on normal

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

commercial terms, the terms of the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition, the Disposal, the transactions contemplated under the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver at the EGM.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. Ha Kee Choy Eugene Mr. Szeto Tat Kwan

Mr. Fok Wai Ming Eddie

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Hooray Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition, the Disposal, the Whitewash Waiver, and the transactions contemplated under the Acquisition Agreement and the Disposal Agreement for the inclusion in this circular.



9 May 2018

*To the Independent Board Committee and
the Independent Shareholders of
Daqing Dairy Holdings Limited*

Dear Sirs and Madams,

**(I) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
LONGHUI INTERNATIONAL CATERING MANAGEMENT HOLDINGS LTD.;**
**(II) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF
GLOBAL MILK PRODUCTS PTE. LTD.;**
AND
(III) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, among other things, the Acquisition, the Disposal, the transactions contemplated under the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver. Details of which are set out in the section headed “Letter from the Board” in the circular to the Shareholders dated 9 May 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

好盈融資有限公司

Hooray Capital Limited (CE No. AHF 470)

香港干諾道中 148 號粵海投資大廈 1 樓

1/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong

Tel. 電話 : (852) 2159 4500

Fax. 傳真 : (852) 2110 4453

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reference is made to the announcements of the Company dated 27 May 2016, 7 June 2016, 21 December 2016, 21 February 2017, 28 February 2017, 7 August 2017, 20 September 2017, 30 October 2017, 15 March 2018, 6 April 2018 and 2 May 2018. On 26 May 2016, the Stock Exchange issued a letter informing the Company that, among other things, the Company was placed in the third stage of delisting under Practice Note 17 to the Listing Rules and that the Company must submit a viable resumption proposal at least 10 Business Days before 6 December 2016. One of the resumption conditions set out by the Stock Exchange is to demonstrate sufficient operations or assets under Rule 13.24 of the Listing Rules.

On 21 November 2016, the Company (as the purchaser) and the Vendors entered into the Acquisition Agreement (as amended and restated on 20 February 2017 and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018), pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the Sale Shares for a total consideration of HK\$517,881,250. Following the Acquisition Completion, the members of the Target Group will become subsidiaries of the Company and their financial results, assets and liabilities will be consolidated into the financial statements of the Enlarged Group.

On 21 November 2016, the Company (as the vendor) and Mr. Jiang (as the purchaser) entered into the Disposal Agreement (as amended and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018), pursuant to which the Company has conditionally agreed to sell, and Mr. Jiang has conditionally agreed to purchase, the entire issued share capital of Global Milk Singapore for a cash consideration of HK\$1.00.

As one or more of the applicable percentage ratios in respect of the Acquisition under Rule 14.07 of the Listing Rules exceeds 100% and will result in a change in control (as defined in the Takeovers Code) of the Company, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules and a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules. In addition, Mr. Hung, being one of the Vendors, will become a Controlling Shareholder and an executive Director upon Resumption, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.28 of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules and approval of the New Listing Application by the Listing Committee.

Upon the Completion, the Concert Group will, in aggregate, hold approximately 73.53% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Offer Shares and the Placing Shares, but before the allotment and issue of the Conversion Shares. Under Rule 26 of the Takeovers Code, the acquisition of voting rights to 30% or more will trigger an obligation on the Vendors to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM by way of poll, which the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Vendors, their associates, and any parties acting in concert with any of them, and those who are involved in or interested in the Acquisition will abstain from voting on the relevant resolutions.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Fok Wai Ming Eddie, Mr. Ha Kee Choy Eugene and Mr. Szeto Tat Kwan, has been formed to advise the Independent Shareholders on (i) whether the Acquisition Agreement and the Disposal Agreement are on normal commercial terms, the terms of the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Acquisition, the Disposal, the transactions contemplated under the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver at the EGM. We, Hooray Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with the Company pursuant to Rule 13.84 of the Listing Rules. In the last two years, save and except our appointment as the Independent Financial Adviser, there was no engagement between the Group and us. We are not aware of the existence of or change in any circumstances that would affect our independence. Apart from normal professional fees payable to us by the Company in connection with our appointment as the Independent Financial Adviser, no other arrangements exist whereby we shall receive any fees or benefits from the Company, the Vendors or the Disposal Purchaser. Accordingly, we consider ourselves eligible to give independent advice on the Acquisition, the Disposal, terms of the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management.

We have assumed that all such information, facts, representations, opinions and statements made or referred to in the Circular were true, accurate and complete in all material aspects as at the Latest Practicable Date and will remain so up to the date of the EGM, and the Company will notify the Shareholders and the general public of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have also assumed that all statements of intention of the Directors, the Company and its management as stated in the Circular will be capable of being implemented. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information currently available to us, among other things, the Circular, the Acquisition Agreement, the Disposal Agreement, the annual reports of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”), for the year ended 31 December 2016 (the “**2016 Annual Report**”) and for the year ended 31 December 2017 (the “**2017 Annual Report**”), the accountant’s report of the Target Group in Appendix I to the Circular, the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular and the Market Research Report, and have performed all necessary steps as required under Rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on such information. We, however, have not conducted any independent investigation or audit into the businesses, affairs, financial position or the future prospects of any members of the Group and the Target Group, nor have we carried out any independent verification of the information supplied by the Directors, the Company and its management. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion stated hereinunder and the Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

All the Directors jointly and severally accept full responsibility for the accuracy of the information, facts and representations contained in the Circular (other than the information relating to the Vendors and the Target Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed as well as statements made in the Circular have been arrived at after due and careful consideration and that there is no other fact not contained in the Circular the omission of which would make any statement in the Circular misleading.

The Vendors jointly and severally accept full responsibility for the accuracy of the information, facts and representations contained in the Circular (other than the information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed as well as statements made in the Circular have been arrived at after due and careful consideration and that there is no other fact not contained in the Circular the omission of which would make any statement in the Circular misleading.

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which is solely for their consideration of whether to approve the Acquisition, the Disposal, the transactions contemplated under the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver at the EGM, and save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons.

(i) The acquisition

1. *Information on the Group*

1.1 *Background of the Group and the Suspension*

The Company was incorporated in the Cayman Islands with limited liability and the Shares have been listed on the Main Board since 28 October 2010. The Group was principally engaged in the production, marketing and sales of dairy products and the operation and management of ecological farm and related business in the PRC.

As disclosed in the announcement of the Company dated 29 March 2012 that, during the audit process in respect of the financial year ended 31 December 2011, irregularities were identified by the Predecessor Auditors that, among other things, (i) certain milk procurement transactions were brought to the attention of the management of the Company at the material time and were acknowledged by them to be fraudulent; (ii) unexplained differences between sales receipt notes sighted during the Predecessor Auditors' audit work in February 2012 and documents purporting to be the same sales receipt notes returned to the Company in March 2012 ostensibly following a tax bureau investigation; (iii) the explanation provided by the management of the Company at the material time — the tax bureau investigation — for removing accounting records which were then not available to the Predecessor Auditors continuously during the audit; (iv) the validity and commercial substance of the acquisitions of milk stations, farm houses and Holstein cattle; and (v) difficulties that the Predecessor Auditors encountered during its visits to the local branch of one of the Group's banks (collectively referred to as the "**Irregularities**"). The Predecessor Auditors tendered their resignation as auditors of the Company with effect from 21 March 2012 and trading in Shares on the Stock Exchange has been suspended since 22 March 2012.

The Company subsequently carried out various remedial actions, among other things, appointing a forensic accountant to investigate and to evaluate the Irregularities, and hiring two PRC law firms to, among other things, change the legal representatives and board of directors of its PRC subsidiaries, but were unsuccessful largely due to the former management of the Company's non-cooperation and the failure to locate and access to the complete books and records of PRC subsidiaries of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a result of the Suspension and the uncertainties in the forensic investigation, the Stock Exchange considered that the Company had lost its control in its PRC subsidiaries and was unable to maintain a sufficient level of operations or assets as required under Rule 13.24 of the Listing Rules to support a continued listing, and placed the Company in the first, second and third stage of delisting on 14 May 2015, 19 November 2015 and 7 June 2016, respectively, under Practice Note 17 to the Listing Rules and that the Company must submit a viable resumption proposal at least 10 Business Days before 6 December 2016. As such, the Company submitted to the Stock Exchange the Resumption Proposal which set out, *inter alia*, the proposed disposal of the Disposal Group and the proposed acquisition of the Target Company by the Company on 22 November 2016.

On 16 December 2016, the Company received a letter from the Stock Exchange, which stated that the Stock Exchange agreed to allow the Company to submit a New Listing Application only relating to the Target Group on or before 28 February 2017. If the Company fails to submit a New Listing Application by 28 February 2017, or the transactions proposed in the Resumption Proposal fail to proceed for any reason, the Stock Exchange will proceed to cancel the listing of the Shares on the Stock Exchange. On 27 February 2017, the Company made the first New Listing Application to the Stock Exchange in relation to, among other things, the Acquisition, but was subsequently lapsed on 28 August 2017 as more than six months have elapsed since the date of the application. On 20 September 2017, the Company submitted the second New Listing Application to the Stock Exchange, but was eventually lapsed on 20 March 2018 as another six months have passed. On 6 April 2018, the Company resubmitted a third New Listing Application to the Stock Exchange.

1.2 Historical financial information of the Group

The following table set out selected items in the consolidated financial statements of the Company for the three years ended 31 December 2017 as extracted from the 2015 Annual Report, the 2016 Annual Report and the 2017 Annual Report.

	For the year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
Revenue	—	—	—
Gross profit	—	—	—
Loss for the year			
attributable to the			
owners of the Company	3,411	8,835	5,099

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
Non-current assets	—	—	—
Current assets	329	89	266
Total assets	329	89	266
Non-current liabilities	—	—	—
Current liabilities	29,702	38,297	43,573
Total liabilities	29,702	38,297	43,573
Net liabilities	29,373	38,208	43,307

As stated in the 2015 Annual Report, the 2016 Annual Report and the 2017 Annual Report, the financial results, assets and liabilities of the Disposal Group have not been included in the financial statements of the Company and no consolidated financial statement was prepared since 1 January 2011 as the Group unable to locate and access to the complete books and records of the Disposal Group.

As stated in the 2015 Annual Report, the 2016 Annual Report, the 2017 Annual Report and as indicated above, the Company did not conduct any business during the relevant period. The loss attributable to the owners of the Company amounted to approximately HK\$3.4 million and HK\$8.8 million for the two years ended 31 December 2016, respectively. Such losses mainly represented the loss on disposal of equipment and legal expenses incurred by the Group. For the year ended 31 December 2017, the loss attributable to the owners of the Company was approximately HK\$5.1 million, representing a decrease of approximately HK\$3.7 million as compared to the year ended 31 December 2016. Such decrease in loss was mainly attributable to the professional fees for the publication of the outstanding financial information of the Company, which were expenses of a non-recurring nature incurred in the year ended 31 December 2016. The Group recorded total assets of approximately HK\$0.3 million, HK\$0.1 million and HK\$0.3 million as at 31 December 2015, 2016 and 2017, respectively, and total liabilities of approximately HK\$29.7 million, HK\$38.3 million and HK\$43.6 million as at 31 December 2015, 2016 and 2017, respectively. Given the incomplete books and records and the former management of the Company did not response to any request for information from the management of the Company, it was impossible and impracticable to ascertain the bank transactions and other payables took place in the previous years, which the Directors recognised (i) losses of approximately HK\$10,543,000 and approximately

HK\$2,538,000 in respect of the aggregate amount of the credit balances of bank transactions took place during the year ended 31 December 2012 and 2013, respectively; and (ii) liabilities of approximately HK\$13,142,000 in respect of the aggregate amount of the debit balances of bank transactions took place during the year ended 31 December 2012 and 2013.

Furthermore, a disclaimer of opinion was issued by HLB Hodgson Impey Cheng Limited, the auditors of the Company, on the published audited financial statements of the Company for each of the three years ended 31 December 2017. Based on the disclaimer of opinion, it is our view that the Disposal Group casts a significant doubt on the Group's future operations. For details, please refer to the section headed "financial information of the Group — basis for disclaimer of opinion" in Appendix II of the Circular.

2. Information on the Target Group

(i) Background of the Target Group

The Target Group started its first restaurant in Shanghai in 2004 under the brand *Faigo* ("輝哥") and specialises in seafood hotpot cuisine with a signature menu which is characterised by its aromatic soup base and a wide range of selection of seafood and beef. It gradually expanded its restaurant network to other major cities in the PRC including Beijing, Shenzhen, Nanjing and Hangzhou since 2010. According to the Market Research Report, the Target Group ranked fourth in the Cantonese-style hotpot restaurant market in the PRC in terms of sales revenue in 2016. As at the Latest Practicable Date, the Target Group owned and operated three brands in the PRC, namely, (i) *Faigo* ("輝哥") which targets the high-end market with a total of 7 restaurants, (ii) *Xiao Faigo Hotpot* ("小輝哥火鍋") which targets the mid-tier market with a total of 89 restaurants and (iii) *Hong Yuanwai* ("洪員外") which offers Sichuan-style hotpot cuisine with a total of one restaurant which was opened in July 2017. In addition, the Target Group has formed a joint venture with an Independent Third Party for establishing Hefei Huige under the brand *Faigo* ("輝哥") in Hefei.

The Target Company was incorporated in the Cayman Islands as an exempted company with limited liability. For the purpose of the Acquisition, the Reorganisation will be carried out which involved the Target Company becoming the holding company of the Target Group.

For details of the history, background and business of the Target Group and the Reorganisation, please refer to the respective section headed "History and background of the Target Group", "Business of the Target Group" and "Reorganisation of the Target Group" in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Financial information of the Target Group*

The following is the financial information of the Target Group for the three years ended 31 December 2017 and as at 31 December 2015, 2016 and 2017 which are extracted from the accountant's report of the Target Group in Appendix I to the Circular.

	For the year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
Revenue	716,199	707,311	700,432
Profit before income tax	52,858	54,822	37,799
Profit for the year	36,544	38,503	25,652
Profit attributable to the owners of the Target Company	36,544	38,503	25,675
	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
Total current assets	120,745	224,452	243,319
Total current liabilities	247,031	243,941	268,484
Net current liabilities	126,286	19,489	25,165

With reference to the section headed "Financial information of the Target Group" in the Circular, the revenue of the Target Group decreased from approximately RMB716.2 million in 2015 to approximately RMB707.3 million in 2016 which was primarily due to increased competition in the malls where the restaurants of the Target Group are located during the period.

For the year ended 31 December 2017, the revenue of the Target Group was approximately RMB700.4 million, representing a decrease of approximately RMB6.9 million as compared to the year ended 31 December 2016 which was primarily due to decreased in average number of customers per day per restaurant in *Xiao Faigo Hotpot* ("小輝哥火鍋").

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The profit before income tax of the Target Group increased from approximately RMB52.9 million in 2015 to approximately RMB54.8 million in 2016 which was due to, among other things, an increase in finance income of approximately RMB2.5 million which was mainly arisen from the increased average balance of the financing provided to related parties.

For the year ended 31 December 2017, the Target Group recorded a profit before income tax of approximately RMB37.8 million, representing a decrease of approximately RMB17.0 million as compared to the corresponding period in 2016. Such increase was largely due to the increase in (i) promotion and marketing expenses; (ii) professional services expenses; and (iii) transportation expenses in developing the Target Group's takeaway business.

The Target Group's net current liabilities decreased from approximately RMB126.3 million as at 31 December 2015 to approximately RMB19.5 million as at 31 December 2016. The decrease in net current liabilities from 31 December 2015 as compared to 31 December 2016 was mainly attributable to (i) increase in prepayments and other receivables of approximately RMB15.6 million; (ii) increase in receivables due from related parties amounting to RMB30.7 million; (iii) increase in cash and cash equivalent of approximately RMB58.6 million; (iv) decrease in trade payables of approximately RMB2.5 million; and (v) decrease in deferred revenue of approximately RMB10.0 million.

The net current liabilities of the Target Group increased to approximately RMB25.2 million as at 31 December 2017 which was mainly attributable to (i) an increase in other payables and accruals from approximately RMB89.2 million to RMB108.3 million as at 31 December 2016 and 2017, respectively due to the payable to salary and wages distribution services for certain junior staffs of approximately RMB11.9 million; (ii) an increase in dividend payable from nil to approximately RMB33.4 million as at 31 December 2016 and 2017, respectively; and (iii) an increase of deferred revenue from approximately RMB38.7 million to approximately RMB41.6 million as at 31 December 2016 to 2017, respectively. The effect was partially offset by the net effect of (i) a decrease in trade payables from approximately RMB105.7 million to approximately RMB74.4 million as at 31 December 2016 and 2017, respectively; (ii) an increase in trade receivables from approximately RMB4.44 million to approximately RMB15.1 million as at 31 December 2016 and 2017, respectively; (iii) an increase in prepayments and other receivables from approximately RMB29.9 million to approximately RMB59.8 million as at 31 December 2016 and 2017, respectively; (iv) a decrease in receivables from related parties from approximately RMB90.0 million to approximately RMB80.0 million as at 31 December 2016 and 2017, respectively; (v) a decrease in cash and cash equivalents from approximately RMB71.7 million to approximately RMB60.4 million as at 31 December 2016 to 2017, respectively; (vi) an increase in current income tax liabilities from approximately RMB10.3 million to approximately RMB10.7 million as at 31 December 2016 to 2017,

respectively; and (vii) a decrease in inventories from approximately RMB28.3 million to approximately RMB28.0 million as at 31 December 2016 to 2017, respectively.

Further financial information on the Target Group has been disclosed in the sections headed “Financial Information of the Target Group” of the Circular and “Accountant’s Report of the Target Group” set out in Appendix I to the Circular.

3. Overview of the PRC catering industry and the PRC hotpot restaurant market

3.1 Overview of the PRC catering industry

As stated in the section headed “Industry overview” in the Circular, according to the Market Research Report, the PRC catering industry has experienced a rapid growth in recent years due to the continuous economic development and urbanisation in the PRC which drove by the increase in disposable income, growing middle class and widespread dining-out trend throughout the country. The sales revenue generated from the PRC catering service market increased from approximately RMB2,129.5 billion in 2011 to approximately RMB3,579.9 billion in 2016, representing a CAGR of approximately 10.9%. It is expected that the sales revenue generate from the PRC catering service market will increase at a CAGR of approximately 9.3% between 2016 and 2021, reaching at approximately RMB5,580.3 billion in 2021 as a result of, among other things, the growing per capita disposable income in the PRC and the growing dining-out trend.

3.2 Overview of the PRC hotpot restaurant market

The Market Research Report indicates that, the PRC hotpot restaurant market accounted for approximately 11.0% of the total sales revenue generated from the PRC catering industry. The sales revenue generated from the PRC hotpot restaurant market increased from approximately RMB224.2 billion in 2011 to approximately RMB395.5 billion in 2016, and is expected to increase to approximately RMB628.2 billion in 2021, representing a CAGR of approximately 12.0% and 9.7%, respectively. Among all the different styles of hotpot restaurants, the Cantonese-style hotpot restaurants has reached the fastest growth at a CAGR of approximately 13.0% from 2011 to 2016 and is expected to maintain its fastest growing position at a CAGR of approximately 10.8% from 2016 to 2021. The Market Research Report also indicates that the PRC hotpot restaurant market was quite fragmented in 2016, with the top five hotpot restaurant operators in the PRC accounted for only approximately 4.7% of the entire PRC hotpot restaurant market in terms of sales revenue.

We have discussed and concur with Frost & Sullivan that the PRC hotpot restaurant market still foresees a favorable growth due to:

- (i) the increasing standardisation of processing of raw foods which shortened the processing time and results in cost reduction; and

- (ii) the more diversified food choices, inclusive of new food ingredients and flavours and innovation of new form of hotpot will attract more customers.

We noted that the Market Research Report was prepared by Frost & Sullivan, an independent global consulting firm founded in New York in 1961 with extensive experience in providing commercial due diligence, market assessment and industry analysis for a vast array of industries in different regions. We have reviewed the section headed “Industry overview” in the Circular and the Market Research Report (including but not limited to the adopted assumptions and employed methodologies) and learnt that official information and data, *inter alia*, National Bureau of Statistics of China (中華人民共和國國家統計局) was used to compiled the analysis in the section headed “Industry overview” in the Circular. For details of the overview of the PRC catering industry and the PRC hotpot restaurant market, please refer to the section headed “Industry overview” in the Circular.

Furthermore, we have conducted our own independent research. In our findings, according to the China Cuisine Association (中國烹飪協會), a national guild of catering industry officially authorised by the Ministry of Civil Affairs of the PRC (中華人民共和國民政部), the catering service market in the PRC grew by approximately 10.7% from approximately RMB3,580 billion in 2016 to approximately RMB3,964 billion in 2017. In particular, the catering service providers with an annual income of more than RMB2 million grew by approximately 5.8% from approximately RMB921.3 billion in 2016 to approximately RMB975.1 billion in 2017. Moreover, on 11 March 2016, the Ministry of Commerce (中華人民共和國商務部) issued the Guidance Opinion on Transformation and Development of Catering Industry (《關於推動餐飲業轉型發展的指導意見》) (the “**Guidance Opinion**”) to encourage chain operations to adopt centralised procurement and standardised management for better food quality control and higher level of food safety. It also encouraged catering enterprises to utilise information technology measures to enhance its operation efficiency and competitiveness, which the Target Group has already adopted including the *point-of-sale systems* and the *enterprise resource planning systems*.

In light of the above, we consider that the PRC catering industry is expected to be supported by, among other things, the favourable policy (i.e. the Guidance Opinion) and the increasing trend in dining-out activities. Therefore, we are of the view that the outlook of the PRC catering industry (which includes the hotpot restaurant market) would remain positive in the near future and in turn support the business and financial performance of the Target Group in the future.

4. Reasons for and benefits of the Acquisition

As disclosed in the section headed “Letter from the Board” in the Circular, the Acquisition is considered to be in the interests of the Company and the Shareholders as a whole due to the following reasons:

(i) The Target Group has been generating profit

The operation of the Group was deemed to be ceased in 2011 due to the loss of control over the Disposal Group and the production, marketing and sales of dairy products and the operation and management of ecological farm and related business have been proposed to be disposed. In addition, the loss attributable to the owners of the Company for the three years ended 31 December 2017 were approximately HK\$3.4 million, HK\$8.8 million and HK\$5.1 million, respectively. Given the Group’s existing loss-making position and in the absence of a principal business activity, it will be difficult for the Group to turnaround its financial performance and to retain its listing status without the injection of new businesses.

Furthermore, the profit attributable to owners of the Target Company for the three years ended 31 December 2017 were approximately RMB36.5 million, RMB38.5 million and RMB25.7 million, respectively. It is expected that the Acquisition would help the Enlarged Group to improve its profitability and is therefore a viable option for the Company to rebuild its business operation in order to fulfill the sufficiency of operation and assets requirements under Rule 13.24 of the Listing Rules.

(ii) The Group’s incapability to raise funds based on its financial position and performance

Based on the financial position and performance of the Group (with net liabilities of approximately HK\$43.3 million as at 31 December 2017 and no revenue was recorded for the year ended 31 December 2017), it is very unlikely that the Group can obtain financing from banks or other financial institutions or to raise funds in the capital market. However, the Directors believe that following the Acquisition Completion, with stable revenue source, the Group will have stronger capability to raise funds to develop its business so as to create value for its Shareholders.

(iii) The Enlarged Group would continue to expand and is expected to have favorable growth after acquiring the Target Group

As indicated in the Market Research Report, the Target Group ranked fourth in the Cantonese-style hotpot restaurant market in the PRC in terms of sales revenue in 2016. The restaurants of the Target Group have a large geographic presence in the PRC. As at the Latest Practicable Date, the Target Group owned and operated three brands in the PRC, namely, *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”), with 97

restaurants in 18 cities in the PRC, including Shanghai, Beijing, Shenzhen, Wuxi, etc. In addition, the Target Group has formed a joint venture with an Independent Third Party for establishing Hefei Huige under the brand *Faigo* (“輝哥”) in Hefei. Furthermore, the Target Group is exploring a new flavour by launching a Sichuan-style hotpot restaurant under the brand *Hong Yuanwai* (“洪員外”) in July 2017 and may further open one to two restaurants under the brand *Hong Yuanwai* (“洪員外”) in Shanghai if it is well received by the market. The Directors believe that with the leading status and reputation of the Target Group in the PRC hotpot restaurant market, the Enlarged Group can continue to expand and grow, and the Group will benefit by gaining access to a business with an established track record and supported by the management team with extensive experience in the catering industry.

With the Target Group’s (a) commitment in continuing to enhance its same-store sales growth and profitability; (b) continuous effort to promote its brands image to differentiate itself from its competitors; and (c) continuous effort to enhance its operational infrastructure to deliver sustainable growth, the Directors believes that the Target Group will be able to maintain growth in the near future.

We have further enquired the Directors on any alternatives to the Resumption Proposal (which the Acquisition forms part), which the Directors have confirmed that save and except the Resumption Proposal, they have not encountered any other viable resumption plan (including acquisition of assets or businesses) that would facilitate the resumption of trading of the Shares pursuant to the requirements set out by the Stock Exchange.

Having considered (i) the likelihood of the Stock Exchange canceling the listing of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed; (ii) the Group’s continuous loss-making history; (iii) the absence of any business operations as indicated in the Company’s latest financial statement; (iv) the Acquisition would create positive financial impacts on the Group; (v) the Acquisition provides an opportunity to rebuild the Group’s business operation; (vi) the Acquisition, as indicated by the Director, helps the Group to put a suitable structure in place that can fulfill the requirements of Rule 13.24 of the Listing Rules; (vii) the background of the Acquisition; (viii) historical financial performance of the Target Group; (ix) the growth potential of the PRC hotpot restaurant market pursuant to, *inter alia*, the findings from the Market Research Report; (x) the business development and prospects of the Target Group; and (xi) the Target Company is being the only viable option that the Company has encountered for the purposes of applying for the resumption of trading of the Shares, we concur with the view of the management of the Company that the reasons for the Acquisition are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

5. *Principal terms of the Acquisition Agreement*

5.1 *The Acquisition Agreement*

On 21 November 2016, the Company (as the purchaser) and the Vendors entered into the Acquisition Agreement (as amended and restated on 20 February 2017 and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018), pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the Sale Shares for a consideration of HK\$517,881,250. Following the Acquisition Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results and position of the Target Group will be consolidated into the financial statements of the Group.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors are Independent Third Parties.

As stated in the section headed “Letter from the Board” in the Circular, save and except Mr. Ha Kee Choy Eugene, all the other existing Directors will resign and the proposed Directors will be appointed, all with effect upon Resumption.

5.2 *Conditions precedent*

The Acquisition Completion shall be conditional upon and subject to, among other things, the passing of relevant resolutions approving the Acquisition, the transactions contemplated under the Acquisition Agreement and the Whitewash Waiver by the Independent Shareholders (other than those who are required by the Listing Rules, the Takeovers Code or applicable laws and regulations not to vote or to abstain from voting) at the EGM by way of poll and approval of the New Listing Application by the Listing Committee and the Executive in relation to the Whitewash Waiver. For details of the conditions precedent to the Acquisition Completion, please refer to the “Conditions precedent” section headed “Letter from the Board” in the Circular.

5.3 *Consideration*

As stated in the section headed the “Letter from the Board” in the Circular, the Consideration is HK\$517,881,250 and was arrived at after arm’s length negotiations between the Company and the Vendors on normal commercial terms with reference to a number of factors at the material time, including but not limited to (i) the audited net profit of the Target Group attributable to the equity shareholders of the Target Company of approximately RMB36.5 million (equivalent to approximately HK\$40.9 million) for the year ended 31 December 2015; (ii) the potential business prospect of the Target Group; and (iii) the management’s assessment on the price-to-earnings ratio (“**P/E ratio**”) of four comparable companies listed on the Stock Exchange on a best effort basis, which are principally engaged in the operation of Chinese cuisine restaurants and have substantial business in the PRC, including (i) Xiabuxiabu Catering Management

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(China) Holdings Co., Ltd. (Stock Code: 520) with a P/E ratio of approximately 17.3 times; (ii) Tang Palace (China) Holdings Limited (Stock Code: 1181) with a P/E ratio of approximately 18.7 times; (iii) Tao Heung Holdings Limited (Stock Code: 573) with a P/E ratio of approximately 13.0 times; and (iv) TANSH Global Food Group Co., Ltd (formerly known as Xiao Nan Guo Restaurants Holdings Limited) (Stock Code: 3666) (but was eventually excluded due to its negative earnings for the year ended 31 December 2015).

In order to assess the fairness and reasonableness of the Consideration, we have reviewed and examined the full list of comparable companies considered by the management of the Company for its assessment as stated in the section headed “Letter from the Board” in the Circular.

Company	Stock Code	Market capitalisation based on the closing price as at the Latest Practicable Date approximately HK\$ million	P/E Ratio approximately
TANSH Global Food Group Co., Ltd (formerly known as Xiao Nan Guo Restaurants Holdings Limited)	3666.HK	830	6.6x
Xiabuxiabu Catering Management (China) Holdings Co., Ltd.	520.HK	14,376	27.6x
Tang Palace (China) Holdings Limited	1181.HK	1,929	13.0x
Tao Heung Holdings Limited	573.HK	1,454	16.3x
		Average	15.9x
		Median	14.7x
		Max	27.6x
		Min	6.6x

Source: Extracted from Bloomberg

Target Group	17.0x (Note)
--------------	-----------------

Note: the P/E ratio of the Target Group are calculated by dividing the Consideration of HK\$517,881,250 by the profit attributable to owners of the Target Group for the year ended 31 December 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the implied P/E ratio of the Target Company was approximately 17.0 times, such implied P/E ratios are within the range of P/E ratios of the comparable companies from 6.6 times to 27.6 times. In addition, we have taken into account the Target Company could bring future benefits to the Group due to, among others, (a) the Target Group has established a scale of operation; (b) the historical financial results of the Target Group demonstrated a stable source of income; and (c) the growth potential of the PRC hotspot restaurant market pursuant to the findings from the Market Research Report. As such, we concur with the view of the management of the Company that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In addition, we verified the list of the above comparable companies by researching, on a best effort basis, all the companies that match the criteria given by the Company, which are, (i) a listed company on the Stock Exchange; (ii) principally engaged in the operation of Chinese cuisine restaurants; and (iii) have substantial business in the PRC (which we are of view that the criteria are comprehensive, appropriate and representative). Based on our research, the results are identical to those provided by the management of the Company. Thus, we concluded that the list of comparable companies provided by the management are representative and exhaustive.

5.4 Payment of Consideration

As stated in the section headed “Letter from the Board” in the Circular, the Consideration is HK\$517,881,250, of which, upon the Acquisition Completion:

- (i) HK\$388,410,937.50 will be satisfied by way of allotment and issue of an aggregate of 3,789,375,000 Consideration Shares at the Issue Price, credited as fully paid, to the Vendors (or their respective nominees) in proportion to their respective shareholding in the Target Company; and
- (ii) HK\$129,470,312.50 will be satisfied by way of issue of Consideration CBs in aggregate principal amount of HK\$129,470,312.50 entitling the Vendors (or their respective nominees) to convert into a maximum of 1,263,125,000 Conversion Shares based on the initial conversion price of HK\$0.1025 per Conversion Share to the Vendors (or their respective nominees) in proportion to their respective shareholding in the Target Company.

The Directors are of the view and we concur that to settle part of the consideration of the Acquisition with the inclusion of the issue of the Consideration CBs is advantageous for the Group having considered the following reasons:

- (i) the issue of the Consideration CBs to settle part of the Consideration will reduce the immediate dilution impact on the existing Shareholders;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) as compared to cash and/or the issue of the promissory notes, the issue of the Consideration Shares and the Consideration CBs will not adversely affect the cash position and development of the Group in the short to medium term; and
- (iii) the exercise of the conversion rights attaching to the Consideration CBs are subject to, among other restriction, the Company meeting the minimum public float requirement under Rule 8.08 of the Listing Rules such that no conversion of which would result in the Company not meeting the minimum public float as required under the Listing Rules.

In addition, we considered that (a) the Considerations CBs do not bear any interest, thus it will not incur any interest expenses to the Company; (b) given that the Issue Price is the same as the Conversion Price, the issue of further Consideration Shares in lieu of the Consideration CBs would have the same dilution effect on the Shareholders upon the exercise of the conversion rights attaching to the Consideration CBs in full; and (c) the Concert Group already hold approximately 75% of the issue share capital of the Company immediately after the allotment of the Consideration Shares and the Share Placing (as shown in the table under “Possible dilution effect on the shareholding interests of the public Shareholders” in this letter), further issue of the Shares as consideration of the Acquisition is not permitted under Rule 8.08 of the Listing Rules. As such, settling part of the consideration of the Acquisition with the inclusion of the issue of the Consideration CBs is advantageous for the Group.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares (upon the exercise of the conversion rights attaching to the Consideration CBs). The Consideration Shares will be allotted and issued and the Consideration CBs will be issued under a specific mandate proposed to be obtained at the EGM.

The Consideration Shares

Pursuant to the Acquisition Agreement, the Company will allot and issue, credited as fully paid, 3,789,375,000 Consideration Shares at the Issue Price to the Vendors (or their respective nominees) as part of the Consideration. The Consideration Shares represent:

- (i) approximately 7.50 times of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as at the Latest Practicable Date;
- (ii) approximately 88.24% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, (assuming the Share Consolidation has become effective);

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) approximately 68.18% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full;
- (iv) approximately 60.00% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full and the Placing Share; and
- (v) approximately 59.06% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares, the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full, the Placing Shares and the Offer Shares.

The Consideration Shares shall rank *pari passu* in all respect with the Shares in issue on the date of allotment and issue.

The Consideration CBs

Pursuant to the terms of the Acquisition Agreement, the Company will issue the Consideration CBs in the principal amount of HK\$129,470,312.50 to the Vendors to satisfy part of the Consideration. For details of the Consideration CBs, please refer to “The Consideration CBs” in the section headed “Letter from the Board” in the Circular.

Assuming that no further issue or repurchase of the Shares by the Company between the Latest Practicable Date and the date of the EGM, upon the exercise of the conversion rights attaching to the Consideration CBs in full at the Conversion Price, the Company will allot and issue a maximum of 1,263,125,000 Conversion Shares, representing:

- (i) approximately 2.50 times of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as at the Latest Practicable Date;
- (ii) approximately 71.43% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs but before the allotment and issue of the Placing Shares, the Offer Shares and the Consideration Shares;

- (iii) approximately 50.00% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs and the Placing Shares but before the allotment and issue of the Offer Shares and the Consideration Shares;
- (iv) approximately 48.08% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and the issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs, the Placing Shares and the Offer Shares but before the allotment and issue of the Consideration Shares; and
- (v) approximately 19.69% of the entire issued share capital of the Company (assuming the Share Consolidation has become effective) as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares, the Offer Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full.

Having considered the principal terms of the Consideration CBs, we are of the view that the Independent Shareholders will be protected from further dilution of shareholding as a result of the conversion of the Consideration CBs by the bondholders which is in the interests of the Company and the Shareholders as a whole.

5.5 The Share Placing and the Open Offer

The Share Placing

As stated in the section headed “Letter from the Board” in the Circular, the Company proposed to conduct the Share Placing to raise approximately HK\$78.0 million and intended to use the net proceeds from the Share Placing to expand and develop the business of the Enlarged Group upon the Acquisition Completion. For details of the Share Placing, please refer to “The Share Placing” in the section headed “Letter from the Board” in the Circular.

The Open Offer

As stated in the section headed “Letter from the Board” in the Circular, the Company proposed to conduct the Open Offer on the basis of one (1) Offer Share for every five (5) Consolidated Shares held on the Record Date to raise approximately HK\$10.4 million (before expenses) which the net proceeds from the Open Offer will be intended to use as its general working capital. For details of the Open Offer, please refer to “The Open Offer” in the section headed “Letter from the Board” in the Circular.

5.6 The Issue Price and the Conversion Price

The Issue Price of HK\$0.1025 per Consideration Share which is equivalent to the Conversion Price, representing:

- (i) a discount of approximately 96.95% to the equivalent closing price of HK\$3.360 per Consolidated Share based on the closing price of the Shares of HK\$1.680 per Share as quoted on the Stock Exchange on the Last Trading Day (after taking into account the effect of the Share Consolidation);
- (ii) a discount of approximately 97.25% to the equivalent average closing price of approximately HK\$3.724 per Consolidated Share based on the average of the closing price of approximately HK\$1.862 per Share as quoted on the Stock Exchange for the last five full trading days up to and including the Last Trading Day (after taking into account the effect of the Share Consolidation);
- (iii) a discount of approximately 97.36% to the equivalent average closing price of approximately HK\$3.882 per Consolidated Share based on the average of the closing price of approximately HK\$1.941 per Shares as quoted on the Stock Exchange for the last ten full trading days up to and including the Last Trading Day (after taking into account the effect of the Share Consolidation);
- (iv) a discount of approximately 97.25% to the equivalent average closing price approximately of HK\$3.729 per Consolidated Share based on the average of the closing price of approximately HK\$1.864 per Share as quoted on the Stock Exchange for the last thirty full trading days up to and including the Last Trading Day (after taking into account the effect of the Share Consolidation);
- (v) a premium of approximately HK\$0.1882 over the audited net liabilities value per Consolidated Share of approximately HK\$0.0857 based on the published audited consolidated net liabilities of the Company of approximately HK\$43,307,000 as at 31 December 2017 and the issued

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

share capital of 505,250,000 Consolidated Shares as at the Latest Practicable Date (after taking into account the effect of the Share Consolidation); and

- (vi) a discount of approximately 0.29% to the unaudited net asset value per Consolidated Share of approximately HK\$0.1028 based on the unaudited pro forma consolidated net assets of the Enlarged Group of approximately HK\$51,961,000 as at 31 December 2017 and the issued share capital of 505,250,000 Consolidated Shares (after taking into account the effect of the Share Consolidation).

The Issue Price and the Conversion Price were arrived at after arm's length negotiations between the Company and the Vendors taking into account (i) the Suspension; (ii) the net liabilities of the Group as at 30 June 2016; (iii) the consecutive loss making recorded by the Group in recent years; (iv) the business and prospects of the Target Group; and (v) the fund required for the continuing operation of the Enlarged Group.

We have considered, among other things, the net liabilities of the Group as at 31 December 2017 were approximately HK\$43.3 million, the Group recorded consecutive losses of approximately HK\$3.4 million, HK\$8.8 million and HK\$5.1 million for the three years ended 31 December 2017, respectively, and the fact that the operation of the Group was deemed to be ceased since 2011 and the Company is not planning to regain control over its PRC subsidiaries. This suggests that it is highly unlikely the financial position and performance of the Company can be improved based on the current condition without the introduction of new business. In addition, the Stock Exchange considered the Company is unable to maintain a sufficient level of operations or assets as required under Rule 13.24 of the Listing Rules to support a continuing listing, and would delist the Company if the transactions proposed in the Resumption Proposal fail to proceed. In the event that the Company will be delisted, given the Company is continually loss making and at a net liabilities financial position, the net realised value per Share would be effectively zero.

Thus, we are of view that the setting of the Issue Price and the Conversion Price at a deep discount to the closing price of the Shares is justifiable and in the interests of the Shareholders (including the Independent Shareholders) as a whole given that the value of the Shares with any discount in the case where the Company maintains its listing status is still higher than the prevailing value of zero in the case where the Company is delisted.

Notwithstanding the above, the trading of the Shares was suspended since 22 March 2012, which was approximately six years from the Latest Practicable Date, we consider the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and valuation of the Company which in turn cannot provide a fair basis for the evaluation of the Issue Price and Conversion Price and the discount rate of 97%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison with Comparable Transactions

Nonetheless, for the purpose of providing the Shareholders with a general reference for companies listed on the Stock Exchange engaged in similar transaction as those as described in the Circular, on best effort basis, we attempted to identify and compare listed companies, the shares of which were in prolonged suspension from trading on the Stock Exchange for three months or more, and previously carried out restructuring proposals, involving, among all others, reverse takeover and application for whitewash waiver, similar to those as described in the Circular, from 1 January 2010 to the Latest Practicable Date (the “**Selected Period**”).

To the best of our knowledge and as far as we noticed, we could only identify one company (the “**Selected Company**”) which met the aforesaid criteria. We noted that the restructuring proposal of the Selected Company, the structure and terms thereof, including but limited to, (i) the business nature and model, size, financials and prospect of the acquisition target; (ii) the subscription price and amount and use of net proceeds; and (iii) the background of the transaction, is unique and very different from the Company. However, as information for the Shareholders’ general reference we consider the Selected Company to be fair and reasonable.

Date of Circular	Company	Stock Code	Date of Suspension	Date of Resumption	Discount of issue/ subscription/ offer/placing price to respective last trading day closing price approximately
29/02/2016	First Mobile Group Holdings Limited	865.HK	27/11/2009	27/10/2016	Range of 88.1%–92.3%

Source: website of the Stock Exchange

The Group	97.0 (Note)
-----------	----------------

Note: based on the closing price of HK\$1.680 per Share on the Last Trading Day after taking into account the effect of the Share Consolidation, which is equivalent closing price of the Shares of approximately HK\$3.360 per Consolidated Share.

As illustrated above, the discount of the issue/subscription/offer/placing price to the respective closing price of the shares of the Selected Company on the last trading day in the range of approximately 88.1% discount to 92.3% discount.

Notwithstanding the discount of the Issue Price/Conversion Price to the closing price of the Shares on the Last Trading Day (assuming the Share Consolidation has become effective) of approximately 97.0% discount, which falls outside the abovementioned range of the Selected Company but not

significantly far off from the upper bound of the range, we are of the opinion that such discount is fair and reasonable to the Company and the Independent Shareholders as a whole after taking into consideration of (i) the significant net liability position of the Group as at 31 December 2017; (ii) the Group's continuous loss-making history; (iii) the absence of any business operations as indicated in the Company's latest financial statement; (iv) the Acquisition would create positive financial impacts on the Group; (v) the Acquisition provides an opportunity to rebuild the Group's business operation; (vi) the Acquisition, as indicated by the Directors, helps the Group to put a suitable structure in place that can fulfill the requirement of Rule 13.24 of the Listing Rules; (vii) the business development and prospects of the Target Group; (viii) the Target Company is being the only viable option that the Company has encountered for the purposes of applying for the resumption of trading of the Shares; and (ix) the Stock Exchange is likely to cancel the listing of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed.

5.7 Financial effects of the Acquisition

5.7.1 Earnings

Based on the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular and as if the Share Consolidation, the Acquisition, the Disposal, the Share Placing and the Open Offer had been completed on 1 January 2017, the results of the Group for the year ended 31 December 2017 would increase from a net loss of approximately HK\$5,099,000 to a net loss of approximately HK\$89,234,000 largely due to the transaction costs and the deemed listing expenses of approximately HK\$11,500,000 and HK\$89,996,000 respectively, details of which are set out in Appendix III to the Circular.

5.7.2 Working Capital

According to the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular and as if the Share Consolidation, the Acquisition, the Disposal, the Share Placing and the Open Offer had been completed on 31 December 2017, the Group's cash and cash equivalent as at 31 December 2017 would increase substantially from approximately HK\$80,000 to approximately HK\$149,071,000. It is expected that the Group's working capital position will be strengthened following the Completion. The Directors are of the opinion that, after taking into account the present available financial resources, the banking and other facilities presently available, and subject to the Acquisition Completion and the completion of Share Placing under the Resumption Proposal, the Enlarged Group will have sufficient working capital for its business for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.7.3 Net Asset Value

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular, and as if the Completion was completed on 31 December 2017, the Group as at 31 December 2017 would have net assets of approximately HK\$51,961,000 from net liabilities of approximately HK\$43,307,000.

5.8 Possible dilution effect on the shareholding interests of the public Shareholders

For illustration purposes, the following tables illustrates the shareholdings changes upon the completion of the transactions (assuming there being no issue, other than the Consideration Shares, the Conversion Shares, the Placing Shares and the Offer Shares, or repurchase of Shares from the Latest Practicable Date up to the Completion) contemplated in the Circular:

(i) Assume full acceptance of the Open Offer

	As at the date of Latest Practicable Date		(i) Upon the Share Consolidation becoming effective		(ii) immediately after the allotment and issue of the Consideration Shares and the completion of the Share Placing but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs		(iii) immediately after the allotment and issue of the Consideration Shares, the completion of the Share Placing and the completion of the Open Offer (assume full acceptance from the existing public Shareholders) but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs		(iv) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full, the completion of Share Placing and the Open Offer (assume full acceptance from the existing public Shareholders)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Global Courage Limited (Note)	641,676,629	63.50	320,838,314	63.50	—	—	—	—	—	—
The Concert Group										
— Vendor I	—	—	—	—	3,547,612,875	70.22	3,547,612,875	68.84	4,730,150,500	73.72
— Vendor II	—	—	—	—	111,407,625	2.20	111,407,625	2.16	148,543,500	2.31
— Vendor III	—	—	—	—	84,503,062	1.67	84,503,062	1.64	112,670,750	1.76
— Vendor IV	—	—	—	—	44,714,625	0.89	44,714,625	0.87	59,619,500	0.93
— Vendor V	—	—	—	—	1,136,813	0.02	1,136,813	0.02	1,515,750	0.02
Sub-total	—	—	—	—	3,789,375,000	75.00	3,789,375,000	73.53	5,052,500,000	78.74
Public Shareholders										
— Existing public Shareholders	368,823,371	36.50	184,411,686	36.50	184,411,686	3.65	221,294,024	4.29	221,294,024	3.45
— Global Courage Limited (Note)	—	—	—	—	320,838,314	6.35	385,005,976	7.47	385,005,976	6.00
— Places of the Share Placing	—	—	—	—	757,875,000	15.00	757,875,000	14.71	757,875,000	11.81
Sub-total	368,823,371	36.50	184,411,686	36.50	1,263,125,000	25.00	1,364,175,000	26.47	1,364,175,000	21.26
Total	1,010,500,000	100.00	505,250,000	100.00	5,052,500,000	100.00	5,153,550,000	100.00	6,416,675,000	100.00

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Assume no acceptance of the Open Offer

	As at the date of Latest Practicable Date		(i) Upon the Share Consolidation becoming effective		(ii) immediately after the allotment and issue of the Consideration Shares and the completion of the Share Placing but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs		(iii) immediately after the allotment and issue of the Consideration Shares, the completion of the Share Placing and the completion of the Open Offer (assume no acceptance from the existing public Shareholders) but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs		(iv) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full, the completion of Share Placing and the Open Offer (assume no acceptance from the existing public Shareholders)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Global Courage Limited (Note)	641,676,629	63.50	320,838,314	63.50	—	—	—	—	—	—
The Concert Group										
— Vendor I	—	—	—	—	3,547,612,875	70.22	3,547,612,875	68.84	4,730,150,500	73.72
— Vendor II	—	—	—	—	111,407,625	2.20	111,407,625	2.16	148,543,500	2.31
— Vendor III	—	—	—	—	84,503,062	1.67	84,503,062	1.64	112,670,750	1.76
— Vendor IV	—	—	—	—	44,714,625	0.89	44,714,625	0.87	59,619,500	0.93
— Vendor V	—	—	—	—	1,136,813	0.02	1,136,813	0.02	1,515,750	0.02
Sub-total	—	—	—	—	3,789,375,000	75.00	3,789,375,000	73.53	5,052,500,000	78.74
Public Shareholders										
— Existing public Shareholders	368,823,371	36.50	184,411,686	36.50	184,411,686	3.65	184,411,686	3.57	184,411,686	2.87
— Global Courage Limited (Note)	—	—	—	—	320,838,314	6.35	385,005,976	7.47	385,005,976	6.00
— Placees of the Share Placing	—	—	—	—	757,875,000	15.00	757,875,000	14.71	757,875,000	11.81
— The Underwriter	—	—	—	—	—	—	36,882,338	0.72	36,882,338	0.58
Sub-total	368,823,371	36.50	184,411,686	36.50	1,263,125,000	25.00	1,364,175,000	26.47	1,364,175,000	21.26
Total	1,010,500,000	100.00	505,250,000	100.00	5,052,500,000	100.00	5,153,550,000	100.00	6,416,675,000	100.00

Note: The 641,676,629 Shares, prior to the Share Consolidation becoming effective, are held by Global Courage Limited. Global Courage Limited is wholly-owned by Head and Shoulders Direct Investment Limited, which in turn is wholly-owned by Dr. Choi. Thus, Head and Shoulders Direct Investment Limited and Dr. Choi are deemed to be interested in the 641,676,629 Shares held by Global Courage Limited pursuant to the SFO. Upon Resumption, Dr. Choi will resign as executive Director.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As demonstrated by the tables above, the shareholding interests of the existing public Shareholders in the Company would be diluted, declining from approximately 36.50% as at the Latest Practicable Date and upon the Share Consolidation becoming effective of approximately to (i) approximately 3.65% as a result of the allotment and issue of the Consideration Shares and the completion of the Share Placing but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs; (ii) approximately 4.29% immediately after the allotment and issue of the Consideration Shares, the completion of the Share Placing and the completion of the Open Offer (assume full acceptance from the existing public Shareholders) but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs; (iii) approximately 3.57% immediately after allotment and the issue of the Consideration Shares, the completion of the Share Placing and the completion of the Open Offer (assume no acceptance from the existing public Shareholders) but before the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Consideration CBs; (iv) approximately 3.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Offer Shares (assume full acceptance from the existing public Shareholders), the Placing Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full; and (v) approximately 2.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Offer Shares (assume no acceptance from the existing public Shareholders), the Placing Shares and the Conversion Shares upon the exercise of the conversion rights attaching to the Consideration CBs in full. Nevertheless, holder of the Consideration CBs shall not be permitted to convert the Consideration CBs (or part thereof) if such would result in the public float of the Shares being less than 25% of the then issued share capital of the Company. For illustration purposes, based on the completion of (a) allotment and issue of the Consideration Shares and the Conversion Shares pursuant to the exercise of the Consideration CBs in full; (b) the Share Placing; and (c) the Open Offer (assume full acceptance from the existing public Shareholders), the existing public Shareholders' shareholding will be diluted from approximately 36.50% to approximately 3.45% and will result in the dilution effect of approximately 90.55%.

Comparison with Comparable Transactions

For the purpose of providing the Shareholders with a general reference of the dilution effect to the shareholding structure of the companies listed on the Stock Exchange engaged in similar transactions and under similar circumstances as the Company, we attempted to identify and compare listed companies, the shares of which were in prolonged suspension from trading on the Stock Exchange for three months or more, and previously carried out restructuring proposals,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

involving, among all others, reverse takeover and application for whitewash waiver. Based on the above criteria, the only comparable company we can identify with best effort from 1 January 2010 to the Latest Practicable Date is First Mobile Group Holdings Limited (stock code 865, as aforementioned). Comparison of the dilution effect between the Company and the comparable company is set out below.

Date of Circular	Company	Stock Code	Potential Dilution Effect Approximately
29/02/2016	First Mobile Group Holdings Limited	865.HK	89.97%
	The Group		90.55%

Source: website of the Stock Exchange

As shown above, we noted that the dilution effect of approximately 90.55% as result of the transactions to be engaged by the Company is slightly higher than the dilution effect of the comparable company of approximately 89.97%. However, we consider such potential dilution is acceptable so far as the Independent Shareholders are concerned on the basis that:

- (i) the Company is under Suspension and the Resumption is expected if, among others, the Acquisition and the transactions contemplated thereunder can be completed;
- (ii) the Acquisition Agreement is on normal commercial terms which is fair and reasonable and is in the interests of the Company and the Shareholders as a whole;
- (iii) the Consideration and the Issue Price and the Conversion Price are fair and reasonable for the reasons as stated above; and
- (iv) following the Acquisition Completion and the transactions contemplated under the Acquisition Agreement, and based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group (details of which are set out in Appendix III to the Circular), the Group would be returned into a net asset position.

5.9 Connected Transaction

Upon Resumption, Mr. Hung will become a Controlling Shareholder and an executive Director. Accordingly, pursuant to Rule 14A.28 of the Listing Rules, the Acquisition constitutes a connected transaction of the Company. Notwithstanding to the above, according to the section under “A.3 Board Composition” of the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules, *inter alia*, “the board should have a balance of skills, experience and diversity of perspective appropriate of the requirement of the issuer’s business...”, given that Mr. Hung is managing the business of the Target Group, the proposed appointment of Mr. Hung as an executive Director upon Resumption is in the interest of the Company and the Shareholders as a whole.

In view of (i) Mr. Hung’s appointment as an executive Director upon Resumption would meet the standard under “A.3 Board Composition” of the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules; and (ii) the Consideration and Issue Price and the Conversion Price are fair and reasonable for the reasons as stated above, we consider that the connected transaction is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.10 Implication of the Acquisition under the Listing Rules

As one or more of the applicable percentage ratios in respect of the Acquisition under Rule 14.07 of the Listing Rules exceeds 100% and will result in a change in control (as defined in the Takeovers Code) of the Company, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules and a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules. In addition, Mr. Hung, being one of the Vendors, will become a Controlling Shareholder and an executive Director upon Resumption, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.28 of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14 and 14A of the Listing Rules and approval of the New Listing Application by the Listing Committee.

The Listing Committee may or may not grant its approval to the New Listing Application. If such approval is not granted by the Listing Committee, the Acquisition Agreement will not become unconditional and the Acquisition will not proceed.

Dr. Choi, who is the chairman of the Company and an executive Director, is beneficially interested in 641,676,629 Shares, representing approximately 63.50% of the issued share capital of the Company as at the Latest Practicable Date, through his indirect interest in Global Courage Limited. Thus, Global Courage Limited will abstain from voting at the EGM in accordance with the Takeovers Code.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Dr. Choi, none of the other Directors is interested in any Shares and none of the other Directors and Shareholders has material interest in the Acquisition. Therefore, save for aforementioned, no other Shareholder and Director is required to abstain from voting on the relevant resolutions to be proposed at the EGM and Board meeting (as applicable).

(ii) The Disposal

1. Information on the Disposal Group

The Disposal Group consisted of Global Milk Singapore (an indirect wholly-owned subsidiary of the Company) and its wholly-owned subsidiary Daqing Dairy PRC, which holds the entire interest of Changqing Dairy and Changqing Dairy holds the entire interest of Benniu Muye, being all the subsidiaries (Daqing Dairy PRC, Changqing Dairy and Benniu Muye are collectively referred herein as the “**PRC Subsidiaries**”). The Disposal Group has been principally engaged in the manufacture, marketing and sales of dairy products and dairy farming. However, due to the loss of control over the Disposal Group by the Company and most of the financial documents and records were said to be damaged and irrecoverable, the Disposal Group was deconsolidated from the Group's consolidated financial statements since 1 January 2011.

2. Principal terms of the Disposal Agreement

2.1 The Disposal Agreement

On 21 November 2016, the Company (as the vendor) and Mr. Jiang (as the purchaser) entered into the Disposal Agreement (as amended and supplemented on 30 June 2017, 30 October 2017 and 2 May 2018), pursuant to which the Company has conditionally agreed to sell and Mr. Jiang has conditionally agreed to purchase the entire issued share capital of Global Milk Singapore at a cash consideration of HK\$1.00. The Disposal is one of the conditions precedent to the Acquisition.

2.2 Undertaking (the “Undertakings”)

We would like to highlight that, pursuant to the Disposal Agreement, Mr. Jiang, the Disposal Purchaser undertook to the Company that if he or his nominee:

- (i) enters into any agreement, arrangement or assignment with any third party for the sale or transfer of any share capital of Disposal Group or any of the economic interests or assets of any Disposal Group;
- (ii) recovers any assets from any persons; or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) receives any dividend from any Disposal Group whether by way of liquidation or otherwise.

Mr. Jiang agreed to pay to the Company of any abovementioned event (i), (ii) or (iii) after deducting the expenses (the “**Net Proceeds**”):

- (a) a sum equivalent to 50% of the Net Proceeds on or before the first anniversary of the date of the Disposal Completion; or
- (b) a sum equivalent to 30% of the Net Proceeds after the first anniversary of the date of the Disposal Completion and up to the fifth anniversary of the date of the Disposal Completion.

Please refer to “5. The Disposal — Undertakings” in the section headed “Letter from the Board” in the Circular for further information on the undertakings by Mr. Jiang to the Company.

2.3 Conditions precedent

Please refer to “5. The Disposal — Conditions precedent” in the section headed “Letter from the Board” in the Circular for the details of the conditions precedent to the Disposal Agreement.

2.4 Consideration

As stated in the section headed “Letter from the Board” in the Circular, the Disposal Consideration of HK\$1.00 for the entire issued share capital of Global Milk Singapore shall be paid by Mr. Jiang to the Company in cash upon the Disposal Completion. The Disposal Consideration was arrived at after arm’s length negotiations between the Company and Mr. Jiang on normal commercial terms with reference to:

- (a) the inaccessibility to complete books and records of the Disposal Group by the Company;
- (b) the risk of potential liabilities relating to the Disposal Group arising from the loss of books and records not known to the Group;
- (c) the Directors’ view that the Disposal Group should be considered as distressed assets;
- (d) the Disposal Group has been deconsolidated from the consolidated financial statements of the Group since 1 January 2011;
- (e) the unclear and suspicious transactions in the PRC Subsidiaries in the past;

- (f) the undertakings given by Mr. Jiang to share and pay a percentage of the proceeds from any future sales or transfer of all or part of the entire issued share capital or any of its economic interests or any assets of any member of the Disposal Group to the Company; and
- (g) the incomplete books and records of the PRC Subsidiaries have put the Group in a difficult position to identify and secure potential buyers for valuable consideration of the Disposal Group.

Having considered that (i) it is unlikely that the Group can resume control over the Disposal Group which should be considered distressed assets; (ii) the loss of access to complete books and records by the Company would be very difficult for the Directors or any potential purchaser to render any evaluation on the Disposal Group; and (iii) there is a potential recovery in the value of the Disposal Group through the Undertakings, we are of the view that the terms of the Disposal Agreement, including the Disposal Consideration, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

3. Information on the Disposal Purchaser

Mr. Jiang, the purchaser of the Disposal Group under the Disposal Agreement, is experienced in provision of investment consultancy services in the PRC and was with a major non-banking financial institution in the PRC for approximately 8 years, which was principally engaged in economic contract guarantee (non-financing) and investment consultancy, leaving as General Manager. In addition, Mr. Jiang is experienced in investing companies listed on the Stock Exchange. As at the Latest Practicable Date, Mr. Jiang was a substantial shareholder of Bisu Technology Group International Limited (stock code: 1372) and Sino Golf Holdings Limited (stock code: 361), both companies are listed on the Main Board of the Stock Exchange.

To the best of knowledge, information and belief of the Directors and having made all reasonable enquiries, Mr. Jiang and parties acting in concert with him are Independent Third Parties and independent to the Vendors and are not interested in any Shares as at the Latest Practicable Date.

4. Reasons for and benefits of the Disposal

As set out in the section headed the “Letter from the Board” in the Circular, trading in Shares on the Stock Exchange has been suspended since 22 March 2012. Due to loss of control over the Disposal Group by the Company, the Disposal Group was deconsolidated from the Group’s consolidated financial statements since 1 January 2011, and the operation of the Group was deemed to be ceased in 2011.

We note that (i) the Irregularities identified by the Company’s former auditor; (ii) both the forensic accountant of the Company and the Directors have not been able to locate the complete books and records of the PRC Subsidiaries; and (iii) the previous management of the Group did not respond to the request for any information of the Group, and have discussed the background of the Disposal with the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered: (i) the chance to re-gain the control over the Disposal Group is not optimistic; and (ii) based on the current imposed time limit for the resumption of trading in the Shares on the Stock Exchange, the abovementioned deficiencies could not be solved in time, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

5. *Financial effects of the Disposal*

Given that the Group could not consolidate the financial statements of the Disposal Group and no asset value is recorded in the unaudited consolidated financial statements of the Group for the year ended 31 December 2017, the Disposal Consideration of HK\$1.00 would have no immediate material effect to the Group's financial position and financial performance.

(iii) The Whitewash Waiver

As stated in the section headed "Letter from the Board" in the Circular, the Vendors and parties acting in concert with them are not interested in any Shares as at the date of the Latest Practicable Date. Upon the Completion, the Concert Group will, in aggregate, hold approximately 73.53% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Offer Shares and the Placing Shares, but before the allotment and issue of the Conversion Shares.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights to 30% or more will trigger an obligation on the Vendors to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Vendors and any parties acting in concert with any of them, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM by way of poll.

The Vendors has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Vendors, their associates and any parties acting in concert with any of them, and those who are involved in or interested in the Acquisition will abstain from voting on the relevant resolutions.

Dr. Choi, who is the chairman of the Company and an executive Director, is beneficially interested in 641,676,629 Shares, representing approximately 63.50% of the issued share capital of the Company as at the Latest Practicable Date, through his indirect interest in Global Courage Limited. Thus, Global Courage Limited will abstain from voting at the EGM in accordance with the Takeovers Code.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Dr. Choi, none of the other Directors is interested in any Shares and none of the other Directors and Shareholders has material interest in the Acquisition. Therefore, save for aforementioned, no other Shareholder is required to abstain from voting on the relevant resolutions to be proposed at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholders should note that (a) the Acquisition is subject to, among other things, (i) the granting of the Whitewash Waiver by the Executive; (ii) the approval of the New Listing Application by the Listing Committee; and (iii) the approval of the Independent Shareholders at the EGM in relation to the transactions contemplated under the Acquisition Agreement and the Whitewash Waiver; and (b) in the event that the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the shareholding of the Vendors and parties acting in concert with them in the Company upon the issue of the Consideration Shares, and the Placing Shares to the Vendors will exceed 50%. The Vendors may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Having considered that (i) the Acquisition Agreement is on normal commercial terms which is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole based on our analysis of the Acquisition as set out above; (ii) the abovementioned positive financial impacts on the Group as a result of the Acquisition; (iii) the Acquisition provides an opportunity to rebuild the Group's business operation; (iv) the Acquisition, as indicated by the Directors, helps the Group to put a suitable structure in place that can fulfill the requirements of Rule 13.24 of the Listing Rules; (v) the Target Company is being the only viable option that the Company has encountered for the purposes of applying for the resumption of trading of the Shares; and (vi) the Stock Exchange is likely to cancel the listing of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed, despite the significant dilution to the shareholding of the existing Shareholders, the Acquisition (followed by the Resumption) will provide an opportunity to the Shareholders to realise the remaining value of the Shares, we are of the opinion that, for the purposes of implementing the Acquisition as discussed above, the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATIONS

Taking into consideration of the principal factors and reasons stated above, in particular:

- (i) upon the Acquisition Completion, the Group will have a sufficient level of operation to support its continued listing on the Stock Exchange;
- (ii) as compared to cash and/or the issue of the promissory notes, the issue of the Consideration Shares and the Consideration CBs to settle the Consideration will not adversely affect the cash position and development of the Group in the short to medium term. In addition, the issue of the Consideration CBs will reduce the immediate dilution impact on the existing Shareholders;
- (iii) pursuant to the terms of the Consideration CBs, the exercise of the conversion rights attaching to the Consideration CBs would not result in the Company not meeting the minimum public float as required under the Listing Rules;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the outlook of the PRC hotpot restaurant market would remain positive in the near future and in turn supports the business and financial performance of the Enlarged Group;
- (v) the Disposal is part of the Resumption Proposal, the terms of the Disposal Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole;
- (vi) the approval of the Whitewash Waiver by the Independent Shareholders is one of the conditions precedent to the Acquisition Agreement which is crucial to the implementation of the Resumption Proposal; and
- (vii) the Stock Exchange is likely to cancel the listing of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed resulting the existing Shareholders unable to realise the remaining values of the Shares.

We consider that although the Acquisition and the Disposal are not in the ordinary course of business of the Group, the Acquisition Agreement and the Disposal Agreement are on normal commercial terms, the terms of the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Acquisition, the Disposal, the transactions contemplated under the Acquisition Agreement and the Disposal Agreement and the Whitewash Waiver at the EGM in this regard.

Yours faithfully,
For and on behalf of
Hooray Capital Limited
Simon Ng
Director

Mr. Simon Ng is a licensed person under the SFO to engage in, among others, Type 6 (advising on corporate finance) regulated activity and has over 17 years of experience in investment banking and corporate finance.

FORWARD-LOOKING STATEMENTS

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Group, the Enlarged Group and/or the Target Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this circular. These forward-looking statements include all statements in this circular that are not historical fact, including, without limitation, statements relating to:

- the Enlarged Group's operations and business prospects;
- the future developments, trends and conditions in the PRC catering services industry;
- the Enlarged Group's strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals;
- the Enlarged Group's future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of the Enlarged Group's business;
- the regulatory environment relating to, and the general industry outlook for, the PRC catering services industry;
- prospective financial matters regarding the Enlarged Group's business, results of operations and financial condition;
- the Target Group's continual review of its strategy regarding its business in the PRC;
- the competitive markets for PRC catering services industry and the actions and developments of the Target Group's competitors in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group, the Target Group and/or the Enlarged Group, are intended to identify forward-looking statements. However, all statements in this circular other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect the

FORWARD-LOOKING STATEMENTS

views of the management of the Enlarged Group and/or the Target Group as the case may be as at the date of this circular with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors and the proposed Directors believe that the expectations reflected in such forward looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- the performance of the PRC catering service industry;
- the Enlarged Group's ability to successfully complete and realise benefits from its restaurants network;
- the Enlarged Group's levels of indebtedness and interest payment obligations;
- the Enlarged Group's ability to effectively manage its planned expansion;
- the Enlarged Group's ability to stay abreast of market trends;
- the Enlarged Group's ability to effectively manage its operational and production costs;
- the Enlarged Group's ability to retain core team members and attract qualified and experienced personnel;
- the Enlarged Group's ability to maintain and renew the permits and licences required for undertaking its business operations;
- prospective financial information of the Enlarged Group; and
- other factors beyond the control of the Group and the Target Group.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Group, the Target Group and/or the Enlarged Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by the Company and the Target Company that their plans and objectives will be achieved or realised.

The forward-looking statements in this circular reflect the views of the management of the Enlarged Group as at the date of this circular and are subject to change in light of future developments. Subject to the requirements of the Listing Rules and the Takeovers Code, the Company and the Target Company do/will not intend to update or otherwise revise the forward looking statements in this circular, whether as a result of new information, future events or otherwise.

RISK FACTORS

You should carefully consider all of the information in this circular including the risk factors described below. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of these risk factors. In addition to the risk factors described below, other risks and uncertainties not presently known to the Enlarged Group, or not expressed or implied below, or that the Enlarged Group currently deems immaterial, may also adversely affect the business, operating results and financial condition of the Enlarged Group in a material respect.

The Enlarged Group considers that there are certain risks involved in its business and operations and in connection with the Acquisition. Such risks can be categorised into: (i) risks relating to the Acquisition; (ii) risks relating to the Target Group; (iii) risks relating to the PRC in general; and (iv) risks relating to this circular.

RISKS RELATING TO THE ACQUISITION

Completion of the Acquisition is subject to the fulfilment of the conditions precedent and there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated.

A number of the conditions precedent to completion of the Acquisition as set out under the paragraph headed “The Acquisition — Conditions precedent” in the section headed “Letter from the Board” in this circular involve the decisions of third parties, including, among others, approvals by the Independent Shareholders at the EGM, the Executive granting the Whitewash Waiver, the Disposal Agreement having become unconditional and approval by the Listing Committee for the listing of and permission to deal in all of the Consideration Shares and Conversion Shares allotted and issued pursuant to the Acquisition. As fulfilment of such conditions precedent is not within the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed in a timely manner as contemplated, or at all.

The shareholding percentage of the existing Shareholders in the Company will be substantially diluted immediately following the completion of Share Placing and the transactions contemplated under the Acquisition Agreement.

Under the Share Placing, the Company will allot and issue an aggregate of 757,875,000 new Consolidated Shares to the Placee(s). In addition, under the Acquisition Agreement, the Company will allot and issue 3,789,375,000 new Consolidated Shares to the Vendors in aggregate. The Company will also allot and issue the Consideration CBs, upon the full exercise of which a maximum of 1,263,125,000 new Consolidated Shares will be allotted and issued to the Vendors. As a result, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. Any value enhancement of the Consolidated Shares as a result of the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

RISK FACTORS

Immediately following completion of the Share Placing, the Open Offer and the transactions contemplated under the Acquisition Agreement, the Vendors will have substantial influence over the Enlarged Group and their interests may not be aligned with the interests of the other Shareholders.

The interests of the Vendors may differ from the interests of the other Shareholders. The Vendors will have substantial influence over the Enlarged Group's business, including matters relating to its management and policies and decisions regarding mergers, expansion plans, consolidations and the sale of all or substantially all of the Enlarged Group's assets, election of directors and other significant corporate actions. It is possible that the Vendors may exercise their substantial influence over the Enlarged Group and cause it to enter into acquisitions or take, or fail to take, other actions or make decisions which conflict with the best interests of the other Shareholders.

RISKS RELATING TO THE TARGET GROUP

Intense competition in the catering service industry could prevent the Target Group from increasing or sustaining its revenue and profitability.

The catering service industry is intensely competitive in the PRC with respect to, among other things, food quality and consistency, taste, price-value relationships, ambiance, service, location, supply of quality food ingredients and employees. The Target Group faces significant competition at each of its locations from a variety of restaurants in various market segments, including locally-owned restaurants and regional and international chains. Competitors of the Target Group may develop new restaurants that operate with similar concepts and target customers of the Target Group resulting in increased competition directly.

Any inability to successfully compete with the other restaurants in the markets which the Target Group operates may cause the Target Group to lose market share, which could prevent the Target Group from increasing or sustaining its revenues and profitability and have a material adverse effect on the business, financial condition, results of operations or cash flows of the Target Group.

The Target Group experienced net current liabilities during the Track Record Period.

The Target Group had recorded audited net current liabilities of approximately RMB126.3 million, RMB19.5 million and RMB25.2 million as at 31 December 2015, 2016 and 2017, respectively. For details, please refer to the section headed "Financial information of the Target Group — Analysis on various items of the Target Group's combined statements of financial position" in this circular. The net current liabilities position of the Target Group exposes it to liquidity risk. The Target Group depends on its ability to generate adequate cash inflows from its operations to support its future liquidity, the payment of trade and other payables and the repayment of its outstanding debts. The Target Group's ability to generate cash inflows from its operations are subject to factors that are beyond the control of the Target Group or any unforeseen circumstances. The Target Group may continue to have net current liabilities in the future. If the Target Group

RISK FACTORS

does not have sufficient cash to settle its current liabilities as they become due and payable, the business, financial condition and results of operations of the Target Group could be materially and adversely affected.

The Target Group has thin operating profit margins and it may not be able to sustain its historical profitability in future.

The Target Group's operating profit margins for the years ended 31 December 2015, 2016 and 2017 were, respectively, 7.2%, 7.1% and 4.8%. According to the Market Research Report, in 2016, the hotpot restaurant market in China was barely concentrated and was fragmented, and the concentration rate of the Cantonese-style hotpot restaurant market was also low. Accordingly, the operating environment of the Target Group's business is highly competitive, as a result of which the ability to increase its selling prices of its food items may be constrained and the Target Group may not be able to pass on to its customers increases in its costs such as raw materials procurement, rental expenses or employees remuneration. The thin operating profit margins of the Target Group may adversely affect its working capital sufficiency and sensitivity to unfavourable changes in selling prices, costs and rental expenses, etc. If the Target Group experiences any substantial decrease in operating profit margins, the business, financial condition and results of operations of the Target Group may be adversely affected.

The Target Group may experience weak liquidity as it had recorded a significant decrease in cash flow generated from its operating activities from 2015 to 2017.

The net cash generated from operating activities were approximately RMB140.8 million, RMB68.1 million and RMB1.3 million for the years ended 31 December 2015, 2016 and 2017. The decrease in cash flow generated from operating activities from 2015 to 2017, was mainly due to (i) increase in trade receivables and prepayments and other receivables; (ii) increase in VAT input after change of the VAT policy; and (iii) decrease in trade payables. Please refer to the section headed "Financial information of the Target Group — Liquidity, financial resources and capital structure" in this circular for further details. The Target Group may continue to experience decrease in cash generated from operating activities or may experience negative operation cash flow in the future as a result of its business operations and expansion. Negative operating cash flow requires the Target Group to obtain sufficient external financing to meet its financial needs and obligations. The Target Group may be unable to obtain sufficient external financing, in which case the business, financial condition and results of operations of the Target Group could be materially adversely affected. There is no assurance that the Target Group's operations will generate sufficient cash inflow to finance all its activities and cover its general working capital requirements in the future. In the event that the Target Group is unable to generate enough cash from its operations to finance its future development, the performance and prospects of the Target Group as well as its ability to implement its business plans will be adversely affected.

RISK FACTORS

Future growth of the Target Group depends on its ability to open and profitably operate new restaurants.

The Target Group may not be able to successfully enter into new markets. Continued growth of the Target Group depends on its ability to open and profitably operate new restaurants. The Target Group currently plans to increase the number of its restaurants by additional 29 new restaurants by 31 December 2019. The Target Group may not be able to open new restaurants as quickly as planned or as quickly as it has been able to in the past. Delays or failures in opening new restaurants could materially and adversely affect the growth strategy and the expected financial and operational results of the Target Group.

In obtaining new properties for restaurant sites, the Target Group may be faced with intense competition from its competitors in the catering service industry as well as other retailers and higher rental rate. The Target Group may also encounter delay due to the application process of relevant material licences and approvals from the government authorities, the timing of which is beyond the control of the Target Group. Even if the Target Group is able to open additional restaurants as planned, these new restaurants may not be as profitable as or may not achieve results comparable to its existing restaurants for a period of time. The substantial efforts and expenditure associated with the development of each additional restaurant may cause operating results of the Target Group to fluctuate.

The Target Group may also open new restaurants in markets where it has little or no operating experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns from the existing markets where the Target Group has operations. As a result, the Target Group may not be able to open new restaurants in these markets on a timely basis, if at all, and if opened, may be less successful than restaurants in its existing markets. Consumers in a new market may not be familiar with the brands of the Target Group and the Target Group may need to build brand awareness in that market through greater investments in advertising and promotional activities than it originally planned.

Restaurants opened in new markets may also have lower average sales or higher construction, occupancy or operating costs than restaurants in existing markets. In addition, the Target Group may have difficulty in finding reliable suppliers with adequate supplies of ingredients meeting its quality standards in the new markets and the Target Group may take longer to set up similar logistics chain with suitable quality control in such new markets. Sales at restaurants opened in new markets may take longer than expected to ramp up and reach, or may never reach, expected sales and profit levels, thereby affecting the overall profitability of the Target Group. Historically, the Target Group experienced lower profitability and longer ramp-up period for new restaurants opened outside of its home market Shanghai in general. There can be no assurance that the Target Group will be able to maintain its profitability as it continues to expand into new markets.

RISK FACTORS

The opening of new restaurants by the Target Group in existing markets may negatively affect sales of its own existing restaurants.

During the Track Record Period, the Target Group has opened a total of 53 new restaurants, of which 27 new restaurants were opened in Shanghai, a market which contributed significantly to the Target Group's overall revenue. The Target Group has experienced cannibalization between its newly opened restaurants and its other existing restaurants. As the Group continues to expand its restaurant networks, the new restaurants may be located in area where there is already an existing restaurant nearby due to limited supply of location with high customer traffic. As a result, the opening of a new restaurant could adversely affect the business of these existing restaurants by diverting customer traffic away from the existing restaurant. Cannibalization between the restaurants of the Target Group may become significant in the future as it continues to expand its operations and could affect its business growth, which could, in turn, materially adversely affect business, financial condition or results of operations of the Target Group.

The Target Group may not be able to maintain and increase the sales and profitability of its existing restaurants.

The sales of existing restaurants will also affect the sales growth and will continue to be a critical factor affecting the Target Group's revenue and profit. The ability of the Target Group to increase existing restaurant sales depends in part on its ability to successfully implement its initiatives to increase customer traffic and seat turnover rate, such as extending operating hours, driving customer traffic in non-peak hours and offering value-added services. The ability of the Target Group to penetrate further into the existing geographic markets where it already has a presence depends in part on the Target Group's ability to maintain a strong brand image in the existing market and find new sites suitable for new store opening. There can be no assurance that the Target Group will be able to achieve its targeted sales growth and profitability for its existing restaurants or that existing restaurant sales would not decrease, or that the Target Group will achieve its targeted level of expansion within existing geographic markets. If any of these were to happen, sales and profits growth may be materially and adversely affected.

In addition, if the Target Group opens new restaurants in its existing geographic markets, the sales performance and customer traffic of its existing restaurants near such new restaurants may decline as a result of increased competition. This may in turn adversely affect the ability of the Target Group to achieve the anticipated growth in revenue and profitability of its entire restaurant network.

If the Target Group cannot obtain desirable restaurant locations or secure renewal of existing leases on commercially reasonable terms, the business, results of operations and ability to implement the growth strategy of the Target Group will be materially and adversely affected.

The Target Group competes with other retailers and restaurants for suitable locations in the competitive markets for retail premises. Based on their size advantage and/or their greater financial resources, some of the Target Group's competitors may have the ability to negotiate more favorable lease terms than the Target Group can and some landlords and developers may offer priority or grant exclusivity to some of the competitors of the Target

RISK FACTORS

Group for desirable locations. The Target Group cannot assure that it will be able to enter into new lease agreements for prime locations or renew existing lease agreements on commercially reasonable terms.

As at the Latest Practicable Date, the lease agreements entered into by the Target Group for its restaurants typically have a term of approximately four to eight years. Some lease agreements contain an option for the Target Group to renew for an additional term at a mutually agreed rent. Where the Target Group does not have an option to renew a lease agreement, it has to negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement. If a lease agreement is renewed at a rate substantially higher than the existing rate, or if any existing favorable terms granted by the lessor, are not extended, the Target Group will have to decide whether renewal on such modified terms is in its business interest. If the Target Group is unable to renew leases for its restaurant sites, it will have to close or relocate the relevant restaurants, which would eliminate the sales that those restaurants would have contributed to its revenues during the period of closure, and could subject the Target Group to construction, renovation and other costs and risks. In addition, the revenue and any profit generated after relocation may be less than the revenue and profit previously generated before such relocation. As a result, any inability to obtain leases for desirable restaurant locations or renew existing leases on commercial terms could have a material adverse effect on business and results of operations of the Target Group.

The current restaurant locations of the Target Group may become unattractive, which may have a material adverse effect on the results of operation of the Target Group.

The success of any restaurant depends substantially on its location. Given the rate of urban construction in the PRC, there can be no assurance that the current restaurant locations of the Target Group will continue to be attractive as economic or demographic patterns change. Economics and demographic conditions where restaurants of the Target Group are located could become unfavorable in the future, thus resulting in potentially reduced sales in these locations. As most of the lease agreements of the Target Group have fixed lease terms, these lease agreements expose the Target Group to the risk of having to make rental payments for fixed periods of time in spite of unprofitable business operations or other unforeseen events that may occur before each lease term expires. Therefore, the Target Group may not be able to terminate these leases early without incurring excessive costs.

If the Target Group is unable to manage its growth effectively, the business and financial results of the Target Group may be materially and adversely affected.

The Target Group has experienced rapid growth during the Track Record Period. The Target Group has increased the number of its restaurants in the PRC from 65 as at 1 January 2015, being the commencement of the Track Record Period to 97 as at the Latest Practicable Date, and it plans to continue to expand its restaurant network in different geographic locations in the PRC. This further expansion may place substantial demands on the management of the Target Group and its operational, technological and other resources. The planned expansion of the Target Group will also place significant demands

RISK FACTORS

on its maintaining of consistent food and service quality to ensure that its brands do not suffer as a result of any deterioration, whether actual or perceived, in the quality of the food or services of the Target Group.

The continued success of the Target Group also depends on its ability to recruit, train and retain additional qualified management personnel as well as other administrative and sales and marketing personnel, particularly as the Target Group expands into new markets. The Target Group also needs to continue to manage its relationships with its suppliers and customers. All of these endeavors will require substantial management attention and efforts and require significant additional expenditures. The Target Group cannot assure that it will be able to manage any future growth effectively and efficiently, and any failure to do so may materially and adversely affect the Target Group's ability to capitalize on new business opportunities, which in turn may have a material adverse effect on its business, results of operations and financial results conditions.

The business of the Target Group is affected by changes in consumer taste and discretionary spending, and the Target Group may not be able to develop new products in a timely manner to respond to such changes.

The catering service industry is affected by consumer taste and preference. The Target Group cannot assure that it could continue to develop new products and maintain an attractive menu to suit changing customer taste, nutritional trends and general customer demands in the PRC. In addition, if prevailing health or dietary preferences and perceptions cause consumers to avoid the products of the Target Group in favor of alternative dining options, the business of the Target Group could suffer.

The success of the Target Group also depends, to a significant extent, on discretionary customer spending, which is influenced by general economic conditions. Accordingly, the Target Group may experience declines in sales during economic downturns or prolonged periods of high unemployment rates. Any material decline in the amount of discretionary spending in the PRC may have a material adverse effect on business, results of operations and financial conditions of the Target Group.

The Target Group may be unable to detect, deter or prevent all instances of fraud or other misconduct committed by its employees, customers or other third parties.

As the Target Group operates in the catering service industry, it usually receives and handles large amounts of cash in its daily operations. The Target Group cannot assure that there will not be any instances of misappropriation of funds. The Target Group may be unable to prevent, detect or deter all instances of misconduct. Any misconduct committed against the interests of the Target Group, which may include past acts that have gone undetected or future acts, could subject the Target Group to financial losses, harm its reputation and may have a material adverse effect on the business, results of operations and financial condition of the Target Group.

RISK FACTORS

Historical financial and operating results of the Target Group are not indicative of future performance, and the Target Group may not be able to achieve and sustain the historical level of growth for revenue and profitability.

Historical results and growth of the Target Group may not be indicative of its future performance. The revenues, expenses and operating results of the Target Group may vary from period to period in response to a variety of factors beyond control of the Target Group, including general economic conditions, government regulations or policies affecting restaurants based in the PRC and ability of the Target Group to control costs and operating expenses, specifically, the prices of the raw materials of the Target Group. The staff costs of the Target Group may also fluctuate from month to month as the Target Group is required by law to pay its staff a higher rate for work on public holidays.

Results of operations of the Target Group may fluctuate significantly due to various factors that are beyond the control of the Target Group.

The overall results of operations of the Target Group may fluctuate significantly from period to period because of several factors, including the timing of new restaurant openings and the amounts of associated pre-opening costs and expenses; operating costs for newly opened restaurants, which are often substantially greater during the first few months of operations; revenue loss and renovation expenses associated with the temporary closure of existing restaurants for refurbishment; impairment of long-lived assets, including goodwill, and any losses incurred on restaurant closures; and fluctuations in food and commodity prices. As a result, the results of operations of the Target Group may fluctuate significantly from period to period and comparison of different periods may not be meaningful. The results of the Target Group for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.

Business of the Target Group depends significantly on the market recognition of its brands, and if the Target Group is unable to maintain or enhance its brand recognition, its business, financial condition and results of operations may be materially and adversely affected.

The Target Group believes that maintaining and enhancing its brand is important to stay competitive. However, the ability of the Target Group to maintain its brand recognition depends on a number of factors, some of which are beyond the control of the Target Group. The continued success in maintaining and enhancing the brands of the Target Group and its image depends to a large extent on the Target Group's ability to further develop and maintain its menu offerings, hospitable services and pleasant dining environments throughout its restaurant network, as well as on its ability to respond to any change in the competitive environment in the PRC's catering services industry. If the Target Group is unable to do so, the value of its brands or image will be diminished and its business and results of operations may be materially and adversely affected. As the Target Group continues to expand, maintaining quality and consistency may be more difficult and the Target Group cannot assure that customers' confidence in the Target Group's brand names will not be diminished.

RISK FACTORS

The Target Group generate a majority of its revenues from Shanghai in the PRC. Any event negatively affecting the catering service industry in Shanghai could have a material adverse effect on the overall business and results of operations of the Target Group.

The Target Group generated 73.1%, 69.9% and 70.8% of its revenues in the years ended 31 December 2015, 2016 and 2017, respectively, from its restaurants in Shanghai. The Target Group expects this market to continue to account for a substantial portion of its revenues in the near future. If Shanghai experiences an event negatively affecting its catering service industry, such as a local economic downturn, a natural disaster, a contagious disease outbreak or a terrorist attack, or if the local authorities adopt regulations that place additional restrictions or burdens on the catering service industry in general, the overall business and results of operations of the Target Group may be materially and adversely affected.

Restaurants of the Target Group are susceptible to risks in relation to rental increases and fluctuations and unexpected land acquisitions, building closures or demolitions.

As the Target Group leases the property for all of its restaurants and warehouse, the Target Group has significant exposure to the retail rental market in the PRC. In the years ended 31 December 2015, 2016 and 2017, property rentals and related expenses of the Target Group amounted to approximately RMB123.7 million, RMB134.9 million and RMB131.5 million, respectively, representing 17.3%, 19.1% and 18.8% of the total revenue of the Target Group during the respective periods. Since rental expenses represent a significant portion of the total operating expenses of the Target Group, profitability of the Target Group may be adversely affected by any substantial increase in the rental expenses of its restaurant premises.

In addition, the PRC government has the statutory power to acquire any land in the PRC. In the event of any compulsory acquisition, closure or demolition of any of the properties in which the Target Group's restaurants or facilities are situated for redevelopment, the amount of compensation to be awarded to the Target Group may not be based on the fair market value of such property but may be assessed on the basis prescribed in the relevant legislation. In such event, the Target Group will be forced to relocate to other locations, thus affecting its business operations.

Shortages or interruptions in the availability and delivery of food and other supplies may have a material adverse effect on the business operations and financial conditions of the Target Group.

If suppliers of the Target Group do not deliver food and other supplies at competitive prices or in a timely manner, the Target Group may experience supply shortages or interruptions and increased food costs. The ability to source high-quality food ingredients at competitive prices in a timely manner is crucial to the business of the Target Group. The ability of the Target Group to maintain consistent quality and maintain its menu offerings throughout its restaurants depends in part upon its ability to acquire fresh food ingredients and related supplies in sufficient quantities from reliable sources that meet its food safety and quality specifications. There can be no assurance that the Target Group will be able to maintain business relationships with its key suppliers. A disruption of the Target Group's

RISK FACTORS

food supplies can occur for a variety of reasons, many of which are beyond the control of the Target Group, including unanticipated demand, adverse weather conditions, natural disasters, diseases, suspension of operation or unexpected production shortages. Moreover, there can be no assurance that the current suppliers may always be able to meet the stringent quality control requirements of the Target Group in the future. If any of the suppliers of the Target Group do not perform adequately or otherwise fail to distribute products or supplies to the Target Group in a timely manner, the Target Group cannot assure that it will be able to find suitable replacement suppliers in a short period of time on acceptable terms, and failure to do so could increase the food costs and cause shortages of food and other supplies available at the restaurants of the Target Group. Any significant food shortages or supply disruptions will result in some menu items not to be available, and any prolonged changes to the menus could result in a significant reduction in revenue as customers seek out alternative dining options.

Any failure to maintain effective quality control systems could have a material adverse effect on the reputation, results of operations and financial condition of the Target Group.

The quality and safety of the food the Target Group serves are critical to its success. Maintaining consistent food quality depends significantly on the effectiveness of the quality control systems of the Target Group, which in turn depends on a number of factors, including the design of its quality control systems and its ability to ensure that its employees adhere to and implement those quality control policies and guidelines. There can be no assurance that the quality control systems of the Target Group will prove to be effective. Any significant failure or deterioration of the Target Group's quality control systems could have a material adverse effect on the reputation, results of operations and financial condition of the Target Group.

Any failure or perceived failure to deal with customer complaints or adverse publicity involving food or services of the Target Group could materially and adversely impact the business and results of operations of the Target Group.

The Target Group can be adversely affected by negative publicity or news reports or allegations in printed and online media, whether accurate or not, regarding its restaurant operations, particularly food quality and safety issues. Reports on public health concerns, negative media attention concerning the competitors of the Target Group or catering services providers across the food industry supply chain may potentially affect customer perception of the business of the Target Group. Any such negative publicity could materially harm the business, brands and results of operations of the Target Group.

Complaints or claims against the Target Group, even if meritless or unsuccessful, could force the Target Group to divert management and other resources from other business concerns, which may adversely affect business and operations of the Target Group. Adverse publicity resulting from such complaints or claims, even if meritless or unsuccessful, could cause customers to lose confidence in the Target Group and its brands, which may adversely affect the business of the restaurants subject to such complaints and other restaurants of the Target Group.

RISK FACTORS

Any significant liability claims, food contamination complaints from customers or reports of incidents of food tampering could adversely affect the reputation, business and operations of the Target Group.

The Target Group faces an inherent risk of food contamination and liability claims. The food quality of the Target Group depends partly on the quality of the food ingredients and raw materials provided by the suppliers and the Target Group may not be able to detect all defects in the supplies. Any undetected food contamination occurring at the restaurant of the Target Group or during the transportation from the Target Group's warehouse to its restaurants could adversely affect the quality of the food served in restaurants of the Target Group. Due to the scale of its operations, the Target Group also faces the risk that certain employees may not adhere to its quality control procedures and requirements.

Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in the operations of the Target Group could adversely affect the quality of the food it offers at its restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at the restaurants, the imposition of penalties against the Target Group by relevant authorities and compensation awards by courts. There can be no assurance that the Target Group will not receive any food contamination claims or defective products from its suppliers. Any such incidents could materially harm the reputation, results of operations and financial condition of the Target Group.

Events that disrupt the supplies to the restaurants of the Target Group may materially and adversely affect the business operations of the Target Group.

The business of the Target Group is dependent on prompt delivery and transportation of its food ingredients and raw materials. Certain events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays and labour strikes, could lead to delayed or lost of deliveries of food supplies to the restaurants of the Target Group which may result in the loss of potential business and thus sales revenue. Perishable food ingredients, such as fresh, chilled or frozen food ingredients, may deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by the suppliers or logistics service providers. Any such event could materially and adversely affect the business operations and results of operations of the Target Group.

Rising labour costs and the long-term trend of higher wages may lead to declines in the margins and operating results of the Target Group.

Staff cost which comprises salaries and benefits payable to all the employees has been a major component of the costs of the Target Group. In the years ended 31 December 2015, 2016 and 2017, staff costs accounted for approximately 22.8%, 25.0% and 26.2% of the revenue of the Target Group, respectively. As the economy in the PRC continues to grow, the average wage in the PRC are expected to continue growing, which will result in decrease in the profit margin of the Target Group if the increase in labour costs cannot be effectively reflected in whole or in part in the prices of the food sold.

RISK FACTORS

The Labour Contract Law in the PRC that became effective on 1 January 2008 and was amended on 1 July 2013 formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions and provides for specific standards and procedure for the termination of an employment contract. In addition, the Labour Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed term employment contract. The implementation of the Labour Contract Law may significantly increase the operating expenses of the Target Group, in particular, personnel expenses of the Target Group, as the continued success of its business depends significantly on its ability to attract and retain qualified personnel.

In the event that the Target Group decides to terminate the employment of some of its employees or otherwise change its employment or labour practices, the Labour Contract Law may also limit the ability of the Target Group to effect these changes in a manner that the Target Group believes to be cost-effective or desirable. Any shortages in the availability of labour or any material increases in the cost of labour will diminish the competitive advantage of the Target Group and have a material and adverse effect on its business, financial condition and results of operations.

Any rise in costs, particularly a rise in the cost of the ingredients the Target Group uses, may lead to declines in the margins and operating results of the Target Group.

The cost of ingredients that the Target Group uses in its restaurants depends on a variety of factors, many of which are beyond the control of the Target Group. Foods and beverage and other materials consumables used represented approximately 40.1%, 36.8% and 35.5% of the Target Group's revenue in the years ended 31 December 2015, 2016 and 2017, respectively. Fluctuations in weather, supply and demand and economic conditions could adversely affect the cost, availability and quality of the critical food ingredients for the Target Group's operation. If the Target Group is unable to obtain requisite quantities of quality ingredients at commercially reasonable prices, its ability to provide the menu items would be adversely affected. If the cost of ingredients that the Target Group uses in its restaurants increases in the future and it cannot pass these cost increases to its customers, the operating margins of the Target Group may decrease.

In addition, the PRC government has promulgated price intervention regulations under which temporary measures may be taken to control price increases or decreases of certain material commodities which include a number of ingredients that are important to the business of the Target Group, such as beef and fresh vegetables. Such price control measures will have direct effects on the cost of relevant ingredients. The measures that prevent the prices of ingredients from falling will keep the cost of relevant ingredients at a higher level than it would be under free market conditions. There is no guarantee for how long and to what extent such measures may be implemented, or whether such measures will effectively control price increases in the long run. For example, there is a possibility that price controlling measures may frustrate the relevant suppliers and discourage production, in which case the supply of the affected ingredients may decrease, thereby driving up price, and the business of the Target Group may be materially and adversely affected.

RISK FACTORS

Information technology system failures or breaches of network security could interrupt the operations of the Target Group and adversely affect the business of the Target Group.

The Target Group relies on its computer systems and network infrastructure to monitor the daily operations of its restaurants and to collect accurate up-to-date financial and operating data for business analysis and decision making such as the procurement of supplies. Any damage or failure of the computer systems or network infrastructure of the Target Group that causes an interruption or inaccuracies in the operations of the Target Group could have a material adverse effect on its business and results of operations.

The Target Group also receives certain personal information about its customers when accepting credit cards or smart cards for payment. If the network security is compromised and such information is stolen or obtained by unauthorized persons or used inappropriately, the Target Group may become subject to litigation or other proceedings brought by cardholders and financial institutions that issue cards. Any such proceedings could distract the management of the Target Group from running the business and cause the Target Group to incur significant unplanned losses and expenses. Consumer perception of the brand of the Target Group could also be negatively affected by these events, which could further adversely affect business and results of operations of the Target Group.

Insurance policies of the Target Group may not provide adequate coverage for all claims associated with the business operations of the Target Group.

As at the Latest Practicable Date, the Target Group has obtained insurance policies that it believes are customary for businesses of its size and type and in line with the common commercial practice in the PRC. However, there are types of losses the Target Group may incur that cannot be insured against or that the Target Group believes are not commercially reasonable to insure, such as loss of reputation. If the Target Group is held liable for uninsured losses or amounts or claims for insured losses exceeding the limits of its insurance coverage, the business and results of operations of the Target Group may be materially and adversely affected.

The Target Group may not be able to adequately protect its intellectual property, which could harm the value of its brands and adversely affect its business and operation.

The Target Group believes that its brand is essential to its success and its competitive position. Trademark registrations may not be adequate to protect the intellectual property of the Target Group. Third parties may infringe upon the intellectual property rights of the Target Group or misappropriate its proprietary knowledge, which could have a material adverse effect on the business, financial condition or operating results the Target Group. The laws of the PRC may not offer the same protection for intellectual property rights as jurisdictions with more developed intellectual property laws. In addition, on confidentiality and non-compete agreements between the Target Group and its key personnel and other precautionary procedures to protect its intellectual property rights, may not be sufficient.

The Target Group does not operate restaurants in Hong Kong and the Target Group carries similar trade name as other restaurants in Hong Kong, which may induce potential litigation or disputes between the Target Group and third parties and result in adverse

RISK FACTORS

impact on the business of the Target Group and the Enlarged Group. Also, third parties may use or imitate the trademarks of the Target Group or trade name without the authorization or knowledge of the Target Group and such unauthorized use of the trademarks, trade name and trade secrets of the Target Group by unrelated third parties may damage the reputation and brand of the Target Group. However, preventing trademark and trade name infringement and trade secret misappropriation in the PRC is difficult, costly and time-consuming. The Target Group may, from time to time, be required to institute litigation to protect and enforce its trademarks and other intellectual property rights, and to protect its trade secrets. Such litigation could result in substantial costs and diversion of resources, which could negatively affect sales, profitability and prospects of the Target Group.

Furthermore, the application of laws governing intellectual property rights in the PRC is uncertain and evolving, and could involve substantial risks to the Target Group. Even if any such litigation is resolved in favor of the Target Group, the Target Group may not be able to successfully enforce the judgment and remedies awarded by the court and such remedies may not be adequate to compensate the Target Group for its actual or anticipated losses.

The success of the Target Group depends on the continuing efforts of its senior management team and other key personnel and the business of the Target Group may be harmed if it loses their services.

The future success of the Target Group depends upon the continuing services and performance of the Target Group's key management personnel. Competition for experienced management and operating personnel in the restaurant industry is intense, and the pool of qualified candidates is limited. The Target Group may not be able to retain the services of its key management and operating personnel or attract and retain high-quality senior executives or key personnel in the future. If one or more of the key personnel of the Target Group are unable or unwilling to continue in their present positions, the Target Group may not be able to replace them easily or at all, and the business of the Target Group may be disrupted and the results of operations of the Target Group may be materially and adversely affected. In addition, if any member of the senior management team or any of the other key personnel of the Target Group joins a competitor or forms a competing business, the Target Group may lose business secrets and know-how as a result. Any failure to attract, retain or motivate these key personnel may harm the reputation and result in a loss of business of the Target Group.

The business of the Target Group could be adversely affected by difficulties in employee recruiting and retention.

The continued success of the Target Group depends in part upon its ability to attract, motivate and retain a sufficient number of qualified employees for its chain restaurant operations, including restaurant managers, waiter/waitress and kitchen assistants. The Target Group cannot assure that it would be able to recruit or retain a sufficient number of qualified employees for its business. Any material increase in employee turnover rates in its existing restaurants and any failure to recruit skilled personnel and to retain key staff due to

RISK FACTORS

factors such as failure to keep up with market average employee salary levels may make the Target Group's growth strategy difficult to implement. Any increased labour costs due to factors like competition, increased minimum wage requirements and employee benefits would adversely impact the operating costs of the Target Group. Any of the above would materially and adversely affect business and results of operations of the Target Group.

The Target Group may be subject to penalties under relevant PRC laws and regulations due to failure to make full social security and housing fund contributions for some of its employees.

Contributions by the Target Group for some of its employees to the social security and housing funds may not have been in compliance with relevant PRC regulations. Pursuant to the Regulation on the Administration of Housing Accumulation Funds, as amended in 2002, the relevant housing fund authority may order an enterprise to pay outstanding contributions within a prescribed time limit. Pursuant to the PRC Social Insurance Law promulgated in 2010, the social security authority may order an enterprise to pay the outstanding contributions within a prescribed time limit and a late payment fee, and may impose penalties if there is a failure to do so. The Target Group may be required to pay outstanding contributions and penalties to the extent they did not make full contributions to the social security and housing funds. Further details can be found in the paragraph headed "Social insurance fund" and "Housing provident fund" in the section of "Business of the Target Group" of this circular.

The operations of the Target Group may be negatively affected by any industry wide food safety related concerns even if such concerns are not attributable to the fault or related to the business of the Target Group.

The catering service industry in the PRC as a whole is subject to concerns over food safety and quality related issues. In particular, there have been numerous reports and negative publicities related to food safety and quality incidents in the PRC's catering service industry. While the reports and allegations are not targeted at the Target Group, the catering service industry as a whole, including prospects, business, results of operations and financial condition of the Target Group, can be negatively impacted by these incidents and associated reports.

The Target Group faces risks related to instances of food-borne illnesses, health epidemics and other outbreaks.

The business of the Target Group is susceptible to food-borne illnesses, health epidemics and other outbreaks. The Target Group cannot guarantee that its internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, the Target Group's reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by third-party food suppliers and distributors outside of the control of the Target Group. Reports in the media of instances of food-borne illnesses could, if highly publicized, negatively affect the overall catering service industry and the Target Group, regardless of whether the Target Group was responsible for the spread of the illness. Furthermore, other illnesses, such as hand, foot and mouth disease or avian influenza, could adversely affect the supply of some of the Target Group's ingredients and significantly increase its costs and thereby impacting the

RISK FACTORS

restaurant sales of the Target Group, forcing the closure of some of its restaurants and conceivably having significant adverse effect on the results of operations of the Target Group.

The Target Group also faces risks related to health epidemics. Past occurrences of epidemics or pandemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in the PRC. An outbreak of any epidemics or pandemics in the PRC, especially in the areas where the Target Group has restaurants, may result in quarantines, temporary closures of its restaurants or travel restrictions. Any of the above may cause material disruptions to the operations of the Target Group, which in turn may materially and adversely affect the financial condition and results of operations of the Target Group.

Macro-economic factors have had and may continue to have a material adverse effect upon the business, financial condition and results of operations of the Target Group.

The catering service industry is affected by macro-economic factors, including changes in international, national, regional and local economic conditions, employment levels and consumer spending patterns. In particular, all restaurants of the Target Group are located in the PRC and, accordingly, the results of operations of the Target Group are closely affected by the macro-economic conditions in the PRC. Any deterioration of the PRC economy, decrease in disposable consumer income, fear of a recession or decreases in consumer confidence may lead to a reduction of customer traffic and average spending per customer at the restaurants of the Target Group, which could materially and adversely affect the financial condition and results of operations of the Target Group.

The Target Group requires various approvals, licenses and permits to operate its business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect business and results of operations of the Target Group.

In accordance with the laws and regulations of the PRC, the Target Group is required to maintain various approvals, licenses and permits in order to operate the catering business of the Target Group in the PRC. Each of the restaurants of the Target Group in the PRC is required to obtain the relevant food business licence. In addition, each of the restaurants of the Target Group in the PRC is required to obtain an environmental protection assessment and inspection approval or complete the relevant filing, and to pass the necessary fire safety inspection. These approvals, licences and permits are achieved upon satisfactory compliance with, amongst other things, the applicable food hygiene and safety, environmental protection and fire safety laws and regulations. Most of these licences are subject to examinations or verifications by relevant authorities and some of the licences are valid only for a fixed period of time subject to renewal and accreditation.

RISK FACTORS

Any non-compliance may expose the Target Group to liabilities. In case of any non-compliance, the Target Group may have to incur significant expense and divert substantial management time to resolve any deficiencies. During the Track Record Period, the Target Group was fined by relevant government authorities for certain isolated non-compliance incidents relating to its failure to obtain or renew certain approvals and licences to operate its restaurants in the total amount of approximately RMB0.3 million. As at the Latest Practicable Date, the Target Group is not able to complete the necessary environmental protection verification for one of its restaurants as the completion depends on the property owner's completion of the same, which is out of control by the Target Group. The aggregate sum of maximum penalty in connection with such incident is (i) an order of rectification within a stipulated period and a fine up to RMB1,000,000; (ii) a fine up to RMB2,000,000 if rectification is not made within the stipulated period; and (iii) where significant environmental pollution or ecological damage is caused, closure of the relevant restaurant. There can be no assurance that the Target Group will be able to cure these non-compliances and that the government authorities will not impose penalties on the Target Group.

In particular, the Target Group may have difficulties or even fail to cure these non-compliances where the application for the necessary approvals, licenses and permits are conditional upon the owners of the properties having completed the relevant inspections or verifications in advance. If the Target Group fails to obtain all the necessary licences, permits and approvals, the Target Group may be subject to fines or the suspension of operations of the restaurants that do not have all the requisite licences and permits, which could materially and adversely affect the business and results of operations of the Target Group. Further details on the requisite licences, permits and approvals for the restaurants the Target Group are set out in the section headed "Regulatory Overview". Further, the Target Group may also experience adverse publicity arising from such non-compliance with government regulations that negatively impacts the brands of the Target Group.

The Target Group may experience difficulties or failures in obtaining the necessary approvals, licences and permits for new restaurants. For details of non-compliance of the Target Group relating to failure to obtain or maintain the requisite licence or permits, please refer to the paragraph headed "Business of the Target Group — Licences, regulatory approvals and compliance record" of this circular. There is no assurance that the Target Group will be able to obtain all the requisite outstanding licence or permits on a timely manner or at all. If the Target Group fails to obtain the material licences, the store opening and expansion plan of the Target Group may be delayed. In addition, there can be no assurance that the Target Group will be able to obtain, renew and/or convert all of the approvals, licences and permits required for its existing business operations upon expiration in a timely manner or at all. If the Target Group cannot obtain and/or maintain all licences required to operate its business, planned new business operations and/or expansion may be delayed and the ongoing business of the Target Group could be interrupted.

RISK FACTORS

The Target Group may be subject to fines as a result of unregistered leases.

Under PRC law, all lease agreements are required to be registered with the relevant land and real estate administration bureaus. However, as at the Latest Practicable Date, all of the 186 lease agreements entered into by the Target Group had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. The relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 on each lease. Further details on the leased properties of the Target Group are set out in the paragraph headed “Business — Properties” in this circular.

Certain leased properties in the PRC are used as restaurants in breach of the ownership certificate.

Among the 186 properties leased by the Target Group, 14 premises were used for purposes different from the permitted property uses specified in relevant ownership certificate, of which four premises were used for restaurant operations. During the Track Record Period, revenue contribution of these four restaurants amounted to approximately RMB80.6 million, RMB72.7 million and RMB76.2 million for the years ended 31 December 2015, 2016 and 2017, representing approximately 11.3%, 10.3% and 10.9% of the Target Group’s total revenue of the relevant year or period, respectively. The Target Group may have to vacate from such premises and cease the operation of the said four restaurants. The ongoing business operation of these four restaurants will be interrupted if the Target Group cannot relocate their operations to a new location in a timely manner.

The rights of the Target Group to use its leased properties for certain restaurants could be challenged by property owners or other third parties, which may result in a disruption of the operations of the Target Group.

As at the Latest Practicable Date, with respect to 53 out of 186 of the leased properties of the Target Group in the PRC, the lessors of such properties had not been able to provide the Target Group with the relevant title ownership certificates for the properties or proof of authorizations from the property owners to sublease the properties to the Target Group. 22 of these properties are used for restaurant operations, with an aggregate gross floor area of approximately 9,849.2 square meters, representing 18.7% of the total gross floor area of the leased properties of the Target Group. According to the PRC Legal Advisers, if the lessors of the leased properties do not have the requisite rights to lease the relevant properties, the relevant lease agreements may be deemed invalid, and as a result, the Target Group may be required to vacate from the relevant properties and relocate its restaurants. In this event, the operation of restaurants of the Target Group on such properties may be impaired and the Target Group may not be adequately indemnified by the landlords for the related losses suffered by the Target Group.

RISK FACTORS

The Target Group relies on online group-purchasing website and mobile apps as a sales channel and a substantial portion of its revenue derived from customers using these online group-purchasing website.

During the Track Record Period, the Target Group partnered with online group-purchasing websites in the PRC, which acted as sale channels of the Target Group through which ultimate individual customers can purchase prepaid coupons in electronic form for presenting at the Target Group's restaurants for payment settlement. The individual ultimate customers will make payment to these online group-purchasing websites, who will make payments less their service fees to the Target Group on weekly or bi-weekly basis, or at other agreed time intervals on a regular basis. Apart from regular settlement between the online group-purchasing websites, online group-purchasing website might also make an advance payment to the Target Group during the Track Record Period, which was recognized as deferred revenue in the first place and would be recognized as revenue when the customers settled their bill by the relevant prepaid coupon, in which case an equivalent amount would be deducted from the deferred revenue. Revenue generated from these online group-purchasing websites amounted to approximately RMB290.3 million, RMB307.2 million and RMB321.8 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 40.5%, 43.4% and 45.9% of the total revenue for the corresponding periods.

There is no assurance that the strategy of promoting sales through the online group-purchasing websites will continue to be an effective sales channel. If the popularity of the online group-purchasing website decreases or the online group-purchasing websites cease to cooperate with the Target Group, the Target Group may not be able to achieve comparable sales through other channels and the business, operation and financial performance of the Target Group will be adversely affected.

The Target Group has authorised a third party to operate a restaurant associated with the brand name *Faigo* (“輝哥”) and the Target Group has no prior experience in franchising arrangement, which may result in inadequate control over the franchised restaurant operations.

The Target Group has authorised an Independent Third Party to operate a restaurant associated with the brand name *Faigo* (“輝哥”) at a designated location in Beijing for a term commencing from 1 November 2012 to 31 December 2022 pursuant to a catering management agreement entered into in November 2012 and a further agreement entered into in November 2016. It was the first time that the Target Group granted to a third party such franchising right to operate a restaurant and thus the Target Group has no prior experience. There is no assurance that the Target Group will be able to effectively monitor and to ensure full compliance by the third party franchisee of the management and operation standards. If the third party franchisee deviates from the standards set out by the Target Group, the reputation of the restaurant brands of the Target Group may be adversely affected.

RISK FACTORS

The Target Group launched a new restaurant featuring Sichuan-style hotpot under a new brand *Hong Yuanwai* (“洪員外”) and it is uncertain if the new flavour or the new brand will be successful.

The Target Group opened a new restaurant featuring Sichuan-style hotpot under a new brand *Hong Yuanwai* (“洪員外”) in Shanghai in July 2017. Before that, the Target Group had been focusing on Cantonese-style hotpot under two different brands. While the new restaurant is also serving hotpot dining, there is no assurance that the Sichuan-style hotpot operated by Target Group or the newly launched brand will be able to sustain or remain popular amongst the consumers. If the new restaurant is not successful, the Target Group may not be able to recover its investment costs and may have to incur further costs in closing down the restaurant.

The Target Group has formed a joint venture with an Independent Third Party for launching a restaurant under the brand *Faigo* (“輝哥”) in Hefei and such business arrangement is new to the Target Group, as a result of which the Target Group may not be in absolute control of the restaurant in its operation.

The Target Group has formed a joint venture for establishing Hefei Huige under the brand *Faigo* (“輝哥”) in Hefei on 30 August 2017. The capital contribution of the Target Group for the joint venture is RMB1.4 million, representing 70% of the registered capital of the joint venture. Before the establishment of the joint venture and except one restaurant operating under a franchising arrangement, all restaurants of the Target Group are 100% owned by the Target Group and thus the Target Group is in full control of its restaurant networks. It is provided under the articles of association of the joint venture that the legal representative of joint venture partner is the supervisor and will exercise supervisory function over the directors and senior management of the joint venture. There is no assurance that the joint venture partner will be in agreement with the Target Group with respect to the operation of the joint venture and any disagreement between the Target Group and joint venture partner may cause interruption to the business of the restaurant to be opened and bring adverse consequence to the performance of the Target Group.

Subsidies from local government received by the Target Group may not be available in the future.

The Target Group received subsidies from local government and recognized these subsidies as income during the Track Record Period. During the Track Record Period, such subsidies amounted to approximately RMB5.9 million, RMB11.0 million and RMB4.4 million, representing approximately 0.8%, 1.6% and 0.6% of the revenue for the years ended 31 December 2015, 2016 and 2017, respectively. These subsidies were granted under different scenarios or for different purposes including a preferential incentive committed by local government in attracting establishment of business entity in a specified district, subsidies for staff training and for food safety purpose. Some of these subsidies were one-off in nature while some were recurring in nature during the Track Record Period. However, there is no assurance that the Target Group will continue to receive the same or

RISK FACTORS

similar government subsidies as the relevant government policies may change over time. In the event government subsidies are reduced substantially or entirely, the business, financial condition and results of operations of the Target Group could be adversely affected.

We derived interest income from related companies during the Track Record Period which was non-recurring in nature.

During the Track Record Period, the Target Group recorded interest income of approximately RMB1.6 million, RMB4.3 million and RMB4.3 million for the years ended 31 December 2015, 2016 and 2017, respectively. These interest income was derived from lending to related parties and was non-recurring in nature. For further details, please refer to note 31 to the accountant's report of the Target Group in Appendix I to this circular. All loans granted to related parties are expected to be fully settled before the Resumption. Accordingly, such interest income will no longer be a source of income to the Target Group in the future.

The Target Group is exposed to credit risks from customers which may affect its cash flow position and results of operations.

As at 31 December 2015, 2016 and 2017, the trade receivables of the Target Group were approximately RMB5.4 million, RMB4.4 million and RMB15.1 million, respectively. The Target Group is exposed to credit risks from its customers. The Target Group's trade receivables derived from sales through shopping malls, which are generally collectible within one month from the date of sales. The trade receivables also included the money from customer consumption by credit cards, which usually will be paid by banks on the next working day. The Target Group also granted credit to certain frequent customers. Meanwhile, the Target Group has to pay in advance certain costs and expenses prior to the payment from its customers, and to maintain its daily operations, the Target Group needs to have sufficient cashflow. In the event that customers of the Target Group have insufficient liquidity and they delay their payments to the Target Group, the cashflow level of the Target Group may be reduced, and its operation and financial position may be adversely affected accordingly.

The Target Group faces the risk of obsolescence for its inventory.

During the Track Record Period, the inventory of the Target Group mainly comprised foods and beverage and other materials consumables used. The inventories for the years ended 31 December 2015, 2016 and 2017 were approximately RMB28.6 million, RMB28.3 million and RMB28.0 million, respectively, and the inventory turnover days for the abovementioned periods were approximately 15.8 days, 14.7 days and 14.7 days, respectively. The Target Group's inventory inevitably faces obsolescence risks where there are unexpected material fluctuations or abnormalities in the supply and demand of foods and beverage and other consumables by suppliers and customers, respectively or where there are changes in consumers' tastes and preferences, which may lead to decreased demand and overstocking of particular products. In addition, the nature of the Target Group's products require storage maintained at different level of frozen conditions in

RISK FACTORS

frozen warehouses. Any unexpected and adverse changes in the optimal storage conditions of warehouses facilities may expedite the deterioration of such products and in turn heighten the risk of inventory obsolescence.

The Target Group cannot guarantee the recoverability of its deferred tax assets, which may affect the financial positions of the Target Group in the future.

The deferred tax assets of the Target Group was approximately RMB8.2 million, RMB9.71 million and RMB12.9 million as at 31 December 2015, 2016 and 2017, respectively, which represent unused tax losses from the Target Group. For details of the movements of deferred tax assets of the Target Group during the Track Record Period, please see note 26 to the accountant's report of the Target Group in Appendix I to this circular. Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, the Target Group cannot guarantee the recoverability of its deferred tax assets, which affect the financial positions of the Target Group in the future.

The Target Group may need to recognize impairment loss for its property, equipment and leasehold improvements if its restaurants are loss-making.

The Target Group recognized impairment loss against recoverable amount for approximately RMB1.4 million, nil and nil for years ended 31 December 2015, 2016 and 2017, respectively. The property and equipment in a few of stores were impaired in 2015 due to the continuous loss-making situation or other specific impairment indicators. The management used "value in use" as the recoverable amount of each store. The "value in use" was calculated based on estimated future cash flow. For the purposes of assessing impairment, assets are grouped at each store level for which there are separately identifiable cash flows (cash-generating units). An impairment loss was recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. These calculations used income approach-discounted pre-tax cash flow method based on financial budgets approved by management and it involves application of certain key assumptions, further details of which can be found in note 12 to the accountant's report of the Target Group in Appendix I of this circular. If the key assumptions adopted by the management are inaccurate, the impairment loss may be higher than expected and may result in adverse impact on the financial conditions of the Target Group.

In respect of the Target Group's operating lease commitments, the future application of IFRS 16 "Leases" may materially affect the amounts of right-of-use assets, lease liabilities, rental expense, depreciation and interest expense to be recognised after the adoption of this standard.

During the Track Record Period, the Target Group was a lessee of retail outlets, offices and warehouses under various lease arrangements related to its business operation. The Target Group's current accounting policy for such leases is set out in note 2(y) to the

RISK FACTORS

accountant's report of the Target Group in Appendix I to this circular. As at 31 December 2017, the Target Group's total non-cancellable operating lease commitments amounted to approximately RMB305.1 million.

During the Track Record Period, the Target Group's future operating lease commitments were not reflected in its combined statements of financial position. IFRS 16 "Leases", which is not expected to be applied until the financial year ending 31 December 2019 and will include adjustment of prior years, provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheets. Instead, for all leases with a term of more than 12 months, unless the underlying asset is of low value, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are certain recognition exemptions under IFRS 16 that a lessee may elect in respect of short-term leases (leases that, at the commencement date of the respective leases, have a lease term of 12 months or less) and leases for which the underlying asset is of low value. The new standard will therefore result in an increase in right-of-use assets and an increase in lease liabilities in the Target Group's combined balance sheet after the adoption of new standard. This will affect the Target Group's related financial ratios, such as an increase in gearing ratio. The Target Group does not have any existing debt covenants that are directly affected by change in its lease liability position. In the Target Group's combined statements of comprehensive income after the adoption of the new standard, the financial impact of leases will be recognised in the future as depreciation of the right-of-use assets and will no longer be recorded as rental expenses. Interest expenses on the lease liability will be presented separately under finance costs. As a result, the rental expense under otherwise identical circumstances will decrease, while depreciation and interest expense will increase. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total expenses to combined statements of comprehensive income in the initial year of the lease, and decreasing expenses during the latter part of the lease term. After the adoption of IFRS 16, the Target Group will increase in the financial assets and liabilities, and our financial position will be significantly impacted.

Further details of the application of IFRS 16 are set out in note 2(a) of the accountant's report of the Target Group in Appendix I to this circular.

RISKS RELATING TO THE PRC IN GENERAL

PRC economic, political and social conditions as well as government policies could adversely affect the Target Group's business and prospects.

Substantially all of the Target Group's business and assets are located in the PRC and all of its revenues are derived from the PRC. Accordingly, results, financial position and prospects of the Target Group are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC Government could affect business and financial performance of the Target Group and may result in the Target Group being unable to sustain its growth.

RISK FACTORS

In recent years, the PRC Government implemented a series of new laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control and supervision and inspection of enterprises engaged in the catering service industry. For further details please refer to the section headed “Regulatory overview” in this circular. If the PRC Government continues to impose even stricter regulations on the catering service industry, the Target Group may face higher costs in order to comply with those regulations, which could impact its profitability.

The PRC’s economic, political and social conditions differ from those of most developed countries in a number of respects, including structure, degree of government involvement, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The Enlarged Group cannot predict whether changes in the PRC’s economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on the Enlarged Group’s current or future business, results of operations and financial condition.

In addition, many of the economic reform measures implemented by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on the Enlarged Group’s operations and business development.

The PRC’s legal system is still evolving and the uncertainties as to the interpretation and enforcement of PRC laws could have a material adverse effect on us.

The business and operations of the Target Group are conducted in the PRC, and thus it is governed by PRC laws and regulations. The PRC legal system is a civil law system based on written status and past court decisions have limited precedential value and are cited for reference only. Since the late 1970s, the PRC government has made significant progress in the development of its laws and regulations governing economic matters, such as foreign investment, company organisation and management, business, tax and trade. As these laws and regulations are still evolving and there are only limited number of non-binding court cases, there exist uncertainties about the interpretation and enforcement of the laws and regulations. For the same reasons, any legal protections available to us under these laws and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

Fluctuations in the value of the Renminbi may have a material adverse impact on your investment.

Even though most of the Target Group’s revenue and expenditures are denominated in Renminbi, fluctuations in the exchange rate between Renminbi and the Hong Kong dollar may nonetheless in the future adversely affect the value of net assets and earnings of the

RISK FACTORS

Target Group. In particular, distributions to holders of the Shares are made in Hong Kong dollars. In addition, appreciation or depreciation in the value of Renminbi relative to the Hong Kong dollar would affect the Target Group's financial results expressed in Hong Kong dollar without giving effect to any underlying change in its business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. Renminbi has been unpegged from US dollar since July 2005 and, although the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate, Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

There are limited hedging instruments available in the PRC to reduce the exposure to exchange rate fluctuations between Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, the Target Group has not entered into any hedging instrument in an effort to reduce its exposure to foreign currency exchange risks. However, should material foreign currency exchange risks arise, the Target Group's business, result of operations and financial condition may be materially and adversely affected.

The PRC government's control in foreign currency conversion may materially and adversely affect the financial condition, results of operations and ability to meet foreign exchange requirements of the Target Group.

Currently, the Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, the Target Group will have sufficient foreign exchange to meet its foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange acquisition under the current account conducted by the Target Group, including the payment of dividends, do not require advance approval from the SAFE, but the Target Group is required to present documentary evidence of such acquisition and conduct such acquisition at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange business. Control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations.

Under existing foreign exchange regulations, the Target Group is able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be in effect in the future. In addition, any insufficiency of foreign exchange may restrict the Target Group's ability of dividend payments to Shareholders or to satisfy any other foreign

RISK FACTORS

exchange requirements. If the Target Group fails to convert Renminbi into any foreign exchange for any of the above purposes, its capital expenditure plans, business, result of operations and financial condition may be materially and adversely affected.

The PRC tax authorities' heightened scrutiny over acquisition transactions may have a negative impact on the Target Group's business operations or its acquisitions or the value of your investment in the Target Group.

The State Administration of Taxation has promulgated several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises in February 2015, or SAT Circular 7 and the Announcement of the SAT on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises in 2017, or SAT Circular 37. If a non-PRC resident enterprise indirectly transfers so-called PRC Taxable Properties, referring to properties of an establishment or a place of business in China, equity investments in a PRC tax resident enterprise, by disposition of the equity interests in an overseas non-public holding company without a reasonable commercial purpose and resulting in the avoidance of PRC enterprise income tax, the transfer will be re-characterized as a direct transfer of the PRC Taxable Properties and gains derived from the transfer may be subject to a PRC withholding tax of up to 10%. SAT Circular 7 has listed several factors to be taken into consideration by the tax authorities in determining if an indirect transfer has a reasonable commercial purpose. However, regardless of these factors, an indirect transfer satisfying all the following criteria will be deemed to lack a reasonable commercial purpose and be taxable in the PRC: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from PRC Taxable Properties; (ii) at any time during the one year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC Taxable Properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC Taxable Properties is lower than the potential PRC tax on the direct transfer of those assets. On the other hand, indirect transfers falling into the scope of the safe harbors under SAT Circular 7 may not be subject to PRC tax. The safe harbors include qualified group restructurings, public market trades and exemptions under tax treaties.

Under SAT Circular 7 and other PRC tax regulations, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor must act as withholding agents and are required to withhold the PRC tax from the transfer price. If neither party complies with the tax payment or withholding obligations under SAT Circular 7, the tax authority may impose penalties such as late payment interest on the seller. In addition, the tax authority may also hold the withholding agents liable and impose a penalty of 50% to 300% of the unpaid tax on them. The penalty imposed on the purchasers

RISK FACTORS

may be reduced or waived if the withholding agents have submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Circular 7.

The Target Group may conduct acquisitions or restructurings which may be governed by the aforesaid tax regulations, as well as any possible future acquisition of the Target Group. The Target Group cannot assure you that the PRC tax authorities will not, at their discretion, impose tax return filing obligations on the Target Group or its subsidiaries, require it or its subsidiaries to provide assistance to an investigation by PRC tax authorities with respect to these transactions or adjust any capital gains. Any PRC tax imposed on a transfer of our shares, or equity interests in the PRC subsidiaries of the Target Group or any adjustment of such gains would cause the Target Group to incur additional costs and may have a negative impact on results of operations.

Any limitation on the ability of the PRC subsidiaries of the Target Group to pay dividends or other distributions to the Target Company and repay their debts to creditors could limit the Target Group's ability to distribute profits to its shareholders and fulfill our repayment obligations.

The Target Company is a holding company incorporated in the Cayman Islands, and it relies on dividends or other distributions paid by the PRC subsidiaries of the Target Group for cash requirements, including the funds necessary to pay dividends and other cash distributions to the Target Group's shareholders, to service any debt the Target Group may incur, and to pay the Target Group's operating expenses. PRC regulations currently permit payments of dividends only out of accumulated profits, as determined in accordance with the accounting standards and regulations in the PRC, which differ in many aspects from generally accepted accounting principles in other jurisdictions. The PRC subsidiaries of the Target Group are required to allocate certain percentages of any accumulated profits after tax each year to their statutory common reserve fund as required under the PRC Company Law until the aggregate accumulated statutory common reserve funds exceed fifty percent (50%) of its registered capital. Such reserve funds cannot be distributed as cash dividends. In addition, if the PRC subsidiaries of the Target Group incur debt on their own or enter into certain agreements in the future, the instruments governing the debt or such other agreements may restrict their ability to pay dividends or make other distributions to the Target Company. Therefore, these restrictions on the availability and usage of the major source of funding may materially and adversely affect the Target Company's ability to pay dividends to its shareholders and to service its debts. The PRC subsidiaries of the Target Group receive substantially all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of the PRC subsidiaries of the Target Group to use their Renminbi revenues to pay dividends to the Target Company.

RISK FACTORS

China’s M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for the Target Group to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Lenders, or the M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transactions in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress on 30 August, 2007 and effective as of 1 August, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by MOFCOM before they can be completed. In addition, on 3 February, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Lenders, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on 25 August, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Lenders, or the MOFCOM Security Review Regulations, which became effective on 1 September, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the National Development and Reform Commission, or NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merger or acquisition of a company engaged in the marketplace lending business requires security review. In the future, the Target Group may grow its business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may delay or inhibit the Target Group’s ability to complete such transactions. It is unclear whether the Target Group’s business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, MOFCOM or other government agencies may publish explanations in the future determining that the

RISK FACTORS

Target Group's business is in an industry subject to the security review, in which case future acquisitions in the PRC by the Target Group, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited.

PRC regulations relating to offshore investment activities by PRC residents and PRC entities may limit the PRC subsidiaries of the Target Group's ability to increase their registered capital or distribute profits to the Target Company or otherwise expose the Target Group to liability and penalties under PRC law.

The State Administration for Foreign Exchange ("SAFE"), promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that require PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. SAFE further enacted the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment effective from 1 June, 2015, or SAFE Circular 13, which allows PRC residents or entities to register with qualified banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. Currently, one of the shareholders of a subsidiary of the Target Group is a PRC resident and if the shareholder does not complete its registration with the local SAFE branches or qualified banks as required by SAFE Circular 37 and other related rules, the PRC subsidiaries of the Target Group may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the Target Company, and the Target Company may be restricted in its ability to contribute additional capital to the PRC subsidiaries of the Target Group. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Failure to comply with SAFE regulations, or failure to amend the foreign exchange registrations of the PRC subsidiaries of the Target Group, could subject the Target Group to fines or legal sanctions, restrict its overseas or cross-border investment activities, limit its subsidiaries' ability to make distributions or pay dividends or affect its ownership structure, which could adversely affect its business and prospects.

RISK FACTORS

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent the Target Group from using the proceeds of fund raising exercise to make loans to their PRC subsidiaries, or to make additional capital contributions to their PRC subsidiaries.

The Target Company is an offshore holding company conducting the operations in the PRC through its PRC subsidiaries. The Target Group may make loans or additional capital contributions to their PRC subsidiaries or they may establish new PRC subsidiaries or acquire offshore entities with business operations in the PRC in an offshore transaction. However, loans by the Target Group to their PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If they decide to finance their PRC subsidiaries by means of capital contributions, these capital contributions must be approved or filed by MOFCOM or its local counterpart.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, the Target Group cannot assure you that the Target Group will be able to complete the necessary government registrations or filings or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by them to their PRC subsidiaries. If the Target Group fails to complete such registrations or filings or obtain such approvals, their ability to use the proceeds the Target Group raised outside the PRC and to capitalize or otherwise fund their PRC operations may be negatively affected, which could materially and adversely affect the liquidity and the ability of the Target Group to fund and expand its business.

The Enlarged Group may be deemed a PRC resident enterprise under the PRC EIT Law and be subject to PRC taxation on its worldwide income.

Under the PRC Enterprise Income Tax Law (“**PRC EIT Law**”), which came into effect on 1 January 2008 and was amended on 24 February 2017, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and their global income will generally be subject to the uniform 25% Enterprise Income Tax (“**EIT**”) rate. Under the Implementation Rules for the PRC EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Since a substantial portion of the Target Group’s management is currently based in the PRC and may remain in the PRC, the non-PRC members of the Target Group may be considered as PRC resident enterprises even though the non-PRC members of the Target Group have real operations outside the PRC. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, its worldwide income will be subject to the EIT. The imposition of the EIT on the Target Group’s global income as a “resident enterprise” under the PRC EIT Law may have a material adverse effect on the financial condition and result of operations of the Enlarged Group.

RISK FACTORS

Dividends payable by the Target Group to its foreign investors and gains on the sale of its Shares may become subject to withholding taxes under PRC tax laws.

Under the PRC EIT Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% (subject to the provisions of any applicable tax treaty or similar arrangement) is applicable to dividends payable by a PRC “resident enterprise” to investors that are “non-resident enterprises” (those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% (subject to the provisions of any applicable tax treaty or similar arrangement) PRC income tax if such gain is regarded as income derived from sources within the PRC.

If the Enlarged Group is regarded as a PRC “resident enterprise”, it is unclear whether the dividends the Enlarged Group pays with respect to the Shares or Consolidated Shares or the gain which may be realised from the transfer of the Shares or Consolidated Shares, will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC EIT Law and the implementation rules. One example of a limitation on the 10% withholding tax is that, pursuant to a tax arrangement between the PRC and Hong Kong, which became effective on 8 December 2006, a company incorporated in Hong Kong is subject to withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% or greater interest in the PRC company, or 10% if it holds an interest of less than 25% in the PRC company. If the Enlarged Group is required under the PRC EIT Law to withhold PRC income tax on its dividends payable to its foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares or Consolidated Shares, the value of your investment in the Shares or Consolidated Shares may be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO THIS CIRCULAR

Facts, forecasts and other statistics in this circular relating to the PRC, the PRC economy and the PRC catering services industry have been derived from various official government publications generally believed to be reliable. However, the Target Group cannot guarantee the quality or reliability of such materials. They have not been prepared or independently verified by the Target Group or any of its respective affiliates or advisers and, therefore, the Target Group makes no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. The Target Group has assumed that such publications are true, accurate and complete in all material respects as at the Latest Practical Date and the Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this circular may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Furthermore, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to the PRC, the PRC economy and the PRC catering services industry contained in this circular.

INDUSTRY OVERVIEW

This section contains information relating to the economy of the PRC and the industry in which the Target Group operates. The Company has extracted and derived the information in the section below, in part, from the Market Research Report, a commissioned report from Frost & Sullivan. Please see the paragraph “Sources of Information” below. The Company believes that such sources are appropriate sources for the information and statistics below, including forward-looking information for future periods as identified, and has taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by the Company, the Target Group, the Sponsor, any of their respective affiliates or advisers, or any party involved in the New Listing Application and no representation is given as to its accuracy. The information and statistics should not be relied upon in making, or refraining from making, any investment decision.

The Directors and the proposed Directors confirm that after taking reasonable care, they are not aware of any adverse change in the market information since the date of the Market Research Report which may qualify, contradict or have any impact on the information in this section.

SOURCE OF INFORMATION

In connection with the New Listing Application, the Company and the Target Group have engaged Frost & Sullivan, an independent third party, to conduct a study of the catering service market in the PRC. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in the PRC includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. Frost & Sullivan has charged a total of RMB580,000 for the preparation of the Market Research Report.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Market Research Report included secondary research and primary research. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Primary research involved discussing the status of the industry with leading industry participants and industry experts.

Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various PRC government agencies; and (ii) the information obtained from interviews is for reference only and the findings in the Market Research Report are not directly based on the results of these interviews.

INDUSTRY OVERVIEW

In compiling and preparing the Market Research Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period; and (iii) market drivers like upgrading consumption and consumers' changing preference are likely to drive the China's hotpot restaurant market.

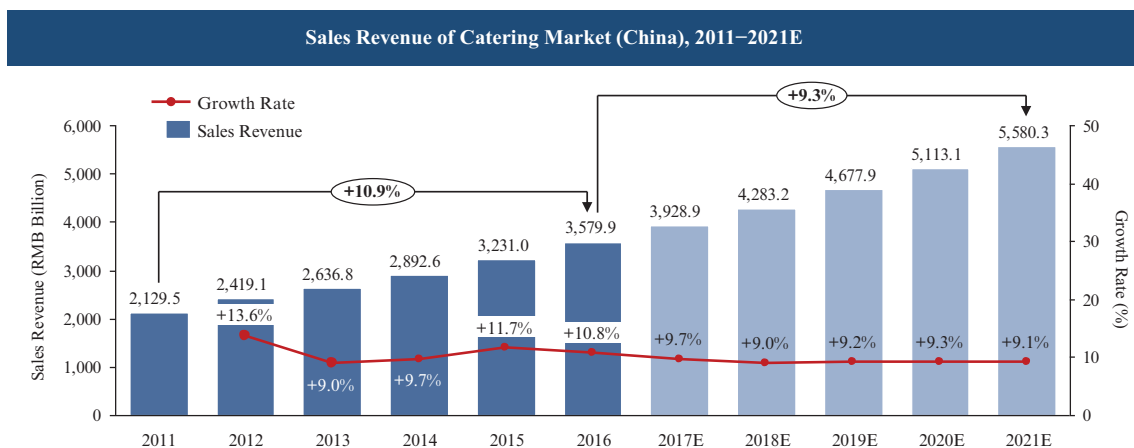
CATERING SERVICE MARKET IN THE PRC

The catering industry refers to the commercial activities of providing prepared foods, consumption sites, and facilities for consumers. According to Frost & Sullivan, the catering industry is commonly divided into the following four categories given their business model:

- *Full-service restaurants.* Full-service restaurants refer to restaurants with full table service provided by waiters, where customers are served their meals at the table and typically pay at the end of the meal. Some full-service restaurants charge about 10% to 20% service fees. Full-service restaurants are characterized by table service, higher food quality, generally more comfortable dining ambience and a wider range of cuisines compared to "Quick service restaurants", and they mainly serve business banquets, wedding banquets, group banquets and family dinners. Full-service restaurants generally offer food at set lunch and dinner times rather than all day. The customers usually spend approximately two hours to dine at the full-service restaurants.
- *Casual dining restaurants.* Casual dining restaurants refer to catering establishments that serve moderately priced food in a casual dining ambience. Casual dining restaurants typically provide some table service and the opening hours are longer with more flexible meal times as compared with full-service restaurants. This segment comprises casual Chinese restaurants, casual western dining establishments, cafés, teahouses and bars serving drinks along with snacks. At the casual dining restaurants, the customers usually finish their meals in approximately one hour. Casual dining restaurants target the mass market customers including the white collars and tourists.
- *Quick service restaurants ("QSR").* QSR refers to restaurant that provide fast and consistent food service, with no or little table service and simple dining ambience. QSR typically have order taking and cooking platforms designed specifically for ordering, preparing and serving menu items with speed and efficiency. Customers usually order the food, settle the bills and take their meals at the service counter. However, some traditional congee restaurants also offer table service. The target customers include the young generation and the working class. QSR usually open long hours. Some western QSR even open 24 hours. It usually takes customers around half an hour to finish a meal at the QSR.
- *Others.* Other catering establishments include takeaway shops, hawker stalls, roadside vendors and establishments not otherwise described in the organized segments above. This segment also includes event catering.

INDUSTRY OVERVIEW

The PRC catering service market has experienced rapid growth in recent years. In terms of sales revenue, the PRC's catering service market grew at a CAGR of 10.9% from RMB2,129.5 billion in 2011 to RMB3,579.9 billion in 2016. Going forward, with the continuous increase in per capita annual disposable income and a growing preference to dining-out, the PRC's catering service market will maintain sustainable growth along with the steady economy growth in the PRC. According to Frost & Sullivan, the sales revenue of the PRC's catering service market is expected to grow at a CAGR of 9.3% to reach RMB5,580.3 billion in 2021.



Note: National Bureau of Statistics has adjusted historical data according to the result of the Third National Economic Census.

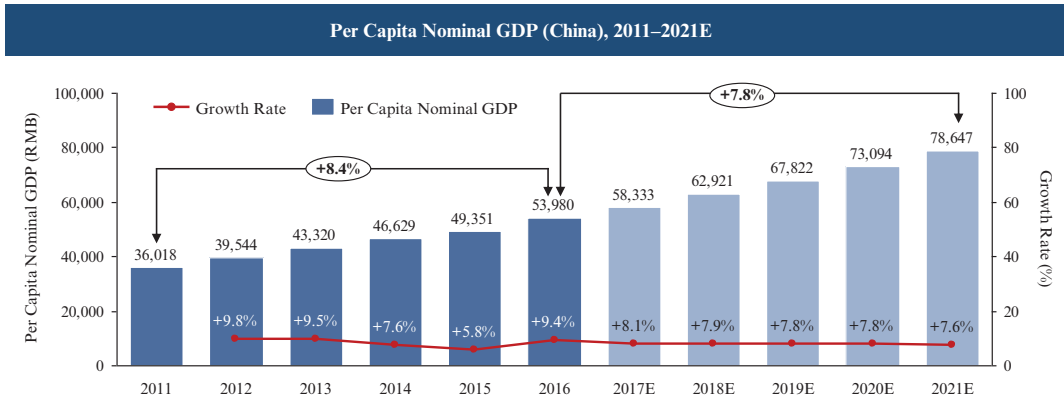
Source: Historical data is from National Bureau of Statistics of China. Forecast data is from Frost & Sullivan analysis.

INDUSTRY OVERVIEW

Factors affecting the catering service industry

Economic growth

In line with the growing Chinese economy, per capita nominal GDP in China has grown at a fast pace in the past several years and is expected to maintain solid growth in the future. The per capita nominal GDP in China grew at a CAGR of 8.4% from 2011 to reach RMB53,980 in 2016, and is forecasted by the International Monetary Fund to further grow at a CAGR of 7.8% to reach RMB78,647 in 2021.

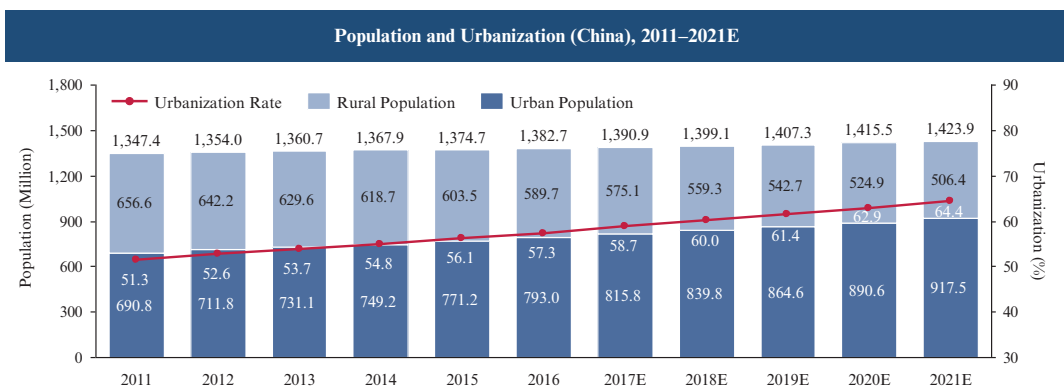


Source:

Historical data is from National Bureau of Statistics of China. Forecast data is from International Monetary Fund.

Population growth and rapid urbanization

Due to the rapid economic development in China and the influx of migrants from rural areas to urban areas, China's urban population has been steadily increasing. According to Frost & Sullivan, with the continuous development of urban facilities, China's urban population is expected to experience a CAGR of 3.0% from 2016 to 2021 to reach 917.5 million by 2021 with an urbanization rate of 64.4%.

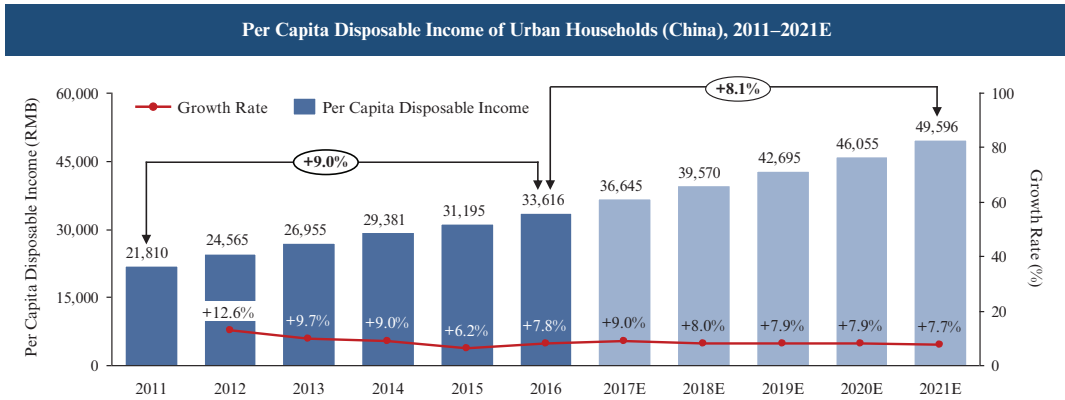


Source:

Historical Data is from National Bureau of Statistics of China. Forecast data is from Frost & Sullivan.

INDUSTRY OVERVIEW

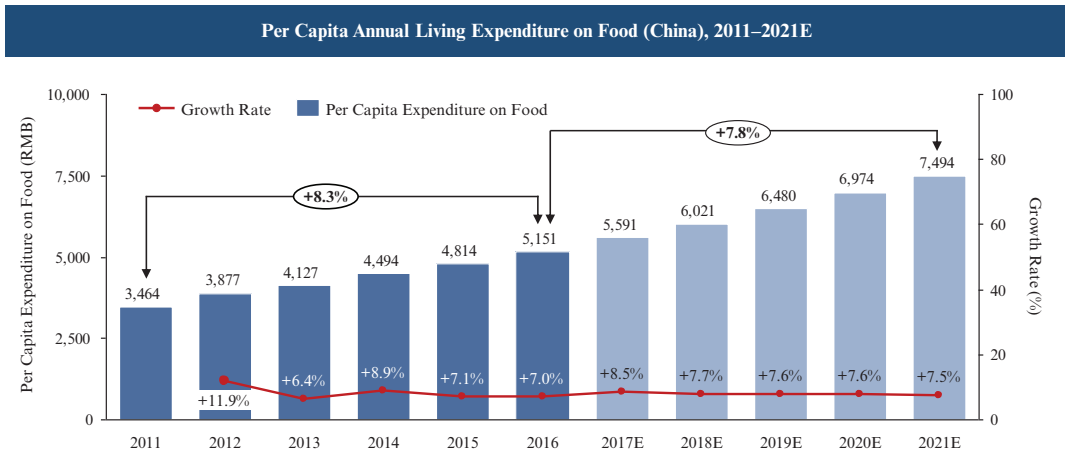
Together with the continuous growth in economy and urbanization, the average income of level of Chinese households has also increased continuously in recent year. In 2016, the per capita annual disposable income of urban households has increased to RMB33,616 from RMB21,810 in 2011, representing a CAGR of 9.0%. Frost & Sullivan estimated that by 2021, the per capita annual disposal income of urban households to increase to RMB49,596 with a CAGR of 8.1% from 2016.



Source:

Historical data is from National Bureau of Statistics of China. Forecast data is from Frost & Sullivan.

Associating with the increasing income, Chinese people’s expenditure on food has also grown. From 2011 to 2016, per capita food expenditure grew at a CAGR of 8.3%. With the increasing awareness of food safety and quality, the Chinese per capita annual living expenditure on food is likely to keep the increase trend in the future and realizing a CAGR of 7.8% form 2016 to 2021. According to Frost & Sullivan, the per capita expenditure on food by 2021 is expected to reach RMB7,494.



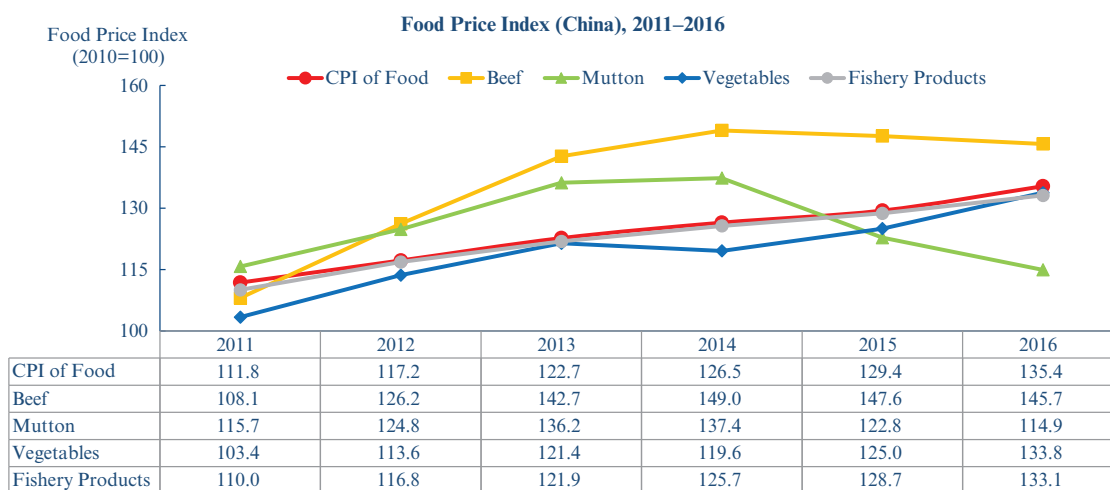
Source:

Historical data is from National Bureau of Statistics of China. Forecast data is from Frost & Sullivan.

INDUSTRY OVERVIEW

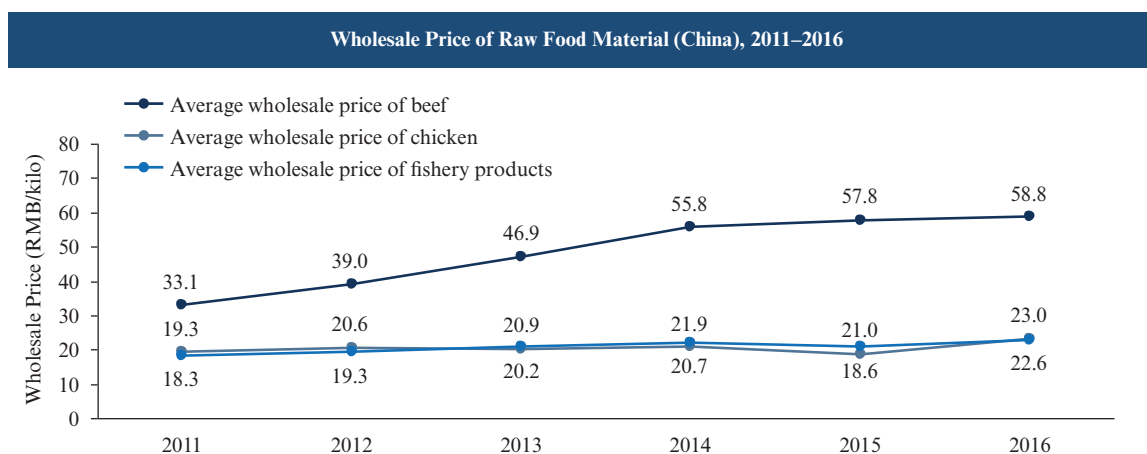
Food price

The food price index in China grew relatively steadily in recent years. Taking 2010 as the base year and assuming it as 100, it increased by 35.4% in 2016. With further economic development, the food price index in the PRC is forecasted to maintain the upward trend in the following years due to increasing disposable income and inflation.



Source: National Bureau of Statistics of China

The price of major food ingredients had kept a growing trend from 2011 to 2014 in line with the growing CPI. In 2015 and 2016, the price of beef and mutton dropped significantly due to the peste des petits ruminants (PPR) and the growing imports of beef and mutton. The prices of vegetables and fishery products kept growing in 2015 and 2016.



Source: Ministry of Agriculture, Frost & Sullivan

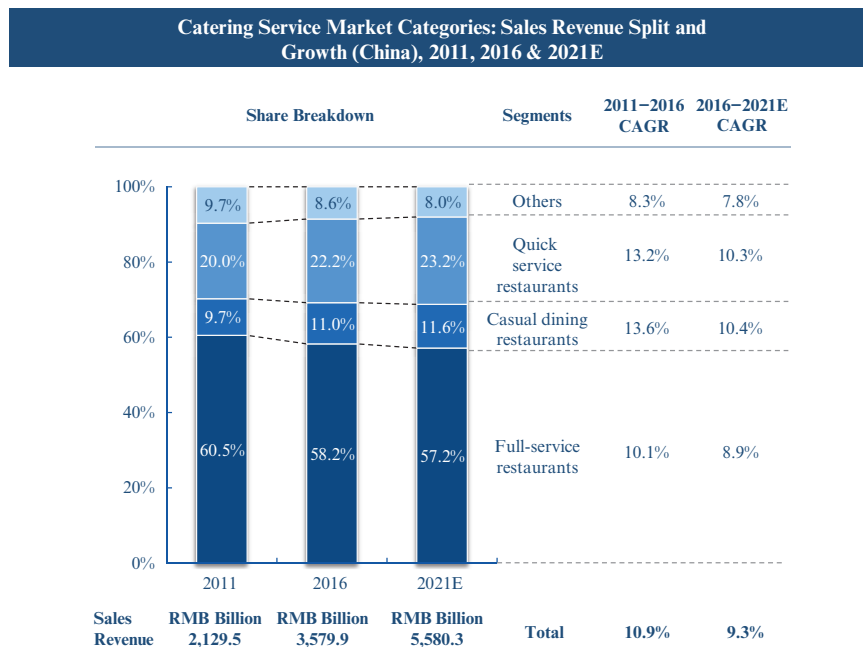
In the wholesale market, raw food price has been increasing from 2011 to 2016. Wholesale price of fresh beef has increased fastest in the past five years. On one hand, increasing disposable income of Chinese people has largely improved the living standard to sustain the affordability of upgrading consumption. On the other hand, owing to the change

INDUSTRY OVERVIEW

of consumption behavior and health concern, beef takes a larger share in the meat consumption than before. These two reasons drove the price of fresh beef upward in the past years. Wholesale price of frozen beef and chicken has been increasing gradually from 2011 to 2016, along with the growth of CPI. In the forecast period, the food price is expected to increase gradually as the Chinese government is expected to regulate the price not to grow too fast to ensure the quality of people's life.

Market segments and breakdown

Full-service restaurants refer to restaurants with full table service provided by waiters, where customers are served their meals at the table and typically pay at the end of the meal. Full-service restaurants are characterized by table service, higher food quality, generally more comfortable dining ambience and a wider range of cuisines compared to QSR, and they mainly serve business banquets, wedding banquets, group banquets and family dinners. Full-service restaurants generally offer food at set lunch and dinner times rather than all day. The customers usually spend approximately two hours to dine at the full-service restaurants. The Target Group is in line with said definition and thus its restaurants are categorized as "full-service restaurants". The full-service restaurants market accounted for over 50% of the sales revenue of the catering service market in the PRC since 2011. In 2016, the full-service restaurant segment generated approximately a total of RMB2,083.5 billion of sales revenue, representing 58.2% of the total sales revenue of the catering service market in the PRC. According to Frost & Sullivan, while the full-service restaurant market share in terms of sales revenue in 2021 will be 57.2%, approximately 1.0% lower than the figure in 2016, the actual sales revenue in monetary terms of the market will hit approximately RMB3,191.93 billion in 2021, representing a CAGR of 8.9% from 2016 to 2021.



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The segmentation of full-service restaurants in China can be divided into three segments according to their average per capita spending, high-end, mid-tier, and mass.

According to Frost & Sullivan, high-end and mid-tier full-service restaurants refer to those restaurants of which average per capita spending is equal to or above RMB300, and falls between RMB100 and RMB299, respectively. Mid-tier full-service restaurants constitute the main body of full-service restaurants in China, and mainly target mid-tier customers. Mass full-service restaurant refers to those restaurants of which the average per capita spending is less than RMB100.

Based on the average spending per customer, the restaurants of the Target Group under the brand *Faigo* (“輝哥”) targets high-end market and restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanmai* (“洪員外”) targets mid-tier market, respectively.

With growing disposable income of Chinese people, Chinese people tend to move from mass full-service restaurants to mid-tier full-service restaurants. High-end market, due to the anti-corruption act in China, is expected to grow at a lower growth rate.

Key growth drivers

The future growth of China catering industry is expected to be driven by the following factors:

Growing per capita disposable income

Growing per capita disposable income in China has rocketing since its Open and Reform Policy. Increasing income has sustained the change of food consumption lifestyle. More people prefer to dine out rather than cook at home. With increasing frequency and expenditure of dining-out, catering market overview is expected to grow fast in the future.

Increasing acceptance for labour division

More people, especially young people prefer to dine out to save the burden of cooking. Moreover, less young people can cook delicious dishes at home. Many of them are used to dining-out. Labour division is well accepted among young people. Increasing acceptance for labour division drives the demand for more restaurant to offer catering service.

Growing social network

The Internet has enlarged the social network. People have more friends than ever and can communicate with anyone at any time. Enlarged social network brings about the growing social activities, not only online, but also offline. Dining-out is a most common social activity. Therefore, catering industry has taken a higher percentage in the shopping centers than ever.

CHINA'S HOTPOT RESTAURANT MARKET

Market overview

Hotpot restaurant, as a major form of restaurant in China, accounted for around 11.0% of total revenue of catering industry. Sales revenue of hotpot restaurant market grew from RMB224.2 billion in 2011 to RMB395.5 billion in 2016, representing a CAGR of 12.0%. From 2016 to 2021, sales revenue of hotpot restaurant market in China is expected to grow at a CAGR of 9.7%, reaching RMB628.2 billion in 2021. The growth of hotpot restaurant market mainly lies in the fact of its inclusive of food materials and flavors.

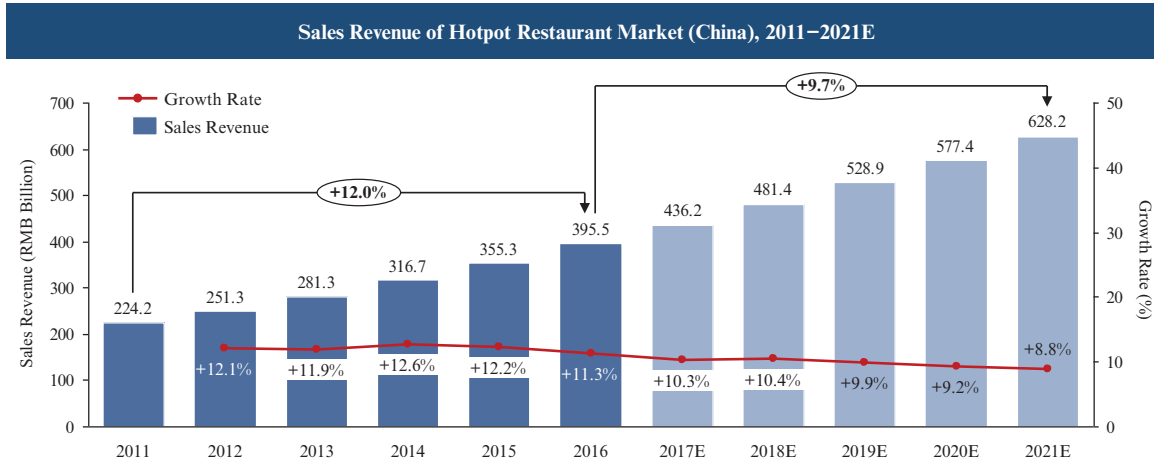
The hotpot restaurant market in China can be divided into Cantonese-style, Mongolia-style, Sichuan-style, and other-style hotpot. Other-style hotpot include hotpot flavors like kimchee flavor, sukiyaki flavor, etc. Flavor, sauce, and major raw materials are the difference among these categories.

Sichuan-style, Mongolia-style, and Cantonese-style are different in flavor and food offering, etc. Sichuan-style hotpot tastes spicier, and offers viscera as a major raw food material. Cantonese-style and Mongolia-style taste lighter. Yet, Cantonese-style offers seafood as a major raw food material. Mongolia-style offers beef and lamb as major raw food material.

Currently, hotpot restaurants of different style tend to offer more flavors and raw food materials than their own style to meet the diversified demand of customers. In addition, double flavor pot and triple flavor pot have been invented to serve multiple flavors at a time. Therefore, the categorization of hotpot is based on the major style of hotpot it offers. The Target Group's restaurants offer mainly Cantonese-style hotpot flavor and relative raw food materials, and therefore, are categorized in the Cantonese-style hotpot.

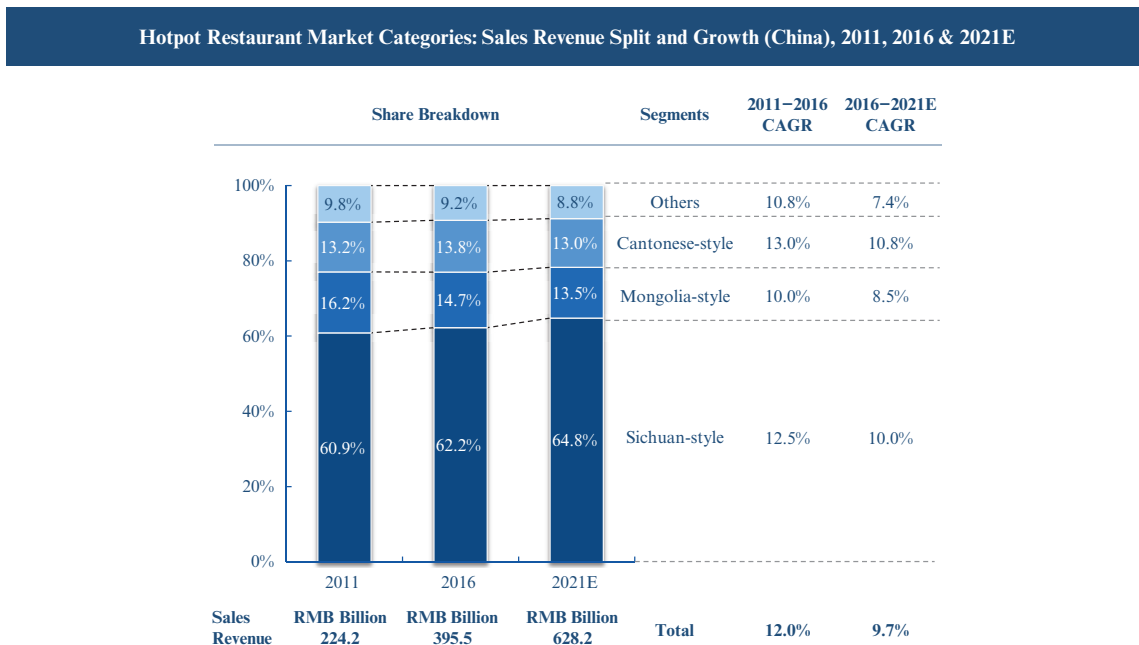
INDUSTRY OVERVIEW

Mongolia-style hotpot is generally popular in North China; Sichuan-style hotpot is generally popular in Southwest China; and Cantonese-style hotpot is generally popular in South China. However, with the expansion of chained restaurant, different flavors and styles of hotpot are available in all regions in China. Hotpot restaurant usually can serve 2 to 10 persons. Average meal time is around 1.5 to 2 hours.



Source: Frost & Sullivan

The split of sales revenue of different types of hotpot restaurants in China and their expected growth in the future are shown in the following chart:



INDUSTRY OVERVIEW

Cantonese-style hotpot restaurants accounted for around 13.8% of total hotpot restaurant market in 2016 in the PRC. The average spending per head for Cantonese-style hotpot is usually higher than other style hotpot restaurants because seafood, as a major raw food material in Cantonese-style hotpot, is priced higher than meat. Cantonese-style hotpot restaurant has reached the fastest growth from 2011 to 2016, and is expected to grow at a CAGR of 10.8% from 2016 to 2021 owing to the healthier consumption habit for Chinese customers.

Sichuan-style hotpot restaurants took more than half of total sales revenue of hotpot market in China, reaching RMB246.1 billion in 2016. On one hand, higher penetration rate of hotpot restaurant among all types of restaurants in Southwest China provided support for the Sichuan-style hotpot restaurant. On the other hand, the expansion of Sichuan-style hotpot restaurants in China has increased their acceptance among all regions.

For Mongolia-style and other style hotpot restaurants, they are expected to shrink in their shares.

Competitive landscape

China hotpot market was quite fragmented in 2016. The top five companies engaging hotpot restaurants accounted for only approximately 4.7% of the entire market in terms of sales revenue.

In 2016, Company A, a hotpot restaurant brand which has a high reputation among customers due to its high service quality, ranked first in China hotpot restaurant market, accounting for 1.7% of the total market. Company B ranked at the second place with a share of 0.9%, followed by Company C, a hotpot brand originated from Northeastern China with a market share of 0.8%. The fourth largest player Company D accounted for 0.7% of the market. Company E, a Cantonese-style hotpot brand, ranked at the fifth place with a share of 0.7%. The Target Group accounted for approximately 0.2% of the market share in the overall PRC hotpot market, which is not considered to be significant.

Compared with China's entire hotpot restaurant market which is barely concentrated, the Cantonese-style hotpot restaurant market is relatively less fragmented, though the concentration rate was still at a low level in 2016. The total market size of Cantonese-style hotpot restaurant market in the PRC amounted to approximately RMB54.6 billion in 2016. The top 5 companies in the Cantonese style hotpot restaurants segment accounted for approximately 18.0% of the market together.

In 2016, *Macao Doulao* ranked at the first place, accounting for 5.3% of the market in terms of sales revenue. *Xiabuxiabu* and *Luxi Beef* ranked at the second and third place with occupations of 5.1% and 5.0%, respectively. The Target Group was at the fourth place, accounting for 1.3% of the total market share in the Cantonese-style hotpot.

Key success factors and entry barriers

The businesses of the hotpot restaurants in the PRC are expected to be affected by the following factors:

Changing consumption preference of consumers

Customers' preference for food is changing rapidly in China. Different style of dishes are widely accepted for the wide range of land in China. The changing customers' preference of dishes is a challenge to the catering service. It is relatively easier for hotpot restaurants to cater for customers' preference by supplying different food ingredients and adjusting the sauce and the soup.

Acceptance of different food ingredients

Hotpot style of cooking, which can accept almost all the food ingredients, is resistible to the rapid change of consumption preference of consumers. New food ingredients and flavors can be easily incorporated in hotpot.

Ensured freshness of food ingredients

Hotpot restaurants have to serve food uncooked to customers. As such, they have to ensure freshness of the food ingredients. As there is growing concern to the food safety and quality, customers will pay more attention to the food offering. Hotpot, can therefore meet customers' demand.

For new market entrants of the hotpot restaurants in the PRC, they will face the following entry barriers in commencing their businesses.

Stable supply of fresh food ingredients

The quality and the taste of hotpot depend more on the freshness and quality of raw food materials because of its simple cooking procedure. Many of the raw food materials are purchased on a daily basis. Therefore, stable supply of food ingredients is an entry barrier for new entrants.

Understanding of taste trends

Understanding of changing taste preferences of customers is an entry barrier for new entrants to the hotpot restaurant market. Hotpot restaurant operators have to catch up with the taste trends and make sure food ingredients, sauces and soup in demand are offered in their restaurants.

Standardization

Hotpot lays much of the taste and quality on the freshness of food ingredients and the sauce. Standardization of food supply and soup is the key to maintain the food quality and to meet customers' expectations. Moreover, standardization also increases efficiency.

Restaurant location

Location is vital for a hotpot restaurant. Hotpot restaurants have to choose a suitable location for the restaurant to reach target customers. With relatively long average meal time for hotpot dining, a location to reach enough customer flow is important to reduce cost of vacancy. Limited supply of suitable locations is an entry barrier.

Future outlook of the hotpot restaurant market in the PRC

Increasing Standardization. Freshness of raw food materials is the key to hotpot restaurants. Therefore, increasing standardization and use of central kitchen to prepare food materials are one main trend for hotpot restaurant operators. Central kitchen could increase the standardization of processing of raw food materials and shorten the processing time to keep food material fresh.

Targeting the High-End Segment. Hotpot restaurants offering meat as their major food ingredient have a lower customer's average spending compared with those serving seafood. Therefore, more hotpot restaurants begin to offer more diversified food materials to target different customer segments. Seafood has been introduced in hotpot restaurants recently, which will attract more customers from the high-end segment.

Inclusive of New Food Ingredients and Flavors. New food ingredients will be added to hotpot dining. As hotpot is more inclusive than other styles of cooking, new food ingredients can be easily introduced to hotpot dining. Hotpot restaurants are more willing to stay appealing to customers by offering new food ingredients in their menus rather than stick to their own understanding of hotpot stereotype.

Innovation of New Form of Hotpot. New form of hotpot will be invented to meet the diversified demand of customers. Steam seafood hotpot is a new kind of form. Double flavor pot, triple flavor pot has been invented to meet the diversified demand of the customers. Even new materials will be used to manufacture the pot. For example, the copper pot of Mongolia-style hotpot offers a different taste.

LAWS AND REGULATIONS OF THE PRC

A. REGULATIONS AS TO FOREIGN INVESTMENT

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Catalogue**”), which was newly amended and promulgated by MOFCOM and NDRC on 28 June 2017. The Catalogue, as amended, became effective on 28 July 2017 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. Any industry not listed in the Catalogue is a permitted industry, and is generally open to foreign investment unless specifically prohibited or restricted by the PRC laws and regulations. According to the Catalogue, consumer food and beverage services and general food production and sales are classified as a permitted industry.

The establishment procedures, examination and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulations under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990, newly amended on 19 February 2014, and effective as from 1 March 2014.

The Wholly Foreign-owned Enterprise Law was further revised by the Standing Committee on 3 September 2016 and has become effective from 1 October 2016. According to the amendments, for wholly foreign-owned enterprise which the special entry management measures does not apply to, its establishment, operation duration and extension, separation, merger or other major changes shall be reported for record. The special entry management measures stipulated by the State shall be promulgated or approved to be promulgated by the State Council. Pursuant to a notice issued by NDRC and MOFCOM on 8 October 2016, the special entry management measures shall be implemented with reference to the relevant regulations as stipulated in the Catalogue in relation to the restricted foreign-invested industries, prohibited foreign-invested industries and encouraged foreign-invested industries which have requirements as to shareholding and qualifications of senior management. Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises (外商投資企業設立及變更備案管理暫行辦法) promulgated by MOFCOM on 8 October 2016 and amended on 30 July 2017, establishment and modifications of foreign-invested enterprises not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities.

B. REGULATIONS AS TO FOOD SAFETY AND LICENSING REQUIREMENT FOR CONSUMER FOOD SERVICES

In accordance with the Food Safety Law of the PRC (中華人民共和國食品安全法) (the “**Food Safety Law**”) effective as from 1 June 2009 and amended on 1 October 2015, and the Implementation Regulations of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) (the “**Implementation Regulations**”) effective as from 20 July 2009 and amended on 6 February 2016, with the purpose of guaranteeing food safety and safe guarding the health and life safety of the public, the state set up a system of the supervision, monitoring and appraisal on the food safety risk, compulsory adoption of food safety standards, operating standards for food production, food inspection, food export and import and food safety accident response. Providers for food circulation service and consumer food service shall comply with the aforementioned law and rules

Pursuant to the Food Safety Law, the State Council shall set up the Food Safety Commission, whose duties shall be stipulated by the State Council. The health administration department under the State Council shall assume the food safety integrated coordinating responsibility and be in charge of food safety risk evaluation, formulation of food safety standard regulations, publication of food safety information, formulation of the qualification conditions for food inspection institutions and the inspection standards, and organizing investigation and disposal of serious food safety accidents. The quality supervision department and the administration for industry and commerce under the State Council, as well as the food and drug supervision and administration department of the state shall, in accordance with the provisions of Food Safety Law and the duties stipulated by the State Council, implement the supervision and administration respectively on food production, food circulation, and catering service activities.

The Food Safety Law sets out various legal liabilities in the form of warnings, orders to rectify, confiscations of illegal gains, confiscations of utensils, equipment, raw materials and other articles used for illegal production and operation, fines, recalls and destructions of food in violation of laws and regulations, orders to suspend production and/or operation, revocations of production and/or operation license and even criminal punishment. Food business operators who violate the provisions of Food Safety Law in engaging in food manufacturing and food business operations without obtaining a food manufacturing and food business operations permit shall have their illegal income, foodstuffs or food additives from the illegal manufacturing or business activities, tools, equipment, ingredients used in the illegal manufacturing and business activities confiscated by the food and drug supervision and administration department; where the value of the foodstuffs, food additives from the illegal manufacturing or business activities is less than RMB10,000, a fine ranging from RMB50,000 to RMB100,000 shall be imposed; where the value of the foodstuffs or food additives is RMB10,000 or more, a fine ranging from 10 to 20 times the value of the foodstuffs or food additives shall be imposed. The Implementation Regulations further specify the detailed measures to be taken and conformed to by food producers and business operators.

REGULATORY OVERVIEW

On 4 March 2010, the Ministry of Health promulgated the Administrative Measures on Food and Beverage Service Licensing (餐飲服務許可管理辦法) and Administrative Measures on Food Safety Supervision in Food and Beverage Services (餐飲服務食品安全監督管理辦法). Both measures came into force on 1 May 2010. Pursuant to the Administrative Measures on Food and Beverage Service Licensing, providers of consumer food services are required to obtain a food service license and are responsible for safety in food and beverage services in accordance with the law. A service provider, providing food and beverage services at different locations or venues must obtain separate food and beverage service licenses for each venue. The food service license is valid for a period of three years. Any transfer, alteration, lending, sale or leasing of food service licenses by consumer food service provider is strictly prohibited. Consumer food services providers shall operate within the scope of their licenses in accordance with the law and the scope specified in their food service licenses.

Administrative Measures for Food Business Licensing (食品經營許可管理辦法) promulgated by Food and Drug Administration of the PRC on 31 August 2015 and effective as from 1 October 2015 and amended on 17 November 2017 regulates the food business licensing activities, strengthens supervision and management of food business, and ensured food safety. A food business license shall be lawfully obtained prior to engaging in activities of food sales and catering services within the territory of PRC. Food business operators shall obtain one food business license for one business venue where they engage in food business activities. The food business license is valid for a period of five years. Food operators who need to extend the lawfully obtained food business license shall apply to the original Food and Drug Administration Authorities 30 working days before the expiration of such food business license. Food operators shall properly keep the food business license, and shall not forge, alter, sell, lease, lend or transfer such license. They shall hang or place the original food business license in a prominent location at the business venue.

In accordance with the Notice on Issues Concerning Implementing Administrative Measures for Food Business Licensing Issued by China Food and Drug Administration (食品藥品監管總局關於貫徹實施《食品經營許可管理辦法》的通知), as effective on 30 September 2015, if the food operators had already obtained a food circulation license or a food service license before the implementation date of the Administrative Measures for Food Business Licensing, the pre-existing food circulation license or food service license will remain effective during its valid period. The food operators holding a food circulation license or a food service license shall apply to the appropriate local Food and Drug Administration Authorities in the administrative regions where they operate, for a food business license before the food circulation license or food service license's expiry date or when the permitted matters have been changed.

C. REGULATIONS AS TO THE SANITATION OF THE PUBLIC ASSEMBLY VENUE

The Regulation for the Administration of Sanitation of the Public Assembly Venue (公共場所衛生管理條例) effective on 1 April 1987 and amended on 6 February 2016, and the Implementation Rules for the Regulation for the Administration of Sanitation of the Public Assembly Venue (公共場所衛生管理條例實施細則) effective on 1 May 2011 and amended on 19 January 2016 were promulgated by the State Council and the Ministry of Health respectively. The aforementioned regulations were adopted for the purpose of creating favorable and sanitary conditions for the public assembly venues, preventing disease transmission and safeguarding people's health. Depending on the requirements of the local health authority, a restaurant were required to obtain a public assembly venue hygiene license from the local health authority before it applies for a business license. Under the aforementioned regulations, the local health authorities shall take the responsibility of supervising the sanitary conditions of the public assembly venues. Violation of the aforementioned regulations and rules may result in administrative penalties including warning, fine, order of rectification, suspension of business, or even the revocation of the public assembly venue hygiene license, depending on the seriousness of the violation.

Pursuant to the Decision on Issues concerning Integrating and Adjusting the Public Assembly Venue Hygiene License and The Food Business License in Food and Beverage Service Places Issued by the State Council (國務院關於整合調整餐飲服務場所的公共場所衛生許可證和食品經營許可證的決定), as effective on 3 February 2016, the public assembly venue hygiene license issued by the local health authority to restaurants, cafes, bars or teahouses is abolished. The related food safety permit shall be integrated into the food business license issued by the food and drug administration authorities.

D. REGULATIONS AS TO ENVIRONMENTAL PROTECTION

The main PRC environmental protection laws and regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), which was promulgated by the Standing Committee on 26 December 1989 and whose amendments were made on 24 April 2014 and became effective as from 1 January 2015, the Appraising of Environmental Impacts Law of the PRC (中華人民共和國環境影響評價法) (the “**Appraising of Environmental Impacts Law**”) promulgated by the Standing Committee on 28 October 2002, effective as from 1 September 2003 amended on 2 July 2016 and effective as from 1 September 2016, the Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) promulgated by the State Council and effective as from 29 November 1998 and amended on 1 October 2017, the Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) (the “**Atmospheric Pollution and Prevention Law**”) promulgated by the Standing Committee on 5 September 1987, amended on 29 August 1995, 29 April 2000 and 29 August 2015, and effective as from 1 January 2016, the Prevention and Control of the Water Pollution Law of the PRC (中華人民共和國水污染防治法) (the “**Water Pollution and Prevention Law**”) promulgated by the Standing Committee on 11 May 1984, and newly amended on 1 January 2018, the Rules on the Administration of Acceptance Inspection of Construction Project Environmental

REGULATORY OVERVIEW

Protection (建設項目竣工環境保護驗收管理辦法) (the “**Rules on Acceptance Inspection**”) promulgated on 27 December 2001 and amended on 22 December 2010, the Rules on the Administration of Filing of Environmental Impact Registration Form of the Construction Project (建設項目環境影響登記表備案管理辦法) promulgated by the Ministry of Environmental Protection on 16 November 2016 and effective as from 1 January 2017 and other relevant laws and regulations.

In accordance with the Environmental Protection Law, the competent administrative department of environmental protection under the State Council shall formulate national environmental quality standards. The people’s governments of provinces, autonomous regions and municipalities directly under the central government may formulate local environmental quality standards for matters not specified in national environmental quality standards.

Any enterprise which causes environmental pollution and discharges other polluting materials that endanger the public should incorporate environmental protection methods and procedures into their business operations and establish environmental protection systems. This may be achieved by setting up a system of accountability within the company’s business structure for environmental protection, adopting effective procedures to prevent environmental hazards from production, construction and other activities from polluting and endangering the environment. The facilities for pollution prevention and control of a construction project shall be designed, constructed and put into production simultaneously with the main part of the project. The facilities for pollution prevention and control shall meet the requirements of the approved environmental impact assessment documents and shall not be dismantled or left idle without authorisation. Any company or enterprise which disposed environmental pollutants shall pay discharge for disposing pollutants.

In accordance with the Appraising of Environmental Impacts Law and the Regulations on Administration of Construction Project Environmental Protection, the development of each construction project is subject to the environmental impact assessment which assesses the pollution the construction project is likely to produce and its impact on the environment and stipulates the preventive and curative measures. The environmental impact report and environmental impact statement of a construction project shall be submitted to the relevant environmental protection authorities for examination and approval and the State implements the record-filing administration over the environmental impact registration forms. In accordance with the Regulations on Administration of Construction Project Environmental Protection, after completion of the project, a construction project for which an environment impact report or environment impact statement is formulated, the company shall conduct acceptance inspection of the complementary environmental protection facilities pursuant to the standards and procedures stipulated by the environmental protection administrative authorities of the State Council, and formulate the acceptance inspection report. The said construction project may be put into operation or use only after the completion of the said checks and acceptance procedures. The main part of the construction project and the environmental protection facilities must be put into operation or used simultaneously.

REGULATORY OVERVIEW

With regard to enterprises violating the aforesaid laws, the relevant environmental protection authorities may impose administrative penalties on them in accordance with laws and regulations. Any enterprise that has caused an environmental pollution hazard shall be responsible for eliminating it and compensating the entities or individuals directly damaged.

In addition, pursuant to the Implementing Regulations for the Law of the People's Republic of China on Environmental Protection Tax promulgated on 25 December 2016 and effective as from 1 January 2018, food and beverage service enterprises that directly discharge pollutants into environment shall pay environment protection tax according to the type and quantity of the pollutants discharged and the standard of levying environment protection tax.

E. REGULATIONS AS TO FIRE PREVENTION

The Fire Prevention Law of the PRC (中華人民共和國消防法) (the “**Fire Prevention Law**”) was promulgated on April 29, 1998, amended on October 28, 2008 and became effective as from 1 May 2009. In accordance with the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Public Security and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire prevention units of such public security departments are responsible for implementation.

The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. For a construction project that needs a fire prevention design under the national fire protection technical standards for project construction, the construction entity must submit the fire prevention design documents to the fire prevention department of the public security authority for approval or filing purposes (as the case may be). No construction permit shall be given for the construction projects for which the fire prevention design has not been approved or are considered unqualified after the review, nor shall such construction entity commence their construction. Upon completion of a construction project to which a fire prevention design has been applied, according to the requirements of the Fire Prevention Law, such project must go through an acceptance check on fire prevention by, or filed with, the relevant fire prevention departments of public security authorities. No construction may be put into use before it is accepted by the relevant fire prevention units of public security authorities. For each public assembly venue, such as Karaoke clubs, dancing halls, cinemas, hotels, restaurants, shopping malls, trade markets and etc., the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention or fails to conform to the safety requirements for fire prevention after such inspection.

F. REGULATIONS AS TO SINGLE-PURPOSE COMMERCIAL PREPAID CARDS

Pursuant to the Administrative Measures on Single-purpose Commercial Prepaid Cards (Trial Implementation) (單用途商業預付卡管理辦法(試行)) (the “**Administrative Measures on Single-purpose Prepaid Cards**”) promulgated by Ministry of Commerce on 21 September 2012 and amended on 18 August 2016, single-purpose commercial prepaid cards are prepaid certificates issued by an enterprise engaging in retail industry, accommodation and catering industry and residential services industry which are limited to be used as payment for goods or services by the enterprise or within the group to which the enterprise belongs or within the franchise system of the same brand, including physical cards in various forms such as magnetic stripe cards, chip cards, and paper coupons as well as virtual cards. In accordance with the Administrative Measures on Single-purpose Prepaid Cards, card-issuers shall complete filing formalities within 30 days from the date of carrying out single-purpose card businesses. Enterprises may issue registered and non-registered cards. The limit of a single registered card shall not exceed RMB5,000 and the limit of a single non-registered card shall not exceed RMB1,000. A registered card shall not have a validity period and a validity period of a non-registered card shall not be less than three years. Violation of the aforementioned regulations may result in an order of rectification. Where the card issuer fails to rectify the violation within a stipulated period, a fine ranging from RMB10,000 to RMB30,000 may be imposed.

G. REGULATIONS AS TO COMMERCIAL FRANCHISES

The PRC State Council promulgated the Regulations on the Administration of Commercial Franchises (商業特許經營管理條例) (the “Franchise Regulations”) on 6 February 2007 and the Franchise Regulations became effective on 1 May 2007. In addition to the Franchise Regulations, the Ministry of Commerce has promulgated two implementing regulations, namely, the Administrative Measures on Filing of Commercial Franchise (商業特許經營備案管理辦法) (the “Filing Measures”) which was amended on 12 December 2011 and became effective on 1 February 2012, and the Administrative Measures on Information Disclosure of Commercial Franchises (商業特許經營信息披露管理辦法) (the “Disclosure Measures”) which was amended on 23 February 2012 and became effective on 1 April 2012. The Franchise Regulations, Filing Measures and Disclosure Measures form the basic legal framework for the regulations of PRC franchise operations, and address the requirements, administrative reporting, compliance procedures, and other issues related to commercial franchising. Pursuant to the aforementioned regulations, commercial franchise operations mean a grant by an enterprise owner of registered trademarks, enterprise logos, patents, proprietary technologies or other business resources to another business operator to use such business resources owned by the franchisor through a contractual arrangement, where the franchisee operates the business in a uniform business model agreed under the contract and pay the franchisor franchising fees. A franchisor shall file records with the commerce administration authorities within 15 days upon conclusion of the first franchise contract.

H. REGULATIONS AS TO LABOUR

The main PRC employment laws and regulations applicable to us include the Labour Law of the PRC (中華人民共和國勞動法) (the “**Labour Law**”), the Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the “**Labour Contract Law**”), the Implementing Regulations of the Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) and other relevant laws and regulations.

According to the Labour Law as promulgated by the Standing Committee on 5 July 1994, became effective on 1 January 1995 and amended on 27 August 2009, employers should enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. The policy of the wages shall be paid according to the performance, equal pay for equal work, lowest wage protection and special labour protection for female worker and juvenile workers shall be implemented. The Labour Law also requires employers to establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Employers are also required to pay for their employees’ social insurance premium.

According to the Labour Contract Law of the PRC, as promulgated by the Standing Committee on 29 June 2007 and amended on 28 December 2012 and effective as from 1 July 2013, and its implementing regulations, enterprises established in the PRC shall enter into employment agreements with their employees to provide for the term of employment agreement, job duties, work time, holidays and statutory payments, labour protection, working condition and occupational hazard prevention and protection and other essential contents. Both employers and employees shall duly perform their duties. Meanwhile, the Labour Contract Law of the PRC also provides for the scenario of rescission and termination. Except for certain situations explicitly stipulated in the Labour Contract Law which are not subject to economic compensation, economic compensation shall be paid to the employee by the employer for the rescission or termination of the employment agreement.

Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day.

REGULATORY OVERVIEW

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated by the Standing Committee on 28 October 2010 and became effective on 1 July 2011, the PRC established social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the nation and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. If an employer does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

According to the Several Provisions on Implementing the Social Insurance Law of the PRC (實施《中華人民共和國社會保險法》若干規定) (the “**Provisions**”), which was promulgated by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) on 29 June 2011 and became effective on 1 July 2011, insurance premium which should be paid by the employees shall be withheld and paid by the employers. Where an employer fails to withhold and pay the premiums in accordance with the Provisions, the social insurance premium collection institution shall order the employer to remit within time limit and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date of default as late payment penalty. The employers shall not require employees to pay for the late payment penalty.

Pursuant to the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) which was promulgated by the State Council on 3 April 1999 and became effective on 3 April 1999 and as amended on 24 March 2002, the employers shall go through housing provident funds registration with the local housing fund administration center and open housing fund accounts for its employees in the bank. The contribution rate of housing provident funds of an employee and employer shall not be less than 5% of the monthly average salary in the previous year, and cities with good conditions may properly raise the contribution rate. Failure to complete the abovementioned registration and accounts opening, an employer may be subject to order to rectify within a time limit. If an employer fails to rectify within prescribed time limit, it shall be imposed the penalty ranging from RMB10,000 to RMB50,000. Where an employer fails to pay up housing provident funds within the time limit, the housing fund administration center shall order it to make payment in certain period of time, if the employer still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

I. REGULATIONS AS TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was subsequently amended on 14 January 1997 and 5 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) which was promulgated by PBOC on 20 June 1996 and became effective on 1 July 1996. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterpart is obtained.

Foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. However, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval from or filing with the relevant PRC government authorities (if necessary).

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the “SAFE Circular No. 16”). The SAFE Circular No. 16 unifies the Discretional Foreign Exchange Settlement for all the domestic institutions. The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the Discretional Foreign Exchange Settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%.

Furthermore, SAFE Circular No. 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the FIE from foreign exchange settlement shall not be used for the following purposes:

- (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
- (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations;

REGULATORY OVERVIEW

- (iii) used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and
- (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

J. REGULATIONS AS TO TAXATION

Income tax

According to the Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the “**EIT Law**”), which was promulgated on 16 March 2007, effective as from 1 January 2008 and amended on 24 February 2017, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income.

On 3 February 2015, the PRC State Administration of Taxation (“**SAT**”) issued the Announcement on Several Issues Concerning Enterprise Income Tax on Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**Circular 7**”). The Circular 7 provides comprehensive guidelines relating to, and heightening the Chinese tax authorities’ scrutiny on, indirect transfers by a non-resident enterprise of assets (including assets of organisations and premises in PRC, immovable property in the PRC, equity investments in PRC resident enterprises) (“**PRC Taxable Assets**”). For instance, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, the Circular 7 allows the Chinese tax authorities to reclassify the indirect transfer of PRC Taxable Assets into a direct transfer and therefore impose a 10% rate of PRC enterprise income tax on the non-resident enterprise. The Circular 7 lists several factors to be taken into consideration by tax authorities in determining if an indirect transfer has a reasonable commercial purpose. However, regardless of these factors, the overall arrangements in relation to an indirect transfer satisfying all the following criteria will be deemed to lack a reasonable commercial purpose: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from PRC Taxable Assets; (ii) at any time during the one year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or during the one year period before the indirect transfer, 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries and branches that directly or indirectly hold the PRC Taxable Assets are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC Taxable Assets is lower than the potential PRC tax on the direct transfer of those assets. On the other hand, indirect transfers falling

into the scope of the safe harbors under the Circular 7 may not be subject to PRC tax under the Circular 7. The safe harbors include qualified group restructurings, public market trades and exemptions under tax treaties or arrangements.

Under the Circular 7 and the Law on the Administration of Tax Collection (稅收徵收管理法) promulgated by the Standing Committee of the National People's Congress on 4 September 1992 and newly amended on 24 April 2015, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor shall act as withholding agents. Where the withholding agent does not make withholding, and the transferor of equity does not pay the tax payable amount, the tax authority may impose late payment interest on the transferor. In addition, the tax authority may also hold the withholding agents liable and impose a penalty of 50% to 300% of the unpaid tax on them. The penalty imposed on the withholding agents may be reduced or waived if the withholding agents have submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with the Circular 7.

Withholding tax on dividend distribution

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced income of non-PRC resident enterprises which have no establishment or place of business in the PRC, or if established, the relevant dividends or other China-sourced income are in fact not associated with such establishment or place of business in the PRC. However, the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) reduced the rate from 20% to 10%, effective from 1 January 2008.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Arrangement for the Avoidance of Double Taxation on Income**”) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Arrangement for the Avoidance of Double Taxation on Income and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority.

Value-added tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on 13 December 1993 and amended on 1 January 2009, 6 February 2016 and 19 November 2017, and the Implementation Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例實施細則), which was promulgated by MOF and SAT on 15 December 2008 and became effective on 1 January 2009 and as amended on 1 November 2011, entities or individuals engaging in sale of goods, provision of processing, repairs and replacement services, sale of services, intangible assets, immovable or importation of goods within the territory of the PRC shall pay value-added tax (“VAT”). Unless provided otherwise, the rate of value-added tax is 17%.

Business tax

On 23 March 2016, the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (the “**Circular 36**”), was promulgated by the Ministry of Finance and the State Administration of Taxation. The Circular 36 had superseded previous circulars regarding the collection of value-added tax in lieu of business tax and had also incorporated appendixes including the Implementing Measures for Pilot Collection (營業稅改徵增值稅試點實施辦法), the Provisions on Matters Concerning the Pilot Collection of Value-Added Tax in Lieu of Business Tax (營業稅改徵增值稅試點有關事項的規定), the Provisions on the Transit Policies for the Pilot Collection of Value-Added Tax in Lieu of Business Tax (營業稅改徵增值稅試點過渡政策的規定) and the Provisions on VAT Zero Rate and Tax Exemption Policy Applicable to Cross-border Taxable Acts (跨境應稅行為適用增值稅零稅率和免稅政策的規定). Pursuant to the Circular 36, since 1 May 2016, the pilot program on levying value-added tax in place of business tax shall be launched nation-wide and all business tax taxpayers in the construction industry, real estate industry, financial industry, living services industry, etc. shall be included in the scope of the pilot program, and subject to value-added tax instead of business tax.

Under the Implementing Measures for Pilot Collection, entities and individuals engaging in sale of services, intangible assets or real estate within the territory of the PRC are taxpayers of VAT. The taxpayers comprise general taxpayers and small-scale taxpayers. Taxpayers whose annual sales amount subject to VAT of taxable acts exceeds the standard stipulated by the Ministry of Finance and the State Administration of Taxation are general taxpayers while taxpayers whose taxable sales amount does not exceed the stipulated standard are small-scale taxpayers. Taxpayers whose annual taxable sales amount does not exceed the stipulated standard, but who have proper accounting and are able to provide accurate tax materials, may complete registration formalities for general taxpayer qualification with the tax authorities in charge and obtain general taxpayer status. Pilot program taxpayers whose annual taxable sales amount for sale of services, intangible assets or immovables prior to implementation of the pilot program exceeds RMB5 million shall complete the

REGULATORY OVERVIEW

formalities for registration of VAT general taxpayer status in accordance with the Announcement of the State Administration of Taxation on Issues concerning Tax Collection Administration Relating to the Comprehensive Implementation of the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (國家稅務總局關於全面推開營業稅改徵增值稅試點有關稅收徵收管理事項的公告). In accordance with the Appendix to the Implementation Measures for Pilot Collection, the sale of services means provision of transportation services, postal services, telecommunication services, construction services, financial services, modern services and living services which include catering services. Furthermore, pursuant to the Implementing Measures for Pilot Collection, the tax rate of VAT is:

- (i) 11% for the provision of the service of transportation, posting, basic telecommunications construction and leasing real estate, the sale of real estate and the transfer of land use right;
- (ii) 17% for the provision of the service of leasing tangible movables;
- (iii) nil for cross-border taxable activities provided by units and individual within the PRC; and
- (iv) 6% for industry other than disclosed above.

The simple tax computation method applies to taxable acts of small-scale taxpayers. Tax amount payable under the simple tax computation method means the VAT amount computed based on the sales amount and VAT levy rate and input tax amount shall not be offset. The VAT levy rate shall be 3%, unless otherwise stipulated by the Ministry of Finance and the State Administration of Taxation.

K. REGULATIONS AS TO INTELLECTUAL PROPERTY RIGHTS

The PRC has adopted legislation governing intellectual property rights, including copyrights, trademarks and patents. The PRC is a signatory to major international conventions on intellectual property rights and is subject to the Agreement on Trade Related Aspects of Intellectual Property Rights as a result of its accession to the World Trade Organization in December 2001.

The Trademark Law of the PRC (中華人民共和國商標法), adopted in 1982 and revised in 1993, 2001 and 2013 respectively, protects the proprietary rights to registered trademarks. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and may grant a term of ten years for registered trademarks, which may be extended for another ten years upon request. Trademark license agreements shall be filed with the Trademark Office for record. In addition, if a registered trademark is recognized as a well-known trademark, the protection of the proprietary right of the trademark holder may reach beyond the specific class of the relevant products or services.

REGULATORY OVERVIEW

In 28 May 2012, the CNNIC issued the Implementing Rules for Domain Name Registration(中國互聯網絡信息中心域名註冊實施細則) setting for the detailed rules for registration of domain names. On 5 November 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法). The Measures for the Administration of Internet Domain Names (the “Domain Name Measures”) promulgated by the MIIT on 24 August 2017 replaced the Measures for Administration of Domain Names for the Chinese Internet. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn”.

HISTORY AND BACKGROUND OF THE TARGET GROUP

BACKGROUND

The history of the business of the Target Group can be traced back to 2004 when Shanghai Huige was established by Madam Dong Yi (東懿女士) and Madam Mao Limin (毛麗敏女士), who are acquaintances of Mr. Hung but are otherwise independent of and not connected with Mr. Hung or his associates. Given Mr. Hung's experience in food trading, Madam Dong Yi (東懿女士) and Madam Mao Limin (毛麗敏女士) consulted Mr. Hung for advice during the course of the establishment of Shanghai Huige as well as matters relating to restaurant operations. Shanghai Huige commenced the first restaurant of the Target Group in Shanghai under the brand *Faigo* (“輝哥”).

Mr. Hung, the current ultimate controller of the Target Group, played a crucial role in the development of the brand *Faigo* (“輝哥”), especially outside Shanghai. In view of the growing economy in the PRC, Mr. Hung considered that there would be considerable market potential for high-end dining and in late 2008 he discussed with the owners of Shanghai Huige at the time about the idea of opening restaurants under the brand *Faigo* (“輝哥”) in other cities in the PRC but some of them preferred to continue to focus in the Shanghai region and suggested Mr. Hung to roll out his business plan himself. Mr. Hung then in 2009 started putting his business idea in action by establishing Shanghai Longhui and acquired the trademark *Faigo* (“輝哥”) from an Independent Third Party in 2009. Subsequently in 2010 and 2011, Mr. Hung commenced the operation of restaurants under the brand *Faigo* (“輝哥”) in Beijing and Wuhan. In 2012, Mr. Hung acquired Shanghai Huige, thereby coming to control the restaurants under the brand *Faigo* (“輝哥”) in Shanghai, and he also launched the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) in 2012. Since then, the Target Group kept expanding and it owned and operated a total of 97 restaurants as at the Latest Practicable Date.

MILESTONES OF THE BUSINESSES OF TARGET GROUP

The following are the significant business developments and milestones of the businesses of the Target Group:

Year	Events
2004	<ul style="list-style-type: none">• The first restaurant of the Target Group commenced business in Shanghai under the brand <i>Faigo</i> (“輝哥”)
2010	<ul style="list-style-type: none">• The Target Group expanded its business outside Shanghai and commenced a restaurant under the brand <i>Faigo</i> (“輝哥”) in Beijing
2012	<ul style="list-style-type: none">• The Target Group launched the brand <i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”) by opening a restaurant in Shanghai

HISTORY AND BACKGROUND OF THE TARGET GROUP

Year	Events
2013	<ul style="list-style-type: none">• A restaurant under brand <i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”) was opened in Wuxi, the first restaurant under the brand <i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”) outside Shanghai in 2013• Restaurants of the Target Group was chosen as one of the most popular restaurants amongst dinners by Sina Weibo, a popular social medial in the PRC
2014	<ul style="list-style-type: none">• Having accumulated years of experience of hotpot restaurant operation, the Target Group rapidly expanded its restaurant network in 2014 where 44 new restaurants were opened in the same year• The Target Group was named as a five-star merchant by dianping.com, a widely used search engine for restaurants in the PRC
2016	<ul style="list-style-type: none">• The Target Group was named as one of the top 10 hotpot brand in the PRC by the China Hotel Association
2018	<ul style="list-style-type: none">• <i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”) was awarded “China’s Top 100 Hotpot Enterprises in 2017 (2017年度中國火鍋百強企業)” by China Cuisine Association.

CORPORATE DEVELOPMENT

The following sets forth the shareholding and corporate structure, place of incorporation/establishment and principal business activities of operating subsidiaries of the Target Group as at the Latest Practicable Date.

PRC SUBSIDIARIES OF THE TARGET GROUP

Shanghai Longhui

For the purpose of implementing the business plan of Mr. Hung as described, in March 2009, Mr. Hung and Shanghai Shengdisi (a company established in the PRC whose ultimate beneficial owner was independent of and not connected with Mr. Hung or his associates and it then was also a 20% shareholder of Shanghai Huige) formed Shanghai Longhui. At the time of establishment, Shanghai Longhui had a registered capital of RMB1,000,000, of which 60% was contributed by Mr. Hung and 40% was contributed by Shanghai Shengdisi. Shanghai Longhui was previously a holding company for the restaurant under the brand *Faigo* (“輝哥”) in Beijing and had other investment in catering related business in the PRC. As at the Latest Practicable Date, it is the operating entity of the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) of the Target Group.

HISTORY AND BACKGROUND OF THE TARGET GROUP

In October 2011, Mr. Hung acquired from Shanghai Shengdisi its 40% interest in Shanghai Longhui for a consideration of RMB400,000. The consideration was determined between the parties based on the corresponding paid up registered capital of Shanghai Longhui. As confirmed by the PRC Legal Advisers, the said acquisition was legally completed on 26 October 2011. To preserve the sino-foreign joint venture status of Shanghai Longhui, one per cent of the shareholding in Shanghai Longhui was held by Mr. Wu Yuanqing (吳元慶) for the benefit of Mr. Hung pursuant to a nominee shareholding agreement dated 20 October 2011 entered into between Mr. Hung and Mr. Wu Yuanqing (吳元慶). According to the PRC Legal Advisers, the said nominee shareholding agreement did not contravene the applicable PRC laws.

In December 2013, Billion Express, a company wholly owned by Mr. Hung at the time, acquired from Mr. Hung his entire beneficial shareholdings in Shanghai Longhui for the consideration of RMB1,000,000, which was determined with reference to the paid up registered capital of Shanghai Longhui. Since then, Shanghai Longhui has become and remains as a wholly-owned subsidiary of Billion Express.

The registered capital of Shanghai Longhui was increased from RMB1,000,000 to RMB10,000,000, with the additional new registered capital wholly contributed by Billion Express in February 2015.

Beijing Huige

For the purpose of commencing a restaurant in Beijing, Shanghai Longhui (which was then owned as to 60% by Mr. Hung and 40% by Shanghai Shengdisi), Mr. Chen Gouhao (陳國豪) and Madam Yan Biyun (嚴碧雲女士) established Beijing Huige in April 2010 with a registered capital of RMB1,000,000, of which RMB550,000, RMB300,000 and RMB150,000 were contributed by, respectively, Shanghai Longhui, Mr. Chen Gouhao (陳國豪) and Madam Yan Biyun (嚴碧雲女士).

In December 2011, Madam Yan Biyun (嚴碧雲女士) sold her interest in Beijing Huige to Shanghai Longhui for a consideration of RMB150,000, which was determined with reference to the paid up registered capital of Beijing Huige.

In May 2013, Shanghai Qiaowei (a wholly-owned subsidiary of Billion Great, whose entire beneficial interest was held by Mr. Hung) acquired from Shanghai Longhui and Mr. Chen Gouhao (陳國豪) their respective 70% and 30% interest in Beijing Huige for the considerations of, respectively, RMB700,000 and RMB300,000, which was determined with reference to the paid up registered capital of Beijing Huige. Since then, Beijing Huige has become and remains as a wholly-owned subsidiary of Shanghai Qiaowei.

Shanghai Qiaowei

Shanghai Qiaowei was established by Billion Great in October 2010, which was wholly owned by Mr. Hung, with a registered capital of US\$2,160,000. Shanghai Qiaowei is the holding company for the restaurants under the brand *Faigo* (“輝哥”) of the Target Group. Since its establishment, there has been no change in the shareholdings of Shanghai Qiaowei.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Wuhan Huige

For the purpose of commencing a restaurant in Wuhan, Billion Great (which was wholly-owned by Mr. Hung at the time) established Wuhan Huige in September 2011 with a registered capital of HK\$1,220,900.

In April 2013, Wuhan Huige converted the denomination of its registered capital from HK\$ to RMB, as a result of which the registered capital of Wuhan Huige became RMB993,470.75. At the same time, Shanghai Qiaowei (a wholly-owned subsidiary of Billion Great, which was wholly-owned by Mr. Hung beneficially) acquired from Billion Great the entire shareholdings in Wuhan Huige for a consideration of RMB993,470.75. Since the said transfer, Wuhan Huige has become and remains as a wholly-owned subsidiary of Shanghai Qiaowei.

Shanghai Huige

Shanghai Huige was established on 22 November 2004 by Madam Dong Yi (東懿女士) and Madam Mao Limin (毛麗敏女士) and it is the corporate entity operating the restaurants under the brand *Faigo* (“輝哥”) in Shanghai and Shenzhen.

At the time of establishment, Shanghai Huige had a registered capital of RMB1,000,000, of which 60% was contributed by Madam Dong Yi (東懿女士) and 40% was contributed by and Madam Mao Limin (毛麗敏女士). Since its establishment, there have been changes in its shareholders and registered capital. Before Mr. Hung took over Shanghai Huige in late May 2012, Shanghai Huige was held as follows:

Name of shareholder	Registered capital held	% of shareholding
Zhou Weiqiong (周偉琼)	RMB1,950,000	65%
Shanghai Shengdisi	RMB600,000	20%
Pan Liqun (潘立群)	RMB300,000	10%
Xu Wei (許緯)	RMB150,000	5%

On 28 May 2012, Shanghai Qiaowei, a wholly-owned subsidiary of Billion Great (whose entire beneficial interest was held by Mr. Hung), acquired from the Zhou Weiqiong (周偉琼女士), Shanghai Shengdisi and Xu Wei (許緯) their respective shareholdings in Shanghai Huige. The consideration paid by Shanghai Qiaowei to the said three shareholders were, respectively, RMB1,950,000, RMB600,000 and RMB150,000, which was determined with reference to the corresponding amount of the registered capital.

About three months later in August 2012, Shanghai Qiaowei acquired from Pan Liqun (潘立群) the remaining 10% shareholdings in Shanghai Huige. The consideration paid by Shanghai Qiaowei was RMB300,000, which was also determined with reference to the corresponding amount of the registered capital. Following the completion of the above acquisitions in May and August 2012, Shanghai Huige has become and remains as a wholly-owned subsidiary of Shanghai Qiaowei.

HISTORY AND BACKGROUND OF THE TARGET GROUP

Hefei Huige

As part of the expansion plan of the Target Group, Hefei Huige was established on 30 August 2017 with a registered capital of RMB2,000,000, the equity interest of which is owned as to 70% by Shanghai Huige and as to 30% by 合肥蜚翔餐飲服務有限公司 (Hefei Feixiang Catering Management Company Limited*), which is an Independent Third Party of the Target Group and the Group, and will become a connected person of the Company at subsidiary level upon Acquisition Completion.

HONG KONG SUBSIDIARIES OF THE TARGET GROUP

Billion Great

Billion Great was incorporated in Hong Kong on 10 December 2009. It is the intermediate holding company for restaurants under the brand *Faigo* (“輝哥”) of the Target Group.

On 20 January 2010, Ms. Hung, the elder sister of Mr. Hung, acquired the entire issued share capital of Billion Great from an Independent Third Party for nominal consideration. Ms. Hung transferred the entire issued share capital of Billion Great to Mr. Hung in March 2010 for nominal consideration. Mr. Hung used Billion Great to establish Shanghai Qiaowei in the PRC in October 2010.

As part of the arrangement of the acquisition of the entire registered capital of Shanghai Huige by Shanghai Qiaowei in May 2012, Mr. Hung considered that it was preferable to have Zhou Weiqiong (周偉琮), who then was the single largest shareholder of Shanghai Huige holding 65% interest, retaining certain connection with Shanghai Huige from the perspective of handover and client relationship. Accordingly, Billion Great issued and allotted 899 shares and 100 shares to Mr. Hung and Zhou Weiqiong (周偉琮), respectively, and Zhou Weiqiong (周偉琮) held the 10% shareholdings in Billion Great as trustee for the benefit of Mr. Hung.

On 28 June 2013, Billion Great allotted and issued 50 shares and 30 shares at nominal consideration to Grand Rock, a wholly-owned company of Mr. So, and Creative Corporate, a wholly-owned company of Ms. Hung. Mr. So is the executive chef of the Target Group and Ms. Hung is the elder sister of Mr. Hung. The new shares allotment was implemented to align the interest of Mr. So with that of the Target Group and a family arrangement of Mr. Hung. Following the new shares allotment, Billion Great became held as to 83.33% by Mr. Hung, 9.26% by Zhou Weiqiong (周偉琮) as trustee for Mr. Hung, 4.63% by Grand Rock, a wholly-owned company of Mr. So and 2.78% by Creative Corporate, a wholly-owned company of Ms. Hung.

On 18 February 2016, Dragonfair, a wholly-owned subsidiary of Mr. Hung, subscribed for 8,920 shares in Billion Great for the subscription price of HK\$8,920, as a result of which Billion Great became held as to 9% by Mr. Hung, 1% by Zhou Weiqiong (周偉琮) as trustee for Mr. Hung, 0.5% by Grand Rock, 0.3% by Creative Corporate and 89.2% by

HISTORY AND BACKGROUND OF THE TARGET GROUP

Dragonfair. The new shares allotment was made for the purpose of affording Billion Great or its shareholders more flexibility in possible corporate exercise involving its share capital such as transfer of issued shares should circumstances arises.

Billion Express

Billion Express was incorporated in Hong Kong on 10 December 2009 with limited liability. It is the intermediate holding company for restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) of the Target Group.

On 20 January 2010, Ms. Hung, the elder sister of Mr. Hung, acquired the entire issued share capital of Billion Express from an Independent Third Party for nominal consideration. Ms. Hung transferred the entire issued share capital of Billion Express to Mr. Hung in March 2010 for nominal consideration.

On 7 August 2014, Billion Express allotted and issued 93 shares, 3 shares and 3 shares to, respectively, Mr. Hung, Max Composed, a wholly-owned subsidiary of Ms. Hung, and Mr. Ho, an Independent Third Party, at nominal consideration. Mr. Ho is an acquaintance of Mr. Hung and from whom Mr. Hung sought guidance on property related matters concerning the Target Group from time to time. The new shares allotment to Mr. Ho was a token by Mr. Hung in appreciation of Mr. Ho’s help in the Target Group’s development. Following the said new shares allotment, Billion Express became held as to 94% by Mr. Hung, 3% by Max Composed and 3% by Mr. Ho.

On 18 February 2016, Fuze Developments, a wholly-owned subsidiary of Mr. Hung, subscribed for 900 shares in Billion Express for the subscription price of HK\$900, as a result of which Billion Express became held as to 90% by Fuze Developments, 9.4% by Mr. Hung, 0.3% by Max Composed and 0.3% by Mr. Ho. The new shares allotment was made for the purpose of affording Billion Express or its shareholders more flexibility in possible corporate exercise involving its share capital such as transfer of issued shares should circumstances arises.

The above companies became subsidiaries of the Target Group pursuant to the Reorganization, further details of which are disclosed in the section headed “Reorganisation of the Target Group” of this circular.

DISPOSAL BY THE TARGET GROUP DURING THE TRACK RECORD PERIOD

In August 2016, Shanghai Longhui disposed of its 33% interest in Shanghai Xiangwen to an Independent Third Party for a consideration of RMB330,000, which was determined with reference to the corresponding amount of the registered capital of Shanghai Xiangwen. Shanghai Xiangwen was engaged in the business of a restaurant in Shanghai offering Chaoshan (潮汕) cuisine and the remaining 67% interests was held by an Independent Third Party. The Target Group disposed of its interest in Shanghai Xiangwen due to unsatisfactory performance of its operation. The Target Group recorded a gain from the disposal of RMB330,000 and proceeds from the disposal were applied towards general working capital of the Target Group. Please refer to the paragraph headed “Financial

HISTORY AND BACKGROUND OF THE TARGET GROUP

Information of the Target Group — Year to Year Comparison of Operations — Other gains — net” for details about the financial contribution of Shanghai Xiangwen to the Target Group during the Track Record Period.

DEREGISTRATION OF COMPANY DURING THE TRACK RECORD PERIOD

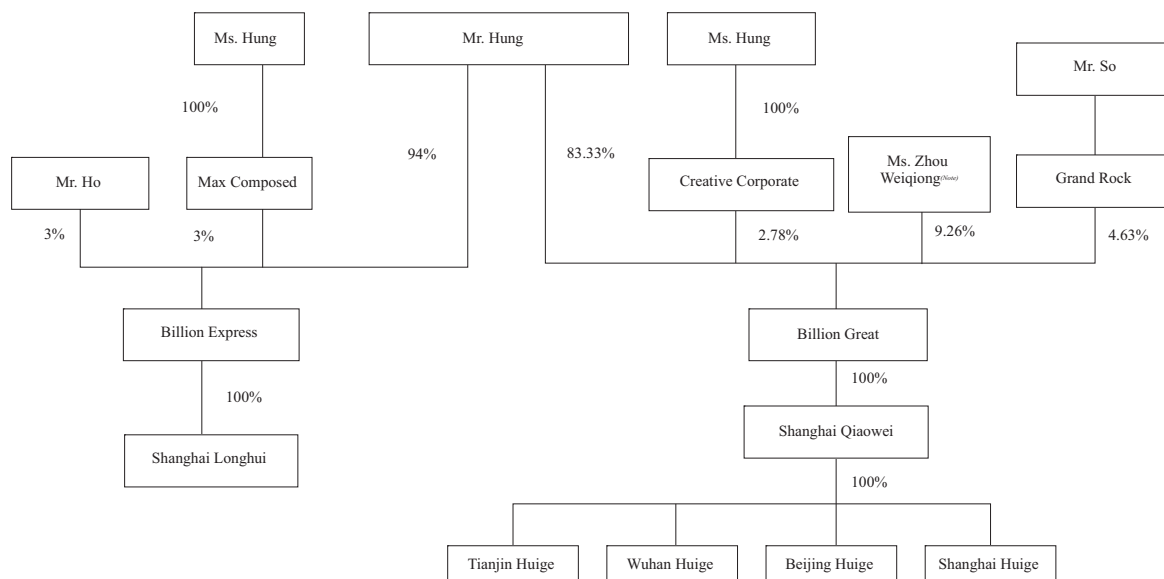
Tianjin Huige

Tianjin Huige was established on 25 January 2013 by Shanghai Qiaowei with a registered capital of RMB500,000, which was subsequently increased to RMB1,050,000 on 28 December 2015.

Tianjin Huige operated a restaurant under the brand *Faigo* (“輝哥”) in Tianjin. The net loss contributed by Tianjin Huige was approximately RMB3.2 million for the year ended 31 December 2015. Since the performance of the restaurants was not meeting the expectation of the Target Group, the Target Group decided to close the restaurant and applied for deregistration of Tianjin, completion of which took place on 16 December 2016.

REORGANISATION OF THE TARGET GROUP

Set out below is the shareholding and corporate structure of the Target Group immediately prior to the implementation of the Reorganisation:



Note: Ms. Zhou Weiqiong was holding the approximately 9.26% shares in Billion Great on trust for Mr. Hung.

For the purpose of the Acquisition, the following major Reorganisation steps have been implemented:

1. Incorporation of the Target Company

The Target Company was incorporated in the Cayman Islands on 19 August 2016, which will act as the holding company of the Target Group upon completion of the Reorganisation. The Target Company is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00, of which one (1) nil-paid share was allotted and issued to an Independent Third Party, which was subsequently transferred to Mr. Hung at par on 19 August 2016.

2. Allotment of new shares in the Target Company

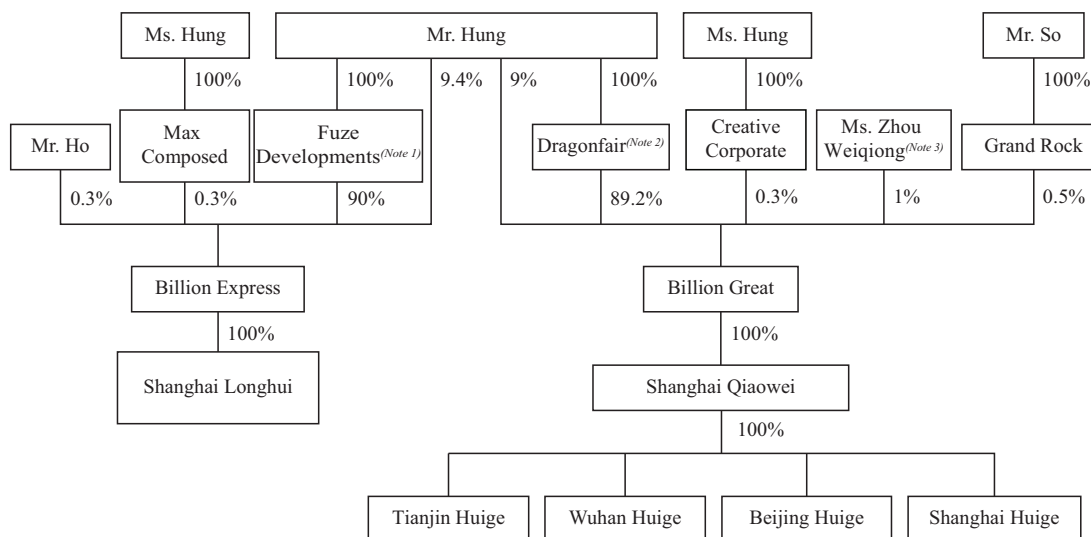
For the purpose of preparing for the signing of the Acquisition Agreement, on 16 December 2016, the Target Company has allotted and issued 87, 3, 3, 3 and 3 new shares at par to Mr. Hung, Ms. Hung, Mr. So, Mr. Ho and Ms. Sezto respectively. Thereafter, the Target Company was held by Mr. Hung, Ms. Hung, Mr. So, Mr. Ho and Ms. Sezto as to 88, 3, 3, 3 and 3 shares respectively, representing 88%, 3%, 3%, 3% and 3% respectively of the then issued share capital of the Target Company.

REORGANISATION OF THE TARGET GROUP

3. Allotment of new shares in Billion Express and Billion Great to Fuze Developments and Dragonfair respectively

To facilitate the Reorganisation, on 18 February 2016, Billion Express allotted and issued 900 new shares to Fuze Developments and Billion Great allotted and issued 8,920 new shares to Dragonfair.

Set out below is the shareholding and corporate structure of the Target Group immediately after step 3 above:



Notes:

1. Among the interest in the share capital of Fuze Developments held by Mr. Hung, 3% and 3% of which were held on trust for Mr. Ho and Ms. Hung respectively.
2. Among the interest in the share capital of Dragonfair held by Mr. Hung, approximately 2.78% and approximately 4.63% of which were held on trust for Ms. Hung and Mr. So respectively.
3. Ms. Zhou Weiqiong was holding the approximately 1% shares in Billion Great on trust for Mr. Hung.

4. Acquisition of the entire beneficial interests in Billion Express by Fuze Developments

Billion Express holds a number of branch companies of the Target Group in the PRC through Shanghai Longhui and shall form part of the Target Group. To effect such acquisition, on 21 March 2017, Fuze Developments (i) acquired from Mr. Hung, 94 shares in Billion Express, representing 9.4% of its issued share capital, the consideration of which was satisfied by Fuze Developments allotting and issuing 93 shares in Fuze Developments to Mr. Hung; (ii) acquired from Ms. Hung, 10,000 shares in Max Composed, representing the entire issued share capital of Max Composed, the consideration of which was satisfied by Fuze Developments allotting and issuing 3 shares in Fuze Developments to Ms. Hung; and (iii) acquired from Mr. Ho, 3 shares in

REORGANISATION OF THE TARGET GROUP

Billion Express, representing 0.3% of its issued share capital, the consideration of which was satisfied by Fuze Developments allotting and issuing 3 shares in Fuze Developments to Mr. Ho. Immediately upon the completion of the above acquisition, the entire issued share capital of Billion Express was held by Fuze Developments.

5. Acquisition of the entire beneficial interests in Billion Great by Dragonfair

Billion Great holds a number of subsidiary companies of the Target Group in the PRC through Shanghai Qiaowei and shall form part of the Target Group. To effect such acquisition, on 21 March 2017, Dragonfair (i) acquired from Mr. Hung, 900 shares in Billion Great, representing 9% of its issued share capital, the consideration of which was satisfied by Dragonfair allotting and issuing 899 shares in Dragonfair to Mr. Hung; (ii) acquired from Ms. Zhou Wei Qiong, 100 shares in Billion Great, representing 1% of its issued share capital, which were held as trustee for Mr. Hung, the consideration of which was satisfied by Dragonfair, allotting and issuing 100 shares of Dragonfair to Mr. Hung; (iii) acquired from Mr. So, one share in Grand Rock, representing the entire issued share capital of Grand Rock, the consideration of which was satisfied by Dragonfair allotting and issuing 50 shares of Dragonfair to Mr. So; and (iv) acquired from Ms. Hung, 10,000 shares in Creative Corporate, representing the entire issued share capital of Creative Corporate, the consideration of which was satisfied by Dragonfair allotting and issuing 30 shares in Dragonfair to Ms. Hung. Immediately upon the completion of the above acquisition, the entire issued share capital of Billion Great was held by Dragonfair.

6. Acquisition of beneficial interests in Fuze Developments by the Target Company

On 30 April 2018, the Target Company acquired from (i) Mr. Hung, 94 shares in Fuze Developments, representing 94% of the entire issued share capital of Fuze Developments, in consideration of approximately RMB349,790,000 (being approximately 94% of the fair value of Billion Express of RMB372,312,000 as at 31 December 2016, which was satisfied by the Target Company allotting and issuing 6,930 Target Shares, credited as fully paid, to Mr. Hung; (ii) Ms. Hung, 3 shares in Fuze Developments, representing 3% of the entire issued share capital of Fuze Developments, in consideration of RMB11,169,360, (being approximately 3% of the fair value of Billion Express of RMB372,312,000 as at 31 December 2016, and which was satisfied by the Target Company allotting and issuing 220 Target Shares, credited as fully paid, to Ms. Hung; and (iii) Mr. Ho, 3 shares in Fuze Developments, representing 3% of the entire issued share capital of Fuze Developments, in consideration of RMB11,169,360, (being approximately 3% of the fair value of Billion Express of RMB372,312,000 as at 31 December 2016, which was satisfied by the Target Company allotting and issuing 220 Target Shares, credited as fully paid, to Mr. Ho.

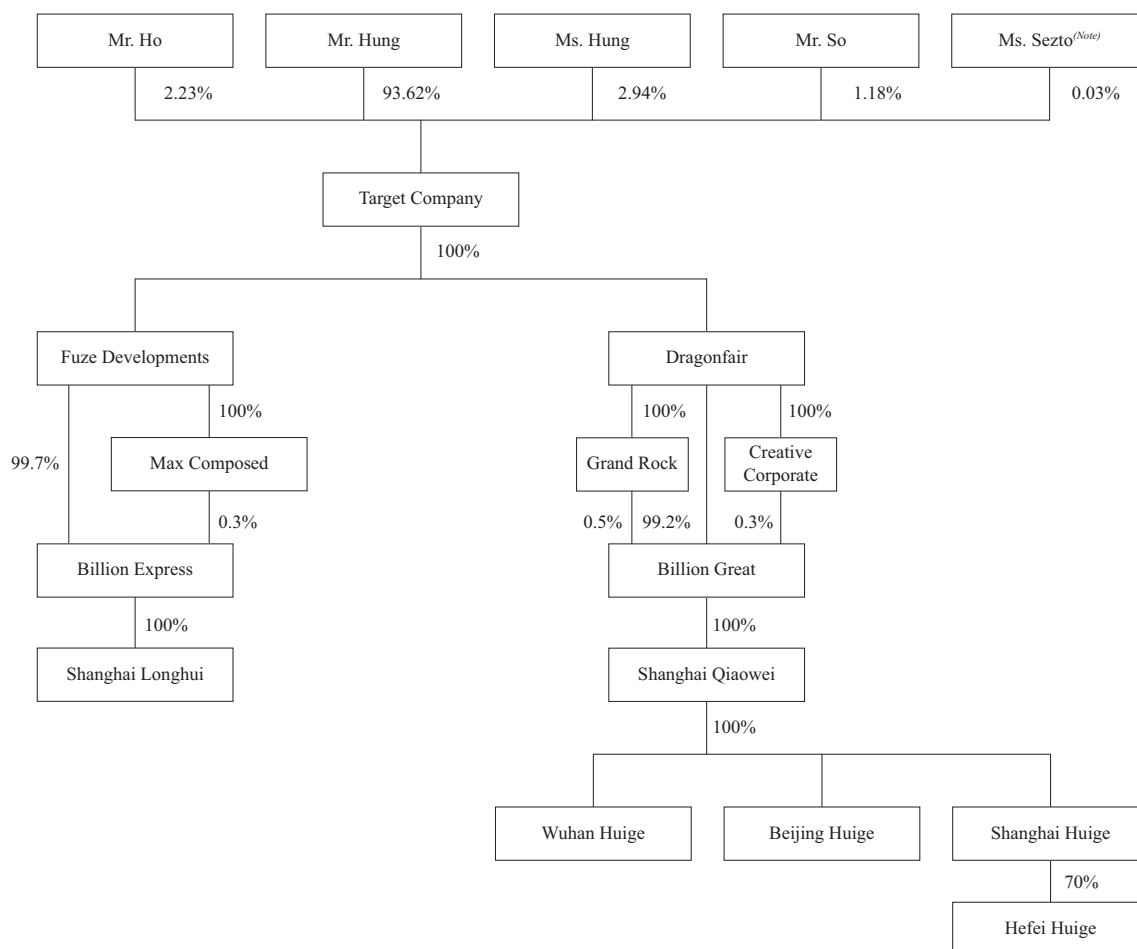
7. Acquisition of beneficial interests in Dragonfair by the Target Company

On 30 April 2018, the Target Company acquired from (i) Mr. Hung, 1,000 shares in Dragonfair, representing approximately 92.59% of the entire issued share capital of Dragonfair, in consideration of approximately RMB118,425,000, (being

REORGANISATION OF THE TARGET GROUP

approximately 92.59% of the fair value of Dragonfair of RMB127,903,000 as at 31 December 2016, which was satisfied by the Target Company allotting and issuing 2,344 Target Shares, credited as fully paid, to Mr. Hung; (ii) Ms. Hung, 30 shares in Dragonfair, representing approximately 2.78% of the entire issued share capital of Dragonfair, in consideration of RMB3,555,703, (being approximately 2.78% of the fair value of Dragonfair of RMB127,903,000 as at 31 December 2016, which was satisfied by the Target Company allotting and issuing 71 Target Shares, credited as fully paid, to Ms. Hung; and (iii) Mr. So, 50 shares in Dragonfair, representing approximately 4.63% of the entire issued share capital of Dragonfair, in consideration of RMB5,921,909, (being approximately 4.63% of the fair value of Dragonfair of RMB127,903,000 as at 31 December 2016, and which was satisfied by the Target Company allotting and issuing 115 Target Shares, credited as fully paid, to Mr. So.

Set out below is the corporate structure of the Target Group immediately after completion of the Reorganisation:



Note: Ms. Sezto was holding the Sale Shares on trust for Mr. Hung

OVERVIEW

The Target Group ranked fourth in the Cantonese-style hotpot restaurant market in the PRC in terms of sales revenue in 2016 according to the Market Research Report. The hotpot restaurant market in China can be divided into Cantonese-style, Mongolia-style, Sichuan-style, and other-style hotpot. Cantonese-style hotpot restaurants accounted for around 13.8% of total hotpot restaurant market in 2016 in the PRC. Within the Cantonese-style hotpot restaurants segment, the Target Group had a market share of 1.3% in terms of revenue in 2016. The Target Group accounted for approximately 0.2% of the market share of the overall hotpot market in terms of revenue in 2016 in the PRC. The Target Group specializes in seafood hotpot cuisine with a signature menu which is characterized by the Target Group's aromatic soup base and a wide range of selection of seafood and beef. The Target Group started its first restaurant in Shanghai in 2004 under the brand *Faigo* (“輝哥”) and gradually expanded its restaurant network to other major cities in the PRC including Beijing, Shenzhen, Nanjing and Hangzhou since 2010.

As at the Latest Practicable Date, the Target Group owned and operated a total of 97 restaurants. The Target Group's achieved its audited combined revenues at, respectively, approximately RMB716.2 million, RMB707.3 million and RMB700.4 million for the years ended 31 December 2015, 2016 and 2017. The Target Group's net profit after tax during the Track Record Period were, respectively, approximately RMB36.5 million, RMB38.5 million and RMB25.7 million for the years ended 31 December 2015, 2016 and 2017. As at the Latest Practicable Date, in addition to the restaurants owned and operated by the Target Group itself, the Target Group had also granted to an Independent Third Party the right to operate one restaurant under the brand *Faigo* (“輝哥”), in relation to which the Target Group received a monthly management fee and the results of that franchised restaurant was not consolidated in the Target Group's results.

Since all restaurants operating under the brands owned by the Target Group are self-owned except one in Beijing operating under a license agreement and one restaurant to be operated as a joint venture held as to 70% by the Target Group and 30% by an Independent Third Party, this enables the Target Group to closely control the development of businesses in terms of quality of the foods, services standards and brand awareness. The Target Group owns three brands in the PRC, namely, *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”). Restaurants operating under the brand *Faigo* (“輝哥”) and *Xiao Faigo Hotpot* (“小輝哥火鍋”) feature Cantonese-style hotpot whereas the restaurant operating under the brand *Hong Yuanwai* (“洪員外”) is a new brand launched in July 2017 featuring Sichuan-style hotpot. Of the 97 restaurants owned and operated by the Target Group as at the Latest Practicable Date, 89 of them are under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”), seven of them are under the brand *Faigo* (“輝哥”) and the remaining one is under the brand *Hong Yuanwai* (“洪員外”). Restaurants operating under the brand *Faigo* (“輝哥”) in the PRC focus on high-end market with an average spending per customer of approximately RMB538.5, RMB639.4 and RMB694.6 for the years ended 31 December 2015, 2016 and 2017 while the restaurants operating under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”), one restaurant of which was opened in July

BUSINESS OF THE TARGET GROUP

2017, in the PRC target the mid-tier market and appeal to mass public with an average spending per customer of approximately RMB114.9, RMB108.3 and RMB119.0 for the years ended 31 December 2015, 2016 and 2017.

The business model of the Target Group is highly standardized and this feature is the cornerstone of the Target Group's continuous and strong historical growth. The standardized business model means that the business operations can be implemented through a comprehensive set of standardized procedures and this ensures the Target Group's consistency in planning, executing and operating a restaurant. Furthermore, since the restaurants operating under the brands owned by the Target Group are self-owned except one in Beijing operating under a licence agreement and one restaurant to be operated as a joint venture held as to 70% by the Target Group and 30% by an Independent Third Party, the Target Group is able to directly oversee and supervise their operation and to maintain a high degree of standardisation.

The growing concern of food safety in the PRC from the consumers is an issue that each and every restaurant chain in the PRC needs to respond. The Target Group realises that the reputation which takes years to build and protect can be ruined by one single food safety incident and therefore the Target Group attaches paramount importance to the safety and quality of food and has in place a reliable procurement system which ensures visibility and traceability of food ingredients throughout the catering service industry value chain. The staff of the Target Group also receives comprehensive training to minimize the risk of contamination during the preparation of foods before they are served at the table.

The brand recognition, the scalable and standardized business model and the commitment to the safety and quality of ingredients of the Target Group has resulted in its growth during the Track Record Period.

During the Track Record Period, the Target Group opened a total of 53 restaurants, of which 46 restaurants have achieved monthly break-even on or before the end of the Track Record Period while the remaining seven restaurants have not achieved monthly break-even within the Track Record Period.

For those 46 restaurants that have achieved monthly break-even, it took them one to nine months to achieve monthly break-even and, on average, they took approximately 2.5 months to achieve that.

Of those seven restaurants which have not achieved monthly break-even within the Track Record Period, one of them was opened in 2015, one of them was opened in 2016 and five of them were opened in 2017. Those seven restaurants were operating in Shanghai, Beijing, Guangzhou and Nanjing. Out of the said seven restaurants, one was closed before the end of the Track Record Period.

BUSINESS OF THE TARGET GROUP

The proposed Directors considered that there were multiple factors affecting the performance of each individual restaurants, in particular the location, the timing of commencement of operation, the rental expenses and staff costs. Accordingly, the range of time or the average time required for achieving monthly break-even of the restaurants network of the Target Group in the past might not be indicative of the performance of the new restaurants to be opened in the future.

During the Track Record Period, the Target Group opened a total of 53 restaurants, of which 17 restaurants have achieved cash investment payback on or before the end of the Track Record Period while the remaining 36 restaurants have not achieved cash investment payback within the Track Record Period.

For those 17 restaurants that have achieved cash investment payback, it took them seven to 29 months to achieve cash investment payback and, on average, they took approximately 15.3 months to achieve that.

Of those 36 restaurants which have not achieved cash investment payback within Track Record Period, 20 of them was opened in 2015, six of them were opened in 2016 and 10 of them were opened in 2017. Those 36 restaurants were operating in different places including Shanghai, Beijing, Hangzhou, Nanjing, Shenzhen, Wuxi, Wuhan and Guangzhou, etc. Out of the said 36 restaurants, four were closed before the end of the Track Record Period.

The proposed Directors considered that there were multiple factors affecting the performance of each individual restaurants, in particular the location, the timing of commencement of operation, the rental expenses and staff costs. Accordingly, the range of time or the average time required for achieving cash investment payback of the restaurants network of the Target Group in the past might not be indicative of the performance of the new restaurants to be opened in the future.

COMPETITIVE STRENGTHS

The proposed Directors believe that the success the Target Group has achieved and its future prospects are underpinned by a combination of the following key competitive strengths:

Mid-tier to high-end hotpot brand recognition

The Target Group has a clear and distinct focus on the market segments that it appeals to and thus it created the three brands of *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”). Restaurants operating under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) cater to the mid-tier market for a wide spectrum of guests. For *Faigo* (“輝哥”), it appeals to the high-end market such as business clientele.

BUSINESS OF THE TARGET GROUP

The proposed Directors believe that the Target Group has established itself as a leading Cantonese-style hotpot restaurants in both the mid-tier and the high-end Cantonese-style hotpot restaurants in the PRC. In 2013, Sina Weibo, a popular social media in the PRC, chose the Target Group as one of the most popular restaurants amongst foodies — “2013年最受吃貨喜愛的人氣餐廳”. In 2014, the Target Group was named as a five-star merchant by dianping.com, a widely used search engine for restaurants in the PRC. The Target Group was named as one of the top 10 hotpot brand in 2016 by the China Hotel Association. In 2018, *Xiao Faigo Hotpot* (“小輝哥火鍋”) was awarded “China’s Top 100 Hotpot Enterprises in 2017 (2017年度中國火鍋百強企業)” by China Cuisine Association.

Highly scalable and standardised business model

Hotpot restaurants are easily replicable as most of their operations can be standardised. In particular, hotpot restaurants involve minimal food processing and preparation at restaurant. Compared to other types of Chinese cuisine, hotpot cuisine involves less kitchen preparation which allows the Target Group to scale up its business while at the same time maintain its service quality. The “do-it-yourself” (or DIY) nature of hotpot cuisine requires a lot less manpower such as chefs or waitresses and kitchen space. These features make the Target Group’s business model a highly scalable one, which enables the Target Group to expand quickly and efficiently into new markets, achieve cost and operational efficiencies and maintain consistent quality standards across its restaurants.

The Target Group’s business model is highly scalable because it has developed standardised systems and procedures from planning, executing and operating its restaurants after having accumulated years of industry experience and know-how. The standardised operations enhance scalability by allowing the Target Group to efficiently transfer knowledge when opening new restaurants. Newly set-up restaurants can be easily integrated into the Target Group’s existing network due to its well-established centralised procurement. Given the wide presence of the restaurant network of the Target Group, the Target Group tends to procure raw materials from suppliers who are of larger scale or who will have a wide sourcing network. Coupled with the three strategically located warehouses of the Target Group supporting the operations of the Target Group in Northern, Eastern and Southern China respectively, restaurants of the Target Group opening new locations can also benefit from the Target Group’s centralized procurement where approved suppliers are already identified, standardisation and consistency in quality can be closely monitored and competitive pricing can be obtained. Standardised operations also allow the Target Group to maintain high and consistent quality of operations among all of its restaurants, as well as facilitate the implementation of strategic decisions throughout its restaurant network. The proposed Directors believe that since all but two restaurants operating under the brands owned by the Target Group are self-owned, Target Group is able to easily implement its comprehensive set of standards and specifications. The low capital requirement for a new restaurant further facilitates the scalability of the Target Group’s business model.

Serving fresh, safe and quality foods

The Target Group is principally a Cantonese-style hotpot operator in the PRC offering a wide range of selection of seafood and beef and it focuses on mid to high-end market by operating its restaurants under two brands, namely, *Faigo* (“輝哥”) and *Xiao Faigo Hotpot* (“小輝哥火鍋”). The average spending per customer for restaurants under the brand *Faigo* (“輝哥”) during the Track Record Period were, respectively, RMB538.5, RMB639.4 and RMB694.6 whereas the average spending per customer for restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) during the Track Record Period were approximately, respectively, RMB114.9, RMB108.3 and RMB119.0, which were above the average spending per customer of the Cantonese-style hotpot restaurant market of approximately RMB100 according to the Market Research Report. The proposed Directors are of the view that the customers of the Target Group are happy to spend money in return for foods that are fresh, safe and of good quality, in particular for hotpot cuisine where the foods are served at the table in their raw state, which their freshness and quality can be easily differentiated by the customers.

Accordingly, the Target Group takes quality control seriously and the stringent quality control measures begin with careful selection of suppliers. The Target Group will request from its potential suppliers their relevant licences and permits and will make sure the items to be supplied are within the business scope of the potential suppliers. Depending on the type of good ingredients to be supplied, the Target Group will conduct site-inspection of the ultimate source of the supply chain and require the quarantine certification. The Target Group will only make purchases from its approved list of suppliers. For suppliers of beef, fresh vegetables, seafood and meat-ball, which are the major food items for the Target Group's business, the Target Group has been making purchases from them for more than three years on an ongoing basis.

For fresh or live food items such as vegetables and seafood, each restaurant of the Target Group will determine the quantity to be purchased based on the daily consumptions and the bookings for the next following day to avoid stocking unnecessary quantity of fresh and live food items. Where fresh and live food items are to be stocked, the Target Group will closely monitor the inventory level and to make sure the freshness and quality of the food ingredients will not be compromised by reason of prolonged storage. The Target Group has clear internal guideline setting out the shelf-life of its food ingredients.

Before the food ingredients are accepted, the restaurant staff of the Target Group will carry out inspections on the various areas as identified in the Target Group's internal policy, such as quarantine certificates, colour and odor, sign of decay, damage to packaging, date of manufacturing, etc.

BUSINESS OF THE TARGET GROUP

Refined dining environmental and quality of service

The Target Group believes that diners for mid-tier to high-end restaurants look for an enjoyable dining experience and take the dining occasions as a valuable opportunity for catching up, sharing, socializing and interacting with family, friends or business partners. The dining environment and services are critical for such dining experience.

For casual or less formal occasions, the restaurants operating under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in the PRC provide the right kind of decoration and seating arrangement where the restaurants are decorated to create a friendly, relaxed and warm dining environment. *Xiao Faigo Hotpot* (“小輝哥火鍋”) also offers customers the option *Choose your own pot* (“一人一鍋”) in the PRC where customers can choose their own soup base although they come in and enjoy the dining experience as a group. For customers who need a more refined, intimate or private dining environment, *Faigo* (“輝哥”) in the PRC will be the right place to go where private dining rooms in an elegant and modern decoration are offered. In any case, customers visiting *Xiao Faigo Hotpot* (“小輝哥火鍋”), *Faigo* (“輝哥”) or *Hong Yuanwai* (“洪員外”) in the PRC will be afforded superior service. The Target Group has adopted a set of strict table service standards designed to meet the expectation of the guests. The Target Group maintains appropriate waiter staff-to-table ratios based on the individual circumstance of each restaurant, provide thorough training to all service personnel on the details of the Target Group’s standardized service procedures, and staff each restaurant with experienced shop manager to ensure consistent and attentive guest services.

Carefully chosen and strategic restaurant location

The Target Group will only commit itself to a lease, which typically spans from four to eight years, after it has critically assessed the business potential of a location. The Target Group has a set of clearly defined factors when considering a particular location, which include the consumers’ demands, population density, spending power of the potential customer group, ease of access by various means of transportation, customer traffic, parking facilities, potential competition with other restaurants and potential overlapping with the Target Group’s own restaurants. A feasibility report will then be drawn up based on the above considerations and a designated committee comprising the senior management of the Target Group will make a final decision whether or not a new restaurant is to be opened at the relevant location.

As at the Latest Practicable Date, all of the Target Group’s restaurants under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in the PRC are located in large scale shopping malls where car parking areas and other facilities such as cinemas or indoor playground are also available. For restaurants under the brand *Faigo* (“輝哥”) in the PRC, they are generally located in or near the prime central business area. The Target Group believes that carefully chosen and strategic locations of its restaurants is a very important factor for the growth of the Target Group.

BUSINESS OF THE TARGET GROUP

Strong and experienced management team

The management team of the Target Group has extensive management and operational experience and an in-depth understanding of the PRC consumer and food services industry. Prior to joining the Target Group, Mr. Hung engaged in the business of trading of foods and because of Mr. Hung's expertise and knowledge of foods, the Target Group places huge emphasis on procurement so that the quality, freshness and safety of the foods can be guaranteed. The executive chef of the Target Group has also served the Target Group for over 10 years. The day-to-day operation of restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) is conducted under the supervision of Mr. Chen Jun, who has over 15 years of experience in catering industry and operation management prior to joining the Target Group in December 2012.

The Target Group has implemented a management structure that supports its wide restaurant network and planned growth and invested resources to recruit, retain and motivate qualified managerial personnel, including restaurant-level management, to assist senior management of the Target Group. The Target Group offers competitive compensation packages, internal training and long term career development opportunities to qualified candidates. The proposed Directors believe these incentive programs will assist the Target Group in recruiting and retaining management talent, which is crucial to the long-term success of the Target Group.

For further details of the biographies and relevant industry experience of the Target Group's senior management team, please refer to the section headed “Directors and senior management of the Enlarged Group” in this circular.

BUSINESS STRATEGIES

The Target Group's goal is to become the preferred hotpot restaurant chain offering quality foods and services in the PRC. The Target Group aims to achieve its goal by implementing the following strategies:

Replicating the business models and expanding the restaurant network

The Target Group has succeeded in replicating its standardized and highly scalable business model in Shanghai and has started expanding into other major cities since 2010. The Target Group has its presence in Shanghai for over 13 years and its management has in-depth knowledge about the Shanghai market. The Target Group will further penetrate the market in Shanghai. Out of the 29 new restaurants planned to be opened by 31 December 2019, 11 will be in Shanghai.

The Target Group expanded its restaurant network outside Shanghai in 2010 by opening a restaurant in Beijing, followed by Wuhan and other major cities. The Target Group's expansion strategy in other cities is to first establish one or two restaurants substantially based on the existing successful business model and to acquaint itself with the local preference and flavor. Upon the success of the new restaurants, the Target Group will further expand its presence in the new cities using the fine-tuned and localised business models. Out of the 29 new restaurants under the brands *Faigo* (“輝哥”) and *Xiao Faigo*

BUSINESS OF THE TARGET GROUP

Hotpot (“小輝哥火鍋”) planned to be opened by 31 December 2019, 18 of which will be opened outside Shanghai. The 29 new restaurants will include Hefei Huige under the brand *Faigo* (“輝哥”) in Hefei, for which a joint venture has been formed in August 2017 between the Target Group and an Independent Third Party. The capital contribution of the Target Group for the joint venture is RMB1.4 million, representing 70% of the registered capital of the joint venture. The Target Group will also explore new flavour by launching a Sichuan-style hotpot restaurant under the brand *Hong Yuanwai* (“洪員外”). If the new flavour offered by *Hong Yuanwai* (“洪員外”) in Shanghai is well received by the market, the Target Group may further open one to two shops in Shanghai. The Target Group will monitor the performance and operation of the new brand and business arrangement closely and to decide the details of the future development plans for these new initiatives.

Drive same-store sales growth and profitability

The Target Group is committed to continuing to enhance its same-store sales growth and profitability. Accordingly, the Target Group intends to implement a number of initiatives, many of which represent natural extensions and continuing refinement of its current strategy. These key initiatives include:

- attracting more customers during non-peak hours to better utilize the restaurant capacity by offering set menu. The Target Group has introduced convenient lunch combinations to attract lunch crowds seeking a quick and affordable meal. The Target Group will also increase its sales effort in promoting take-away services;
- optimizing operation workflow to enhance costs efficiency of the restaurants. The Target Group launched a trial in December 2016 where customers will be able to settle their payment directly through a hand-held electronic device carried by the restaurant staff and the new initiative, compared to the traditional payments which are usually processed at a fixed cashier counter, is expected to improve the efficiency and the seat-turnover rate of the restaurant;
- strengthening marketing efforts to enhance brand awareness of the Target Group’s restaurants;
- incentivising restaurant staff to further improve service quality and standards with a view to increasing sales;
- understanding customer’s consumption preference and adjusting the menu to offer a wider range of choice, such as offering sales of food or drink in half of the standard portion or size;
- strengthening sales effort via online group purchase website;
- driving economies of scale through network expansion; and
- upgrading the decoration of existing restaurants to revitalise the ambience of the restaurants.

BUSINESS OF THE TARGET GROUP

Continue to promote brand image and recognition

The Target Group will continue to promote its brand image to differentiate itself from its competitors through marketing and promotional initiatives. In particular, the Target Group seeks to promote awareness of its brands through a variety of initiatives when it expands into new markets or open new restaurants in existing markets where the Target Group has little market presence, including:

- launching regular and promotional events based on the seasonality of different types of foods to attract customers;
- leveraging on new media, including social networking websites and microblogs on the internet, to actively enhance interactions with the customers and to raise the brand awareness among customers;
- promoting the Target Group's restaurants via lifestyle and leisure-related media program to enhance the public awareness of the brand, cuisine, ambience and service of the restaurants of the Target Group;
- continuing to collaborate with well-known third parties with established and premium membership network, such as credit card companies or motor servicing company, to attract new customers; and
- participate in public interest and philanthropic events to enhance the corporate social responsibility of the Target Group.

Continue to strengthen operational infrastructure to deliver sustainable growth

The Target Group has built a scalable operational infrastructure that has successfully supported the expansion of its restaurant network. The Target Group believes that its operational infrastructure allows it to maintain cost efficiency and increase profitability. The Target Group will continue to enhance its operational infrastructure in the following key aspects for delivering a sustainable growth of its business:

- *Standardised and centralised operations.* The Target Group will continue to standardise and refine its operating procedures for all major functions. It will continue to offer systematic training and conduct performance assessment for its employees to ensure and improve the implementation of its standardised operating procedures.
- *Human resources.* The Target Group will continue to seek to attract person of the right skills and calibres to join its ranks, including restaurant staff. The Target Group provide on-going training programs and offer competitive remuneration to attract potential candidates and promote internal career advancement prospect.
- *Information technology.* The Target Group will continue to invest in information technology to facilitate transaction-processing, monitor and control operating processes.
- *Product development.* The Target Group has a team directly led by the executive chef for developing new dishes.

THE RESTAURANT OPERATION OF THE TARGET GROUP

Hotpot is a popular cuisine in the PRC, consisting of a simmering pot of stock that is kept simmering as ingredients are placed into the pot and cooked at the table. Typical hotpot dishes included thinly sliced meat, leafy vegetables, dumplings, seafood, noodles and other ingredients. Since the majority of ingredients are in raw state, the soup base and a wide variety dipping sauces are important to add flavour to the ingredients.



Hong Kong style pork rib soup base



Spicy Sichuan style soup base



Ginseng soup base



Sweet corn and tomato soup base

BUSINESS OF THE TARGET GROUP

The Target Group's standard menu is designed around over a dozen signature soup bases, ranging from something light such as consommé soup base to some hot and spicy choices such as Sichuan style soup base and satay soup base. For restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) in the PRC, each individual customer can have their own pot and choose their own soup base according to their personal preference. The other major ingredients being served at the Target Group's restaurant are seafood including geoduck, king crab, abalone and garouper, as well as many different cuts of beef. The Target Group may modify the taste of its soup base and the selection of hotpot items that it offers in different geographical regions to accommodate local customer preferences and consumption patterns.



Garouper



Beef cube



High grade sliced beef



Abalone slice

BUSINESS OF THE TARGET GROUP

To offer customers more choice and broaden the Target Group restaurants' appeal, its menu also offers a selection of Chinese herbal tea, Chinese appetisers and desserts to complement its hotpot offerings. By extending the menu to include non-hotpot items, the Target Group has been able to broaden its customer base and attract more return customers.



Pudding



Bun



Sticky rice dumpling



Pumpkin cake

Customers of the Target Group

The Target Group believes that middle to upper class of the general public are the major customer groups of its restaurants and that they are generally urban residents.

As a restaurant chain, the Target Group has a large and diverse customer base. The revenue of the Target Group derived from its five largest ultimate customers accounted for less than 1% of its total revenue for each of years ended 31 December 2015, 2016 and 2017. All of the five largest customers of the Target Group are Independent Third Parties. None

BUSINESS OF THE TARGET GROUP

of the Directors or proposed Directors, their associates or any of the current Shareholders (who, to the knowledge of the Directors and the proposed Directors, own more than 5% of the share capital of the Company) has any interest in any of the five largest ultimate customers of the Target Group that are required to be disclosed under the Listing Rules.

During the Track Record Period, the Target Group partnered with popular online group-purchasing websites in the PRC, which acted as sale channels of the Target Group through which ultimate individual customers can purchase prepaid coupons in electronic form via the internet for spending at the Target Group's restaurants. The individual ultimate customers will make payment to these online group-purchasing websites, who will settle the payment to the Target Group by either (i) making payments less their service fees (if any) to the Target Group on weekly or bi-weekly basis, or at other agreed time intervals on a regular basis; or (ii) by deducting the relevant amount from an advance payment previously made to the Target Group when the customers settled their bills by the relevant prepaid coupons. The advance payment is first recognized as deferred revenue and will be recognized as revenue of the Target Group with an equivalent amount deducted from deferred revenue when the customer settles his/her bill using the prepaid coupon. Those relevant online group-purchasing websites will top-up the advance payment back to original level when it reaches a pre-agreed level following the deduction as aforesaid. Revenue generated from these online group-purchasing websites amounted to RMB290.2 million, RMB307.2 million and RMB321.8 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 40.5%, 43.4% and 45.9% of the total revenue for the corresponding period.

During the Track Record Period, the Target Group has partnered with four online group-purchasing websites in the PRC who sell prepaid coupons in electronic form to customers. Of these four online partners that the Target Group had cooperated with during the Track Record Period, who are all Independent Third Parties, one of them was a Chinese "online-to-offline" local life service platform and was reportedly connecting over 240 million consumers and five million local merchants via an array of e-commerce services and products; one of them was associated with a major search engine in the PRC and it offers multiple services and products to its users, including entertainment (such as film, transportation ticketing and tourism), dining, hotel reservations, health and beauty services. The other two online partners were, respectively, a well-known website whose key features was its search engine on restaurants in the PRC and reviews left by diners on different restaurants and a website launched in 2010, which reportedly has approximately 50 million internet and mobile phone users. The Target Group had business relationships with these online group-purchasing websites spanning between four years to five years. During the Track Record Period, the service fees incurred by the Target Group for these online group-purchasing websites amounted to approximately nil, RMB2.7 million and RMB2.9 million for the years ended 31 December 2015, 2016 and 2017, respectively. While no service fee was actually paid by the Target Group in 2016, the Target Group allowed the relevant online group-purchasing website to sell extra prepaid coupons in the amount of approximately RMB2.7 million to set off the service fee payable by the Target Group to those online group-purchasing website. The service fee was charged based on an agreed percentage of the value of the prepaid coupon distributed, which ranged between nil and 1.0% during the Track Record Period.

BUSINESS OF THE TARGET GROUP

The co-operation agreements entered into between the Target Group and these online group-purchasing website generally included the following material terms:

- length of cooperation, which ranged from three months to 24 months or within a specific period;
- promotional channel, which includes creation of mobile-apps, creation of designated social medial account such as weibo, advertising through search engine;
- total monetary value of the prepaid coupons to be sold and discount offered to customers;
- payment and settlement cycle, which may be in the form of weekly settlement or monthly settlement;
- service charge, if any, entitled to by the online purchasing website; and
- other special terms (such as exclusivity or restriction on use of the prepaid coupons).

The prepaid coupons in electronic form sold through these online group-purchasing websites offered a discount of approximately 5.5% to 50% to the menu price during the Track Record Period and will expire when the cooperation between the Target Group and the online group-purchasing websites come to an end and they are not extendable and therefore non-refundable. However, in practice, customers will generally buy the prepaid coupons in electronic form distributed online when they are about to settle their bills and they will make enquiry with the waiters and compare the discount offered by different online group-purchasing websites. Moreover, in some cases, where the cooperation between the Target Group and the online group-purchasing websites were renewed at the expiration of the previous term, the unutilized coupons would usually be permitted to be used during the subsequent renewed term. As a result, the Target Group has not recognised any income by way of forfeiting money representing the amount of prepaid coupons distributed online during the Track Record Period. The Target Group has not received any material complaints from customers in relation to the use of these prepaid coupons in electronic form during the Track Record Period, though on limited occasions usage of these prepaid coupons in electronic form distributed online were not successful due to technical issues, in which case the Target Group will offer complementary items such as compensation to make up the discount that the customers should have enjoyed.

The Target Group will have an account with these online group-purchasing websites through which the Target Group will have access to the sales data of these prepaid coupons in electronic form distributed online. Meanwhile, the amount settled with these prepaid coupons in electronic form distributed online will also be recorded in the Target Group's own POS systems. Accordingly, the Target Group is able to reconcile the sales by the online group-purchasing websites and the actual amount settled at its restaurants.

BUSINESS OF THE TARGET GROUP

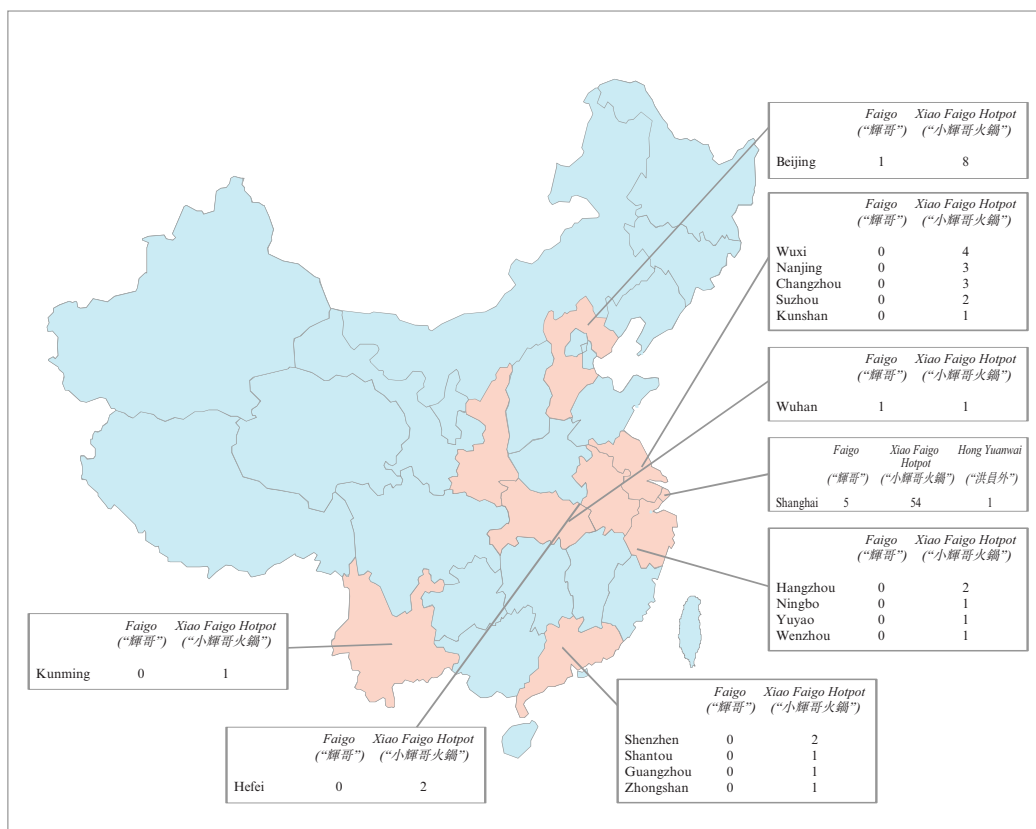
The restaurant network of the Target Group

The Target Group started its first restaurant in 2004 in Shanghai under the brand name *Faigo* (“輝哥”) and expanded its restaurant network beyond Shanghai and commenced the operation of a restaurant under the brand *Faigo* (“輝哥”) in Beijing in 2010. In 2012, the Target Group launched the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) in Shanghai.

As at the Latest Practicable Date, the Target Group owned and operated 97 restaurants in 18 cities in the PRC, including Shanghai, Beijing, Shenzhen, Nanjing, Hangzhou, Wuhan, Suzhou, etc. Of the 97 restaurants that the Target Group operates as at the Latest Practicable Date, 89 of them are under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”), seven of them are under the brand *Faigo* (“輝哥”) one of them is under the brand *Hong Yuanwai* (“洪員外”).

The Target Group believes that the scale and broad geographical coverage of its restaurant network promotes brand recognition, customer confidence and loyalty and it places strong emphasis on expanding its restaurant network through strategic, progressive and disciplined growth. To achieve this, the Target Group regularly reviews the performance of existing restaurants and assess opportunities to open new restaurants within the existing and new markets.

The following map shows the restaurants owned and operated by the Target Group in the PRC and the number of restaurants in each city as at the Latest Practicable Date:



BUSINESS OF THE TARGET GROUP

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai (<i>note 1</i>)	409,959,879	389,620,768	388,378,462
Beijing	40,368,679	44,997,958	47,845,440
Wuxi	32,520,208	30,489,719	30,175,250
Nanjing	21,588,553	18,528,775	17,228,713
Hangzhou	14,856,469	13,021,516	9,916,232
Other cities	<u>57,423,008</u>	<u>83,025,153</u>	<u>78,530,182</u>
Nationwide (<i>note 1</i>)	576,716,796	579,683,889	572,074,279
Number of restaurants			
Shanghai (<i>note 2</i>)	47	51	58
Beijing	9	8	9
Wuxi	5	5	5
Nanjing	5	4	3
Hangzhou	4	3	2
Other cities	<u>19</u>	<u>22</u>	<u>22</u>
Nationwide (<i>note 2</i>)	89	93	99
Average customer per day per restaurant			
<i>(note 3)</i>			
Shanghai (<i>note 4</i>)	241.5	194.5	170.2
Beijing	151.0	153.3	133.1
Wuxi	195.9	157.9	139.2
Nanjing	129.7	126.8	135.3
Hangzhou	127.1	124.2	118.7
Other cities	<u>131.6</u>	<u>110.5</u>	<u>90.1</u>
Nationwide (<i>note 4</i>)	199.5	163.6	143.7

BUSINESS OF THE TARGET GROUP

	Year ended 31 December		
	2015	2016	2017
Seat turnover rate per day per restaurant			
<i>(note 5)</i>			
Shanghai <i>(note 6)</i>	2.2	2.1	1.8
Beijing	1.4	1.8	1.5
Wuxi	1.8	1.8	1.6
Nanjing	1.1	1.6	1.7
Hangzhou	1.1	2.1	1.9
Other cities	<u>1.2</u>	<u>1.3</u>	<u>1.1</u>
Nationwide <i>(note 6)</i>	1.8	1.8	1.6
Average daily restaurant sales (in RMB)			
<i>(note 7)</i>			
Shanghai <i>(note 8)</i>	28,618.5	21,719.7	20,654.56
Beijing	17,207.5	17,502.1	16,235.7
Wuxi	21,869.7	16,661.1	16,534.8
Nanjing	14,726.2	12,656.3	15,734.4
Hangzhou	12,359.8	11,859.3	13,584.2
Other cities	<u>13,255.5</u>	<u>10,327.9</u>	<u>9,775.7</u>
Nationwide <i>(note 8)</i>	22,923.8	17,416.1	17,111.5
Average spending per customer (in RMB)			
<i>(note 9)</i>			
Shanghai <i>(note 10)</i>	118.5	113.5	121.3
Beijing	113.9	114.1	122.0
Wuxi	111.7	107.0	118.8
Nanjing	113.5	101.5	116.3
Hangzhou	97.3	97.2	114.5
Other cities	<u>100.7</u>	<u>92.6</u>	<u>108.5</u>
Nationwide <i>(note 10)</i>	114.9	108.3	119.0

Notes:

1. The revenue generated by restaurants in Shanghai for the year ended 31 December 2017 included RMB2.8 million generated by one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
2. The number of restaurants in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
3. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.

BUSINESS OF THE TARGET GROUP

4. The calculation of average customer per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
5. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
6. The calculation of seat turnover per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
7. Calculated by dividing revenue for the year by total restaurant operation days during the year.
8. The calculation of average daily restaurant sales in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
9. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year.
10. The calculation of average spending per customer in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

The revenue generated from the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) increased as a whole from 2015 to 2016 as the number of the restaurants in business increased. However, the revenue generated from the restaurants under the brands *Xiao Faigo* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) for the year ended 31 December 2017 was less than the revenue generated from the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) for the year ended 31 December 2016 because the decline in customer traffic and seat turnover rate outweighed the increase in average spending per customer. The decline in the average customer and seat turnover rate per day per restaurant was primarily due to fierce competition in the supply of catering services in shopping malls. The expanded restaurant network also, to a certain extent, caused competition amongst the restaurants themselves, which led to a decline in the said performance indicators of the restaurants from 2015 to 2016. The average spending per customer of *Xiao Faigo Hotpot* (“小輝哥火鍋”) decreased from RMB114.9 to RMB108.3 from 2015 to 2016 because of the slowing down of the PRC economy. However, increase in selling price of beef and seafood and enhanced promotional activities induced an increase in the average spending per customer of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in 2017, which amounted to approximately RMB119.0.

The restaurant under the brand *Hong Yuanwai* (“洪員外”) was opened in July 2017 and contributed a revenue of RMB2.8 million for the year ended 31 December 2017.

BUSINESS OF THE TARGET GROUP

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brand *Faigo* (“*輝哥*”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai	113,492,488	104,937,803	107,765,544
Beijing	15,219,397	14,511,612	13,263,385
Other cities	<u>10,770,775</u>	<u>8,177,702</u>	<u>7,328,985</u>
Nationwide	139,482,660	127,627,117	128,357,914
Number of restaurants			
Shanghai	5	5	5
Beijing	1	1	1
Other cities	<u>3</u>	<u>2</u>	<u>2</u>
Nationwide	9	8	8
Average customer per day per restaurant <i>(note 1)</i>			
Shanghai	97.8	80.8	73.5
Beijing	69.9	69.5	53.8
Other cities	<u>82.4</u>	<u>63.2</u>	<u>68.2</u>
Nationwide	90.6	75.0	69.9
Seat turnover rate per day per restaurant <i>(note 2)</i>			
Shanghai	0.7	0.6	0.5
Beijing	1.8	1.8	1.4
Other cities	<u>1.0</u>	<u>1.1</u>	<u>1.2</u>
Nationwide	0.8	0.7	0.6
Average daily restaurant sales (in RMB) <i>(note 3)</i>			
Shanghai	62,187.7	55,140.5	58,446.6
Beijing	41,697.0	39,649.2	36,343.5
Other cities	<u>16,123.9</u>	<u>16,678.0</u>	<u>18,564.5</u>
Nationwide	48,804.3	43,588.5	48,575.8

BUSINESS OF THE TARGET GROUP

	Year ended 31 December		
	2015	2016	2017
Average spending per customer (in RMB)			
<i>(note 4)</i>			
Shanghai	635.9	682.2	795.1
Beijing	596.8	570.5	675.2
Other cities	195.7	263.9	272.7
Nationwide	538.5	639.4	694.6

Notes:

1. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.
2. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
3. Calculated by dividing revenue for the year by total restaurant operation days during the year/period.
4. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year/period.

The revenue generated from the restaurants under the brand *Faigo* (“*輝哥*”) decreased as a whole from 2015 to 2016 because of decrease of average number of customers per day per restaurant as a whole and closure of a restaurant in Tianjin in 2015. For the year ended 31 December 2017, the revenue increased compared to the corresponding period in 2016 and such increase was mainly due to an increase in average spending per customer as a result of increase in the selling price of beef and seafood and enhanced promotional activities.

The following table sets forth the average annual same-store sales of the restaurants of the Target Group during the Track Record Period. The Target Group defines its same-store to be those restaurants that were in operation throughout the periods in comparison.

Xiao Faigo Hotpot (“*小輝哥火鍋*”)

	Year ended 31 December		Year ended 31 December	
	2015	2016	2016	2017
No. of same-stores		46		71
Average same-store annual sales (in RMB in million)	10.1	8.0	7.1	6.8
Average same-store growth		-20.3%		-4.7%

BUSINESS OF THE TARGET GROUP

Faigo (“輝哥”)

	Year ended 31 December		Year ended 31 December	
	2015	2016	2016	2017
No. of same-stores		7		7
Average same-store annual sales (in RMB in million)	19.3	17.7	17.7	18.2
Average same-store growth		-8.3%		2.8%

The slowing down of the PRC economy had a negative impact on the same-store revenue for both the restaurants under the brand *Xiao Faigo Hotpot (“小輝哥火鍋”)* and restaurants under the brand *Faigo (“輝哥”)*. For the restaurants under the brand *Xiao Faigo Hotpot (“小輝哥火鍋”)*, it was further affected by the fierce competition in catering services in shopping malls and, to a certain extent, the expansion in the restaurant network of the Target Group, which also diverted customer traffic from existing restaurants to the new restaurants.

During the Track Record Period, the performances of the restaurants of the Target Group in Shanghai were stronger than its restaurants in other regions, primarily due to the fact that Shanghai is the home market of the Target Group, where it has established strong brand recognition and a broad and loyal customer base.

The following tables set forth the comparison of the revenue per restaurant in different regions in the PRC during the Track Record Period:

Xiao Faigo Hotpot (“小輝哥火鍋”) and *Hong Yuanwai (“洪員外”)*

	Year ended 31 December		
	2015	2016	2017
Revenue per restaurant (in RMB in thousand)			
Shanghai (<i>note</i>)	8,722.6	7,639.6	6,696.2
Beijing	4,485.4	5,624.7	5,316.2
Wuxi	6,504.0	6,097.9	6,035.1
Nanjing	4,317.7	4,632.2	5,742.9
Hangzhou	3,714.1	4,340.5	4,958.1
Other cities	<u>3,022.3</u>	<u>3,773.9</u>	<u>3,569.6</u>
Nationwide (<i>note</i>)	<u>6,480.0</u>	<u>6,233.2</u>	<u>5,778.5</u>

BUSINESS OF THE TARGET GROUP

Faigo (“輝哥”)

	Year ended 31 December		
	2015	2016	2017
Revenue per restaurant (in RMB in thousand)			
Shanghai	22,698.5	20,987.6	21,553.1
Beijing	15,219.4	14,511.6	13,263.4
Other cities	<u>3,590.3</u>	<u>4,088.9</u>	<u>3,664.5</u>
Nationwide	<u><u>15,498.1</u></u>	<u><u>15,953.4</u></u>	<u><u>16,044.7</u></u>

Note:

The revenue generated per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

The table below sets forth the revenue contribution of the top restaurant and top ten restaurants of the Target Group in terms of sales during the Track Record Period, both in absolute terms and as percentage of the total revenue of the Target Group:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
Top restaurant (<i>note</i>)	29,685,315	4.1	26,174,820	3.7	27,322,289	3.9
Top ten restaurant	192,578,297	26.9	173,864,672	24.6	173,074,016	24.7

Note:

The top restaurant in each year was not the same as that for other years.

EXPANSION PLANS, SITE SELECTION AND DEVELOPMENT

Recent and planned expansion

During the Track Record Period, the Target Group opened 33, 10 and 10 new restaurants for the years ended 31 December 2015, 2016 and 2017, respectively, the movement of which is set for the below:

	Year ended 31 December						
	2015		2016			2017	
	<i>Faigo</i> (“輝哥”)	<i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”)	<i>Faigo</i> (“輝哥”)	<i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”)	<i>Faigo</i> (“輝哥”)	<i>Xiao Faigo Hotpot</i> (“小輝哥火鍋”)	<i>Hong Yuanwai</i> (“洪員外”)
Opening balance	8	57	8	83	8	89	0
Addition	1	32	0	10	0	9	1
Cessation of business	1	6	0	4	1	6	0
Net increase	0	26	0	6	-1	3	1
Closing balance	8	83	8	89	7	92	1

BUSINESS OF THE TARGET GROUP

Subsequent to the end of the Track Record Period and upto the Latest Practicable Date, the Target Group opened one new restaurant under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) in Shanghai. The Target Group also closed down four restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”). The Target Group believes that a wide restaurant network will enhance the public awareness of the its brands and drive the growth of the income of the Target Group. Meanwhile, as the scale of operation of the Target Group expands, the Target Group will be able to enjoy the economies of scale and will be in a more advantageous position during its operations, such as procurement, selection of new site for restaurants and recruitment.

The Target Group will continue to expand its sales network and therefore intends to open a total of 29 new restaurants under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Faigo* (“輝哥”) by 31 December 2019. Some of the planned new restaurants are expected to be opened in regions where the Target Group does not have existing restaurants such as Nanning, Fuzhou and Chengdu etc. As at the Latest Practicable Date, the Target Group has entered into binding leases for the sites for six of the restaurants planned. The Target Group will open these restaurants immediately upon obtaining the requisite licenses. The new restaurants to be opened will be of similar size of the existing restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”). To diversify the product offering, the Target Group also plans to open one to two restaurants under the brand *Hong Yuanwai* (“洪員外”) in Shanghai if the newly launched brand and restaurant is successful.

The Target Group also closely monitors the performance of its restaurants and will adjust its restaurant network where appropriate. During the Track Record Period, the Target Group ceased the business of, respectively, seven, four and seven restaurants during the years ended 31 December 2015, 2016 and 2017. Three of the said seven restaurants were ceased as the landlord of the relevant shopping mall proposed to undergo overall revamp for the shopping mall and the landlord requested early termination of the Target Group’s tenancies for these three restaurants. The Target Group did not receive compensation from the landlords for the early termination. For the remaining three restaurants, they were closed down by reason of under-performance.

When the Target Group closed a restaurant, it negotiated with the landlord for early termination of the tenancy agreement without compensation or assigned the tenancy to other third parties to minimise its potential loss or expenses. The Target Group will also redeploy the employees and inventory to other restaurants. In connection with the 18 restaurants closed down during the Track Record Period, the Target Group incurred expenses of approximately RMB13.8 million, which expenses were mainly for reinstating the relevant premises to its original state before handing over to the landlord.

BUSINESS OF THE TARGET GROUP

The table below sets forth the expansion plan of the Target Group in respect of the brands *Faigo* (“輝哥”) and *Xiao Faigo Hotpot* (“小輝哥火鍋”) up to 31 December 2019 and the associated capital expenditure for each geographical region:

	During the year ending 31 December 2018			During the year ending 31 December 2019		
	new restaurants			new restaurants		
	<i>Xiao Faigo Hotpot</i>			<i>Xiao Faigo Hotpot</i>		
	<i>Faigo</i> (“輝哥”)	(“小輝哥 火鍋”)	Total capital expenditure RMB in million	<i>Faigo</i> (“輝哥”)	(“小輝哥 火鍋”)	Total capital expenditure RMB in million
Shanghai	0	7	15.4	0	4	8.8
Beijing	0	4	8.8	0	3	6.6
Others	1	3	14.6	2	5	27.0
Total	<u>1</u>	<u>14</u>	<u>38.8</u>	<u>2</u>	<u>12</u>	<u>42.4</u>

The above expansion plan involves an aggregate investment cost of approximately RMB81.2 million, or RMB2.8 million per restaurant, of which approximately RMB10.1 million has been incurred as at the Latest Practicable Date. The Target Group historically funded its expansion plan from revenue generated from its ordinary course of business. Following the Completion, the proposed Directors intend to fund the expansion of the Target Group’s restaurant as described by the net proceeds from the Share Placing as well as revenue generated from its ordinary course of business.

The newly launched hotpot restaurant under the brand *Hong Yuanwai* (“洪員外”) provides Sichuan-style hotpot. According to the Market Research Report, Sichuan-style hotpot restaurants took more than half of the total sales revenue of hotpot market in China in 2016. If it proves to be popular, the Target Group plans to open one to two restaurants under the brand *Hong Yuanwai* (“洪員外”) in Shanghai. Also, the Target Group has formed a joint venture in August 2017 for establishing Hefei Huige under the brand *Faigo* (“輝哥”) in Hefei on 30 August 2017. The capital contribution of the Target Group for the joint venture is RMB1.4 million, representing 70% of the registered capital of the joint venture. The Target Group will monitor the performance and operation of the new brand and business arrangement closely and to decide the details of the future development plans for these new initiatives.

During the Track Record Period, the Target Group opened a total of 53 restaurants, of which 46 restaurants have achieved monthly break-even on or before the end of the Track Record Period while the remaining seven restaurants have not achieved monthly break-even within the Track Record Period.

For those 46 restaurants that have achieved monthly break-even, it took them one to nine months to achieve monthly break-even and, on average, they took approximately 2.5 months to achieve that.

BUSINESS OF THE TARGET GROUP

Of those seven restaurants which have not achieved monthly break-even within Track Record Period, one of them was opened in 2015, one of them was opened in 2016 and five of them were opened in 2017. Those seven restaurants were operating in Shanghai, Beijing, Guangzhou and Nanjing. Out of the said seven restaurants, one was closed before the end of the Track Record Period.

The proposed Directors considered that there were multiple factors affecting the performance of each individual restaurants, in particular the location, the timing of commencement of operation, the rental expenses and staff costs. Accordingly, the range of time or the average time required for achieving monthly break-even of the restaurants network of the Target Group in the past might not be indicative of the performance of the new restaurants to be opened in the future.

During the Track Record Period, the Target Group opened a total of 53 restaurants, of which 17 restaurants have achieved cash investment payback on or before the end of the Track Record Period while the remaining 36 restaurants have not achieved cash investment payback within the Track Record Period.

For those 17 restaurants that have achieved cash investment payback, it took them seven to 29 months to achieve cash investment payback and, on average, they took approximately 15.3 months to achieve that.

Of those 36 restaurants which have not achieved cash investment payback within Track Record Period, 20 of them was opened in 2015, six of them were opened in 2016 and 10 of them were opened in 2017. Those 36 restaurants were operating in different places including Shanghai, Beijing, Hangzhou, Nanjing, Shenzhen, Wuxi, Wuhan and Guangzhou, etc. Out of the said 36 restaurants, four were closed before the end of the Track Record Period.

The proposed Directors considered that there were multiple factors affecting the performance of each individual restaurants, in particular the location, the timing of commencement of operation, the rental expenses and staff costs. Accordingly, the range of time or the average time required for achieving cash investment payback of the restaurants network of the Target Group in the past might not be indicative of the performance of the new restaurants to be opened in the future.

Based on the historical overall performance of the Target Group, the proposed Directors expected that the new restaurants to be opened by 31 December 2019 would take approximately three months on average to achieve monthly break-even and approximately 16 months on average to achieve cash investment payback.

The proposed Directors noted that the Target Group experienced deteriorating financial performance in its restaurants from 2015 to 2017 due to decline in the number of customers per day per restaurant for the Target Group. The proposed Directors are of view that while financial performance and certain key performance indicators of the Target Group declined during the Track Record Period, it was mostly due to the weakened economy in the PRC throughout 2015 and 2016 and competition amongst restaurant operators, both factors affecting not just the Target Group but the catering industry as a whole. However, according to the Market Research Report, the Cantonese-style hotpot

BUSINESS OF THE TARGET GROUP

restaurant is expected to grow at a CAGR of 10.8% from 2016 to 2021 and therefore there is market potential for the Target Group. Also, the proposed Directors believed that the rapid expansion of restaurant network during the Track Record Period has enhanced the market awareness of its brands and the future growth of the Target Group will benefit from the established market awareness.

The proposed Directors consider that the Target Group's expansion plan is important to maintain its market competitiveness as to maintain its market share in different locations. According to the Market Research Report, the urbanization in the PRC will continue to grow at a CAGR of 3.0% from 2016 to 2021, which will also see growth in household income and increase in spending on food. It is expected that per capita expenditure on food will grow at a CAGR of 7.8% from 2016 to 2021. Accordingly, the proposed Directors are of the view that catering business market will keep expanding and such expansion in the overall market will off-set the potential adverse impact arising from competitions between new and existing restaurants. Apart from the price and quality of the food, the management of the Target Group considers that the shops' proximity is also one of the key factors to attract more customers as the location is a critical factor in consumers' selection of a store. In view of population growth and rapid urbanization in the PRC as stated in the Market Research Report, the management of the Target Group considers that the Target Group's restaurant market has not been saturated and it still has room for expansion. The proposed Directors are of the view that a scalable and wide restaurant network is critical to the sustainability of the Target Group and therefore further expanding restaurant network is the right strategy for the future growth of the business of the Target Group.

Alongside with the expansion of the restaurant network of the Target Group, the Target Group will review its pricing strategy and increase selling price of selected items such as seafood, beef and vegetables to improve the profitability. Also, the Target Group will strengthen its marketing activities to increase the brand awareness of that of the Target Group, such as partnering with banks or credit card company, putting up advertisements in shopping malls and discount at slack hours to steadily improve either the average spending per customer or the customer flow in each restaurant. The Target Group will also launch customer loyalty measures to attract customer traffic and diversify the food items for restaurants operating under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”).

The proposed Directors noted competition between newly opened and existing restaurants, and such competition is more easily seen in Shanghai and Beijing, where the Target Group has 60 and 9 restaurants, respectively, as at the Latest Practicable Date. However, the proposed Directors consider that the Target Group's proposal to open additional new restaurants in Shanghai and Beijing is to keep pace with the increasing number of new commercial locations and the growing household income and urbanisation in the PRC. Also, the addition of new restaurants will expand the coverage of the restaurants network and maintain market share and market awareness of the brands. According to the Market Research Report, the urbanization in the PRC will continue to grow at a CAGR of 3.0% from 2016 to 2021, which will also see growth in household income and increase in spending on food. It is expected that per capita expenditure on food will grow at a CAGR of 7.8% from 2016 to 2021. Accordingly, the proposed Directors are

BUSINESS OF THE TARGET GROUP

optimistic to the business prospects of the PRC catering business market and consider that the overall market growth will off-set the potential adverse impact arising from competitions between new and existing restaurants. The proposed Directors are therefore of the view that, whilst newly opened restaurants might draw away customer traffic from existing restaurants, it is an effective strategy of capturing the market share and maintaining our competitiveness by opening new stores. Nevertheless, the proposed Directors consider that it is important to effectively manage such competition and take this into account when selecting location for new restaurants, where a new restaurant is proposed to be located within three kilometers of an existing restaurant, the approval from the senior management is required. The management of the Target Group conducts monthly review of the operations of each of its restaurants and closely monitors any potential competition between newly opened restaurants and existing restaurants. The monthly review covers the major performance indicators of each restaurant including revenue, customer traffic, seat turnover rate and average spending per customer.

The actual number, location and timing of new restaurant openings will be affected by a number of factors and subject to a number of uncertainties. The Target Group may make necessary adjustment to the number, location and timing of planned new restaurant openings depending on the existing market conditions and status of pre-opening development and preparation for existing restaurants.

Expansion management

The Target Group has a highly standardised and scalable business model, which enables the Target Group to replicate its established operational and managerial procedures as it continues to expand its restaurant network. The standardised operations enhance scalability by allowing the Target Group to efficiently transfer knowledge when opening new restaurants. Furthermore, since all of the restaurants operated under the brands of the Target Group are self-operated, except one in Beijing operated under franchising arrangement and Hefei Huige which will be operated as joint venture, the Target Group is able to easily implement its standards and specifications to maintain standardisation. To manage the expansion, the Target Group intends to take various initiatives and continue its current practices, including the following:

- *Identifying the right market and location.* The Target Group realises that consumer traffic is crucial to the success of a restaurant. In order to launch the right brand in the right market, the Target Group will critically assess the business potential of a new restaurant and will consider the population density, consumer spending power, regional or local preference and overall future development of the city. Having considered these factors at macro level, the Target Group will then look into more details of a particular site selection for a possible new restaurant. For details of the restaurant selection criteria and the internal approval procedures of the Target Group, please see the paragraph “*Site Selection Process*” in this section.

BUSINESS OF THE TARGET GROUP

- *Ingredients and procurement.* Live or fresh food ingredients such as vegetables, poultry and seafood are vital to the business of the Target Group and the freshness and quality of these ingredients have to be guaranteed for each of the new restaurants to be opened. Accordingly, the Target Group will consider if the existing approved suppliers can support the new restaurants in terms of quantity and delivery. The increased purchases from existing approved supplier also afford the Target Group with competitive pricing and help costs control in expanding its restaurant networks. If the existing approved supplier is unable to support the operation of the new restaurants, the Target Group will look for alternatives but the Target Group will only purchase from new suppliers after the new suppliers have met the selection criteria. For details of the selection criteria of suppliers, please see the paragraph “*Supplier selection*” in this section.
- *Staffing.* The Target Group considers that in addition to the freshness and quality of the food ingredients it offers to customers, quality of service is another important element that differentiates the Target Group from its competitors. The Target Group will relocate experienced restaurant manager and a certain number of frontline staff from existing restaurants to new restaurants at the early stage of the commencement of the new restaurant. Since the restaurant manager and the frontline staff know the standards and procedures of the Target Group’s business model, they will be able to establish the same set of standards and procedures in the new restaurant effectively and efficiently. The other frontline waiter or waitress or kitchen staff will be recruited locally but they will receive guidance and training from the restaurant manager.
- *Marketing and promotion.* The Target Group will begin marketing the new restaurants approximately one month before the commencement of business of a new restaurant. Where the new restaurant is located in a shopping mall, the Target Group will collaborate with the shopping mall owner to launch promotional activities such as distributing coupons or offering discounts to bring more traffic to the new restaurants. The Target Group will also partner with online media to promote its new restaurants.
- *Customers’ feedback and fine-tuning.* The restaurant managers will actively solicit comments from customers, including the quality and flavour of the foods served, the dining environment, the quality of service. Where comments concerned service quality, the restaurant manager will give specific training or guidance to the frontline waiter or waitress to improve the service. Where appropriate, the restaurant manager will relay the feedbacks from customers to the headquarters where measures will be introduced to address those feedbacks and where necessary, the restaurant menu will be fine-tuned and updated to cater for the local dining preference.

New restaurants development

The Target Group has in place a clear workflow for opening a new restaurant. The development department of the Target Group is specifically responsible for negotiating the lease for the location of the new restaurant. Once the new lease is signed and the premise is passed-over to the Target Group, the planning department will take-over and draw up a schedule setting out the timeframe for fitting-out work and application for permits and licences. Once the construction work of a new restaurant is completed, the restaurant operation department of the Target Group will take over matters such as staffing and inventory in preparation of opening the new restaurant.

Site selection process

The Target Group considers location to be a critical factor to attract customer traffic in determining a restaurant's performance and long-term success. Most of the existing restaurants of the Target Group are located in business districts and close to premises such as office buildings or inside shopping malls. The Target Group carefully considers potential markets and devotes a substantial amount of time and effort to evaluating each potential restaurant site. The criteria that the Target Group will consider in developing its expansion plans and in selecting new restaurant sites includes:

- consumption preferences and population density of the local community, as well as the existence of a critical mass of the target customers;
- the presence of landmark properties and other premises or attractions generating traffic and consumption momentum;
- accessibility for pedestrians and vehicles;
- size of candidate site, lease economics and estimated return on investment;
- strategy of property owner; and
- proximity to other restaurants.

A feasibility report will then be drawn up based on the above considerations and a designated committee comprising the senior management of the Target Group will make a final decision on whether or not a new restaurant is to be opened at the relevant location. The Target Group seeks to maximize the total sales from its existing and new restaurants by trying to increase the frequency of visits from its existing customers and attract new customers from its competitors. The Target Group will not open a new restaurant if it is expected to materially impact the sales or customer traffic of its existing restaurants. To avoid competition among existing restaurants of the Target Group, normally the development department will not locate a new shop within three kilometers from existing restaurants unless otherwise approved by the senior management.

New restaurant development procedure

Generally, it takes approximately three to six months from the commencement of the site selection process to the opening of a restaurant. Meanwhile, it takes approximately 90 days from identifying a location to executing the lease for a new restaurant. The key steps in the development process of a new restaurant include the following:

- *New restaurant location planning and identification.* The Target Group's senior management assesses and plans annually the new stores to be opened by considering factors such as overall economic condition, industry trends, competition and the Target Group's own internal resources. The development department of the Target Group continuously explores new restaurant location in both existing and new residential, commercial and retail locations.
- *Site assessment and approval.* Once the location for a new restaurant is identified, the Target Group will compile a feasibility report to forecast the expected restaurant traffic, revenue, cost structure, profitability and investment return period. The feasibility report will be presented to a designated committee for approval of the site.
- *Lease negotiation and execution.* Upon approval by the designated committee of a target site, the Target Group will commence lease negotiations with the landlord.
- *Design and renovation.* Upon signing a lease and taking possession of the premises, the Target Group will commence to design the new restaurant based on the Target Group's standard style. Generally, the management of the Target Group would take into consideration of the requirements for (i) obtaining food licenses; (ii) completing the environmental impact assessment; (iii) obtaining the environmental protection verification; and (iv) fire safety when they design the floor plans of the new restaurants. Also, the Target Group engages fire engineering contractors to draw or review fire engineering plans, install and test the fire safety systems and assist in and ensure the completion of fire safety inspection for new restaurants. The design and decoration generally take one month to complete.
- *Licences and permits, and approval for opening.* While the decoration work is ongoing, the Target Group will apply for various licenses necessary for the operation of the restaurant, including business license, food hygiene licence, environmental protection assessment and inspection approval, fire safety inspection approval certificate.
- *Staffing.* Upon completion of decoration works and successful application of all required licence and permits, the restaurant management and operation department of the Target Group will relocate managerial and frontline staff from existing restaurants and train new staff in preparation of the launch of the new restaurant.

BUSINESS OF THE TARGET GROUP

- *Promotional activities.* The Target Group will launch various promotional and marketing initiatives in preparation of the opening of a new restaurant and to enhance public awareness of the new restaurant.

Lease arrangement

The Target Group typically seeks to enter into long-term lease arrangements of four to eight years. Restaurants operating under the brand of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Faigo* (“輝哥”) of the Target Group in the PRC typically have a GFA that approximately ranges from, respectively, 220 square meters to 820 square meters and 500 square meters to 1,500 square meters.

As at the Latest Practicable Date, existing leases of the restaurants under the brand of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and the brand *Faigo* (“輝哥”) of the Target Group in the PRC have an average term of, respectively, approximately 5.4 years and 7.3 years.

The following table sets forth a maturity profile of the term of leases of the restaurants in operation of the Target Group under the brand of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and the brand the brand *Faigo* (“輝哥”) in the PRC as at the Latest Practicable Date.

Xiao Faigo Hotpot (“小輝哥火鍋”)

	Restaurants		GFA	
	<i>Number</i>	<i>(approx.) %</i>	<i>Square meters</i>	<i>(approx.) %</i>
Expiration within 12 months	15	16.9	5,584.3	15.9
Expiration after 12 months but within 24 months	19	21.3	8,505.1	24.1
Expiration after 24 months but within 36 months	27	30.4	10,717.5	30.3
Expiration after 36 months but within 48 months	19	21.3	7,528.2	21.4
Expiration after 48 months	<u>9</u>	<u>10.1</u>	<u>2,903.6</u>	<u>8.3</u>
Total	<u>89^(note)</u>	<u>100</u>	<u>35,238.7</u>	<u>100</u>

Note: As at the Latest Practicable Date, the Target Group was in the process of negotiating with the landlord for the renewal of the lease for a *Xiao Faigo Hotpot* (“小輝哥火鍋”) restaurant in Beijing that had expired on 31 July 2017, and continued to rent the premises on a month-by-month basis in the meantime.

BUSINESS OF THE TARGET GROUP

Faigo (“輝哥”)

	Restaurants		GFA	
	Number	(approx.) %	Square meters	(approx.) %
Expiration within 12 months	1	14.3	504.4	7.1
Expiration after 12 months but within 24 months	3	42.9	2,393.5	33.9
Expiration after 24 months but within 36 months	1	14.3	1,225.0	17.3
Expiration after 36 months but within 48 months	1	14.3	1,500.0	21.2
Expiration after 48 months	<u>1</u>	<u>14.3</u>	<u>1,448.2</u>	<u>20.5</u>
Total	<u><u>7</u></u>	<u><u>100</u></u>	<u><u>7,071.1</u></u>	<u><u>100</u></u>

As at the Latest Practicable Date, the lease agreements for 57 out of the 89 restaurants under the brand of *Xiao Faigo Hotpot* (“小輝哥火鍋”) of the Target Group in the PRC were under contingent rent arrangement where the rent payable by the Target Group was based on a particular agreed percentage of the sales generated at the relevant restaurant. In some cases, the leases also include a minimum rental payment clause and the Target Group is to pay the higher of the minimum rent and the contingent rent. The remainder of the 32 leases were under fixed rent arrangement. For the restaurants under the brand of *Faigo* (“輝哥”) operated by the Target Group in the PRC, two out of seven restaurants were under contingent rent arrangement and the remaining five restaurants were under fixed rent arrangement.

The lease for the restaurant under the brand *Hong Yuanwai* (“洪員外”) will expire in February 2019 and the Target Group is required to pay the higher of the minimum rent and the contingent rent.

In the years ended 31 December 2015, 2016 and 2017, the minimum lease payments for the Target Group’s properties (which include the rent the Target Group paid under fixed rental arrangement leases as well as the minimum rent the Target Group paid under variable rental arrangement leases) amounted to RMB119.5 million, RMB130.5 million and RMB128.0 million, respectively, representing 96.6%, 96.7% and 97.3% of the Target Group’s total property rentals and related expenses for the respective periods.

Meanwhile, total lease payments under variable rental arrangement leases the Target Group paid in the years ended 31 December 2015, 2016 and 2017 amounted to RMB4.6 million, RMB4.4 million and RMB3.5 million, respectively, representing 3.7%, 3.3% and 2.7% of the Target Group’s total property rentals and related expenses for the respective periods.

BUSINESS OF THE TARGET GROUP

The customary renewal terms generally require the Target Group to give a written notice of renewal to the landlord, generally not less than three to six months prior to the expiry of the lease agreement, and the lease agreement may be renewed upon the Target Group's agreement to the renewal terms and conditions with the landlord. During the Track Record Period, the Target Group did not experience any significant difficulties in renewing its leases in a timely manner.

Franchising

As at the Latest Practicable Date, the Target Group has granted to an Independent Third Party the right to operate a restaurant associated with the brand name *Faigo* (“輝哥”) in Beijing.

Pursuant to a catering management agreement entered into in November 2012 and a further agreement entered into in November 2016, the Target Group has authorized an Independent Third Party to operate a restaurant under the name “輝哥海鮮火鍋” for a term commencing from 1 November 2012 to 31 December 2022 at a designated location in Beijing. The Target Group is entitled to a monthly management fee at 2% of the gross revenue of the restaurant.

Under the said franchising arrangement, the respective obligations of the third party franchisee and the Target Group are as follows:

Obligations of the Third Party Franchisee:

- financing the operation of the restaurant;
- liaising with all governments and obtaining all pre-requisite conditions required for commencement of the restaurant;
- securing the lease for the designated location for the restaurant;
- renovation of the designated location for the restaurant; and
- staff hiring.

Obligations of the Target Group:

- providing management and operation materials for operating the restaurant;
- marketing and promotional of the restaurant; and
- training of staff.

BUSINESS OF THE TARGET GROUP

The Target Group is able to closely monitor and control the operation of the franchised restaurant by the following:

- The management and operational materials to the third party franchisee covers frontline staff service standards, inspection and acceptance criteria of food ingredients delivered from supplier, food safety and hygiene;
- Staff at the franchised restaurants are trained by the Target Group and they are required to follow operation procedures laid down by the Target Group;
- The franchised restaurant in Beijing will also make procurement from the Target Group's approved suppliers via the centralized procurement of the Target Group so as to maintain the consistency and quality of the foods served;
- The Target Group regional manager will also conduct spot checks on the franchised restaurant to ensure the standards are complied with; and
- The franchised restaurant also employs the POS system of the Target Group such that the Target Group is able to monitor the franchised restaurant performance.

It is expressly provided under the catering management agreement that in case of material breach by the franchisee, the agreement can be terminated and the Target Group is entitled to claim for compensation and thus bring the franchising arrangement to an end to protect its restaurant brands.

In order to manage or avoid potential competition between the franchised restaurant and the self-owned restaurants of the Target Group, it is expressly provided in the catering management agreement that the franchised restaurant shall operate at a designated location but not elsewhere. The catering management agreement does not contain any restriction on the Target Group in operating its own restaurants in Beijing or granting similar rights to other third parties for operating restaurant under its brands in Beijing or elsewhere. Further, the Target Group will not grant any franchise to third parties for a restaurant if the franchised restaurant is within three kilometers from any existing restaurants of the Target Group unless otherwise approved by the senior management.

The franchising arrangement was a trial of the Target Group for exploring the business model of franchising for business expansion. The proposed Directors confirmed that the terms of the catering management agreement, having regard to the trial nature of franchising arrangement and the scale of restaurant network of the Target Group at the time, were negotiated at arm's length level between the franchisee and the Target Group and on normal commercial terms. During the Track Record Period, the management fee received by the Target Group were approximately, respectively, RMB0.4 million, RMB0.3 million and RMB0.4 million. As at the Latest Practicable Date, the Target Group did not have any plan for granting other franchise rights to other third parties. The Target Group will review its expansion strategy from time to time and when it decides to grant further franchise rights to third parties, the Target Group will devise clear policy and strategy for such plan to avoid potential direct or material competition amongst franchised restaurants or with restaurants owned and operated by the Target Group itself.

BUSINESS OF THE TARGET GROUP

RESTAURANT OPERATIONS AND MANAGEMENT

Pricing

Except for live seafood, the Target Group generally follows a set of benchmark prices for its menu items in all restaurants and allow for limited price differences. Key factors in determining the benchmark prices and pricing adjustments include:

- cost of the menu items;
- cost structure of restaurants and target margins;
- location and profile of the specific restaurant;
- extent of services provided;
- spending patterns of target customers; and
- prices set by competitors.

For live seafood, they are priced based on the prevailing market price plus a target margin.

Settlement and cash management

Customers of the Target Group pay their bills primarily through cash, credit card, prepaid cards issued by the Target Group or prepaid coupons in physical form distributed by the Target Group itself and in electronic form distributed through online group-purchasing websites. When prepaid cards issued by the Target Group or prepaid coupons in physical form distributed by the Target Group itself and in electronic form distributed through online group-purchasing websites were sold, they were recognised as deferred revenue and will be recognized as income when customers settle their bills using prepaid cards issued by the Target Group or prepaid coupons in physical form distributed by the Target Group itself and in electronic form distributed through online group purchasing websites. During the years ended 31 December 2015, 2016 and 2017, revenue generated from prepaid cards issued by the Target Group and prepaid coupons in physical form distributed by the Target Group itself and in electronic form distributed through online group-purchasing websites amounted to approximately RMB304.8 million, RMB339.3 million and RMB420.3 million, respectively. In relation to the aforesaid prepaid coupon in electronic form distributed through online group purchasing websites, online group-purchasing websites in the PRC are the principal channel through which the Target Group sell its prepaid coupons in electronic form but there is no contractually binding minimum sales commitment for the prepaid coupons by the online group-purchasing website. Sales generated from these online group-purchasing websites amounted to approximately RMB290.3 million, RMB307.2 million and RMB321.8 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 40.5%, 43.4% and 45.9% of the total revenue for the corresponding period. For further details about the

BUSINESS OF THE TARGET GROUP

settlement arrangement between the Target Group and the online group-purchasing websites, please refer to the paragraph headed “Customers of the Target Group” in this section.

In relation to the prepaid cards issued by the Target Group, the prepaid cards for *Xiao Faigo Hotpot* (“小輝哥火鍋”) has a validity of less than three years whereas the prepaid cards issued by the Target Group for *Faigo* (“輝哥”) has a validity of 10 years, which is extendable at no extra cost. The Target Group plans to further promote its prepaid cards to its customers. The monetary value stored in these prepaid cards issued by the Target Group are refundable. During the Track Record Period, the Target Group had not been requested by its prepaid card holders for refund of the value stored in their relevant prepaid cards. Customers settling their bills by prepaid cards may enjoy discount, the range of which was approximately between 7.4% to 17.4% during the Track Record Period. According to the PRC Legal Advisor, card-issuers have to complete filing formalities within 30 days from the date of carrying out single-purpose card businesses. Since the Target Group has not filed with relevant authority for the prepaid card, it may be subject to a fine ranging from RMB10,000 to RMB30,000. As at the Latest Practicable Date, the registrations for the prepaid cards issued for the restaurants under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Faigo* (“輝哥”) in Shanghai have been completed. The Target Group expects that the relevant registration for the prepaid cards issued for the restaurants under the brand *Faigo* (“輝哥”) in Beijing and Wuhan will be completed before Resumption. The expected completion time has delayed due to more time is required for the authority to approve the application.

The Target Group has not received any material complaints from customers in relation to the use of these prepaid cards issued by the Target Group during the Track Record Period nor has the Target Group forfeited any monetary value stored in these prepaid cards issued by the Target Group.

To ensure the accuracy of record keeping of customers’ invoices, the Target Group designated a selected group of trained employees at each restaurant to access and operate the POS system, provide continuous employee training about operating procedures and guidelines of its POS system to facilitate review by restaurant staff and customers, and conduct internal review of selected transactions recorded in the POS system every week to identify irregularity or deviation from the Target Group standard operating procedures. The finance department of the Target Group conduct reconciliation between the cash receipts as recorded in its POS systems against the cash kept at the cash register on a daily basis at each of the restaurants.

To prevent misappropriation and illegal uses of cash, the Target Group have the following measures in place to strengthen its cash management system:

- manager and cashier of a restaurant will reconcile the cash receipts during the day after close of business on a daily basis;
- cash received at a restaurant are delivered to the banks for deposit every business day. If banks are not opened, the cash will be kept in the safe of the shops;

BUSINESS OF THE TARGET GROUP

- restaurants use computerized POS systems to generate daily sales reports, which are reconciled on a daily basis with the sales receipts, including cash receipts and bank card receipts, collected by the cashiers; and
- enterprise resource planning system of the Target Group also tracks the deposit account statements, which are reconciled by the headquarter personnel with the sales reports from the restaurants.

In addition, the Target Group restaurants keep the key and passcode of the safe at the restaurants separately. Furthermore, surveillance cameras are installed in each of the restaurants to deter staff misconduct.

During the Track Record Period, the Target Group did not experience any misappropriation of cash by its employees, customers, or other relevant third parties that had any material adverse impact on its business and results of operations.

Management structure

The Target Group management structure is designed to promote efficiency in supervising, directing and supporting its operations, quality assurance systems, recruitment processes and training programs in different geographic regions:

- *Headquarters management.* The overall management of its business and operations is conducted at its headquarters in Shanghai. The headquarters in Shanghai is where all the department heads are housed. Corporate functions such as administration, finance, information technology as well as operational functions such as restaurant development, planning, purchase, warehouse administration and restaurant management and operations are carried out at the headquarters.
- *Regional management.* The restaurant operations of the Target Group are currently divided into three geographic regions: Eastern China, Northern China and Southern China. The regional managers are in charge of overseeing the day-to-day operations of the restaurants in the region under its supervision. The regional managers will report to the head of the restaurant management and operations in the headquarters and to ensure policies or procedures formulated from the headquarters are properly communicated to the individual restaurant level operation.
- *Restaurant-level management.* Each of the restaurants of the Target Group is operated and managed under the supervision its own restaurant manager. The number of employees at each restaurant varies based on the sales volume of that particular restaurant. The Target Group delegates certain management decisions, such as ordering fresh seafood and alcoholic beverages, to the restaurant manager, with a view to enhancing flexibility in responding quickly to changing market demands.

Customer feedbacks management

Catering industry is service-oriented and therefore comments or complaints from customers are received by the Target Group from time to time. The restaurant managers are responsible for dealing with customers' comments or complaints. Regional managers will discuss with individual restaurant managers on these matters during their regular visit and to ensure comments or complaints were properly handled. Regional managers were also promptly informed of comments or complaints via instant messaging tool so that higher level of management of the Target Group was aware of these incidents. There was no formal statistics on the number of complaints received by the Target Group prior to 2016. As one of the measures for enhancing internal control, the Target Group has since then recorded complaints from customers and has in place specific authority of restaurant managers and guidance in dealing with customers' complaints. For the years ended 31 December 2016 and 2017, the Target Group has received, respectively, 185 and 178 feedbacks or complaints from its customers.

The complaints received from customers during the Track Record Period generally related to the service quality of restaurant staff and food quality. Majority of the complaints were resolved on the same day. The Target Group takes these complaints as a means to continuously improve its service level and food quality. Restaurant managers are responsible for promptly resolving any complaints to food and service quality at restaurant level. As from 2016, the restaurant managers also keep logs on these complaints and remedies and report to the restaurant management and operation department of headquarters on the day of occurrence. The Target Group also closely monitors internet social media or websites, blogs and weibo in order to manage any customer complaints that appears in those media. During the Track Record Period, the Target Group did not experience any complaints from customers that had any material adverse impact on its brand, business or results of operations.

Central warehouse

By reason of the nature of hotpot cuisine, both fresh and frozen food ingredients are served at the restaurants of the Target Group. Accordingly, fresh or live food ingredients are delivered directly by the supplier to the restaurants where such food ingredients will be stocked and usually consumed in a matter of days. For frozen food ingredients which have a longer shelf-life, they will be delivered and stocked in warehouses leased by the Target Group.

As at the Latest Practicable Date, the Target Group has three major warehouses, one in Shanghai supporting the Target Group's operation in the Eastern China region, one in Beijing supporting the Target Group's restaurants in the Northern China Region and one in Shenzhen supporting the Target Group's operation in the Southern China.

Key benefits from the use of these central warehouse include:

- *Economies of scale.* Central warehouse improves supply chain efficiency by centralising the purchase of food ingredients and other supplies.

BUSINESS OF THE TARGET GROUP

- *Reduced inventory management expenses.* The use of central warehouse helps the Target Group to reduce inventory management expenses by consolidating the inventory storage, monitoring and logistics functions.
- *Strategic stockpiling.* The use of central warehouse facilitates management of the Target Group strategic stockpile of seasonal food ingredients and supplies, which may also provide protection against market for food ingredients with wide price fluctuations.
- *Centralised quality control.* The Target Group achieves a significant degree of centralization of the quality inspection and acceptance functions by using central warehouse. The Target Group is able to apply consistent quality inspection and acceptance standards at central warehouse, which help to ensure consistent quality of food ingredients.
- *Standardised operation model.* The standardised operation model of central warehouses is easy to replicate in other regions which the Target Group will expand its restaurant network.

The warehouse in Shanghai is leased from and managed by a specialised cold-store logistic service provider, an Independent Third Party. Under the service agreement between the Target Group and the warehouse service provider, the service provider will inspect the goods purchased by the Target Group in accordance with the specifications and requirements of the Target Group before the goods are accepted and stocked in the warehouse. Details of the incoming goods such as date of delivery, type of goods, quantity, shelf-life or expiry date will be recorded in an inventory management system. The Target Group can check the details recorded in the inventory management system through an online platform at any time. The Target Group will send its own staff to carry out sampling check to ensure goods stocked in the warehouse correspond with the requirement of the Target Group. The third party warehouse service provider also provides delivery service based on the delivery schedule provided by the Target Group. For fresh or live food ingredients, the suppliers will arrange delivery to the shops directly and the Target Group will also perform quality check before accepting the food ingredients.

To support the operations of the Target Group in Northern and Southern China, the Target Group has leased premises, respectively, in Beijing and Shenzhen for warehousing purpose. These warehouses are also equipped with cold-store facilities and managed by the Target Group itself. Meanwhile, the Target Group also leased other properties for storage of supplies or equipment which does not require special storage conditions.

PRODUCT DEVELOPMENT

The Target Group targets a wide range of guests, including families, special occasion diners and business clientele. The Target Group seeks to develop proprietary recipes for soup bases and dipping sauces, as well as other menu items to its customers a wide range of choices. The Target Group keeps itself abreast of the prevailing health and nutrition trends and the changing tastes of customers to enhance customer loyalty or attract new customers. In addition, the Target Group will also explore different combinations of meat, vegetables

BUSINESS OF THE TARGET GROUP

and side dishes to create various set menus to attract customers. The Target Group also regularly offers seasonal menu items to reinforce the freshness perception of the Target Group.

Mr. So, the executive chef of the Target Group, is the person in charge of the product development of the Target Group.

It generally requires six to nine months to launch new dishes and the product development process primarily consists of the following key steps:

- *Project proposal.* The development process commences with the Target Group's product development team collecting consumer demand information, conducting market research and preparing project proposal for the new dishes. In addition to taste, the product development team also takes account of commercial viability of the dishes by considering the target price, sales volume, gross margin and appeal to the customers.
- *Approval.* The proposed new dishes will be reviewed by the executive chef of the Target Group.
- *Recipe and procurement.* After the proposed new dishes is approved the product development team will compile a standard recipe setting forth the seasonings, spices and other ingredients needed for the dish. The Target Group's procurement department appoints the appropriate suppliers for the food ingredients used and the finance department measures the cost of ingredients used.
- *Test launch and launch.* Before launching a new dish in all restaurants, the Target Group may conduct a test launch in certain selected restaurants. The Target Group may adjust the scale of its production plan for the new dish based on the sales volume it generates during the test launch. The Target Group will monitor the sales volume and collect feedback from customers after the formal launch, which help the Target Group assess the level of market acceptance to the newly introduced menu item.

MARKETING AND PROMOTION

Promotional campaigns

The Target Group's marketing and promotional efforts are designed to help it to increase sales by attracting new guests, increasing frequency of visits of existing guests, helping newly opened restaurants achieve financial targets, and promoting the image and recognition of the Target Group's brands.

With the increasing popularity of the new media, the Target Group places advertisements on popular websites and social media. The Target Group has also established its own official *weibo* and *wechat* accounts to promote its offerings and interact with its customers and public.

BUSINESS OF THE TARGET GROUP

During the Track Record Period, the Target Group has partnered with major online group-purchasing websites in the PRC where customers can purchase prepaid coupons in electronic form for the Target Group's services at a discount. For further details about the cooperation between the Target Group and the online group-purchasing websites, please refer to the paragraph headed "Customers of the Target Group" in this circular.

Since May 2016, the Target Group had also partnered with an online group-purchasing website in the PRC on an exclusive basis for distribution of the online prepaid electronic coupons of the Target Group. During the period when the exclusive distribution arrangement was in effect, the Target Group had not partnered with other online group-purchasing website for distribution of the online prepaid electronic coupons of the Target Group. While the exclusive arrangement ceased in September 2017, the Target Group currently continues to cooperate with the relevant online group purchasing website only. Under the existing cooperation arrangement with the online group-purchasing website, the Target Group will receive an advance payment of RMB30 million, which will be recognised as deferred revenue. When the prepaid coupons were used for settlement at the restaurants, the value of the prepaid coupons paid by the customer would be recognised as revenue and an equivalent amount will be deducted from the deferred revenue. If the advance payment is below RMB3 million, the online group-purchasing website will top-up the advance payment back to the RMB30 million level. However, if the monthly sales of those online prepaid coupon is less than RMB15 million, the advance payment of RMB30 million will cease.

The online group-purchasing website has also provided to the Target Group statistics on the consumption patterns, comparison of performance with other hotpot restaurants and demographics of customers so that the Target Group can further analyze in details of the market and formulate or refine its marketing and promotional campaign.

Other sales and marketing initiatives of the Target Group include:

- Seasonal and promotional menu items. The Target Group offers special menu items for seasonal food ingredients.
- New store opening promotion. New store opening discounts are offered in order to speed up the awareness of the new store and ramp-up on new store traffic.
- Non-peak hours promotion. Offering discounts to customers visiting during non-peak hours in order to drive store traffic.
- Selective restaurant renovation program. The Target Group will selectively renovate its restaurants to reinforce its brand recognition.

Customer relationship management

The Target Group has established membership programs to help the Target Group to locate and attract new guests, nurture and retain customer loyalty, and re-connect with former guests.

BUSINESS OF THE TARGET GROUP

The Target Group members will enjoy different type of benefits such as discount or coupons available to members generally and on the birthday of the customer. The Target Group will also will launch promotional campaigns specifically targeting its members.

PROCUREMENT

The Target Group's ability to maintain consistent quality throughout its restaurant network in part depends upon the ability to secure a stable supply of high quality and safe food ingredients. The Target Group has a comprehensive set of procurement processes designed to maintain uniform standards and effective management practices covering:

- supplier selection;
- quality control;
- pricing;
- system for centralised procurement; and
- inspection procedures for all restaurants.

The Target Group has a dedicated purchase department at its headquarters to implement a centralised purchase system for all purchase orders. The Target Group's procurement team will only purchase from those suppliers which are included in the Target Group's suppliers' list.

The employee handbook of the Target Group sets out strict guidelines prohibiting bribery or conflict of interest between the Target Group and its employees. In particular, the employee handbook sets out the limited circumstances under which an employee may accept gift or invitation to banquet or activities from business partners, having regard to the value of the gift, the relevance of the banquet or activities to the Target Group's business, and the payment arrangement. Above all, employees of the Target Group are not allowed to accept any gift or invitation if acceptance of these will affect the fairness or objectivity of any commercial decision. The head of the personnel and administration department of the Target Group is tasked with the responsibility in providing guidance to employees on matters relating to gift or invitation. In addition, there are anti-bribery clauses in the Target Group's purchase agreement entered into with its suppliers. The Target Group has also designated an internal e-mail and hotline for handling suspicious bribery reports. The utilization of the Target Group's centralized procurement system increases the Target Group's bargaining power during price negotiations as a result of its economies of scale. The centralized procurement system also reduces the number of employees with purchasing authority and thus increases effectiveness of the Target Group's internal control measures.

BUSINESS OF THE TARGET GROUP

Supplier selection

In view of growing concern on food safety in the PRC, the Target Group attaches paramount importance to its selection of supplier, especially for hotpot restaurants where raw food ingredients are served. The purchase department of the Target Group is under the supervision of Mr. Tse Chi Kwai, a member of senior management of the Target Group, who had served at a large and renowned catering group for five years before joining the Target Group and is a fellow member of The Chartered Institute of Procurement and Supply.

Before a potential supplier is accepted by the Target Group, the Target Group will review their relevant licences and permits of the potential supplier and will make sure the items to be supplied are within the business scope of the potential suppliers. Depending on the type of food ingredients to be supplied, the Target Group will conduct a site-inspection of the ultimate source of the supply chain and require the quarantine certification. Potential suppliers will be required to provide samples for assessment by the Target Group. Acceptance of a potential supplier requires approval from the head of the procurement department of the Target Group.

In addition to the assessment from the quality control perspective, members of the purchase department will also compare prices by visiting local wholesale markets to ensure that the Target Group will get a competitive purchase price.

Supplier management

The Target Group has a designated purchase department at the headquarters to manage its procurement matters, including supplier selection, price negotiation and supplier evaluation. As at the Latest Practicable Date, the Target Group had 106 approved suppliers. On average, the Target Group has over three years of business dealings with its suppliers. The Target Group generally makes purchases from a limited number of suppliers for key food ingredients to ensure proper accountability and quality and will purchase from suppliers with whom the Target Group has established long-standing relationships.

The Target Group uses its standard form of contracts and purchase orders when dealing with its suppliers and therefore key and standard terms apply across all its suppliers. Such key and standard terms cover the following matters:

- inspection and sampling size;
- warranties on shelf live;
- product recall;
- packing and labelling specification;
- compliance of food safety laws and regulations; and
- anti-bribery requirement.

BUSINESS OF THE TARGET GROUP

During the Track Record Period, details of purchase of the Target Group on beef, live and frozen seafood, which being the key menu items featured by the Target Group, and their respective percentage to the Target Group's total purchase were as follows:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB in million</i>	%	<i>RMB in million</i>	%	<i>RMB in million</i>	%
Beef	60.2	20.9	67.0	22.0	68.8	21.5
Live seafood	39.0	13.5	39.6	13.0	41.4	12.9
Frozen seafood	15.4	5.3	12.4	4.1	10.6	3.3

The Target Group procure all its food ingredients from suppliers operating in the PRC and therefore does not need to import the same from overseas. The proposed Directors believed that it has a diversified approved supplier list and there are other suppliers available in the market. Accordingly, the proposed Directors are of the view that the Target Group is not subject to substantial concentration risk in its raw material procurement. The proposed Directors confirmed that the Target Group did not experience any material disruption in its raw material procurement during the Track Record Period.

For the years ended 31 December 2015, 2016 and 2017, purchases from the Target Group's largest supplier accounted for 23.8%, 13.7% and 14.2% of its total purchases, respectively, and purchases from the Target Group's five largest suppliers accounted for 54.9%, 46.1% and 41.8% of the total purchases of the relevant periods of the Target Group, respectively.

The Target Group has established business relationship with its top five suppliers for between two to over 10 years and they are all Independent Third Parties. The Target Group has entered into standard supply contracts with these suppliers. The Target Group has a credit term of approximately 60 to 150 days with its top five suppliers and settles the payment by way of inter-bank transfer. None of the Directors and proposed Directors, their associates or any of the current Shareholders (who, to the knowledge of the Directors and proposed Directors, own more than 5% of share capital of the Company) has any interest in any of the five largest suppliers of the Target Group that is required to be disclosed under the Listing Rules.

Purchase cost control

The Target Group seeks to achieve purchase cost control by bulk purchases. The purchase department of the Target Group regularly conducts research and compares prices of different goods offered at the wholesale market and the prices offered by its approved suppliers. In addition, the purchase department of the Target Group closely monitors the price fluctuation of food ingredients to ensure competitive pricing will be obtained from suppliers.

BUSINESS OF THE TARGET GROUP

To better control the purchasing costs, the Target Group seeks to enter into monthly contracts with its suppliers for fresh and live food ingredients. The purchase department of the Target Group will compare prices available in the wholesale market and its approved supplier. Once the price is agreed, purchase of such food ingredients will be made at the agreed price for the month. For other food ingredients and supplies such as frozen meat or meat-ball, the Target Group will usually enter into supply contract for 12 months where the price will also be fixed, though in some cases there is provision in the contract that either side may request for re-negotiation of price in case of fluctuation of price in the market. There is no minimum guaranteed purchase amount in those long term supply contracts.

Set forth below are sensitivity analyses of the impact to the results of operations of the Target Group for during the Track Record Period from the fluctuation of the cost of foods and beverage and other materials consumables used.

Hypothetical changes in cost of foods and beverage and other materials consumables used for the year ended 31 December 2017

	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(in RMB in million)							
Foods and beverage and other materials consumables used	300	287	274	261	236	223	210	197
Change in cost of foods and beverage and other materials consumables used for the year ended 31 December 2017	52	39	26	13	(13)	(26)	(39)	(52)
Change in profit for the period	(39)	(29)	(20)	(10)	10	20	29	39

Hypothetical changes in cost of foods and beverage and other materials consumables used for the year ended 31 December 2016

	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(in RMB in million)							
Foods and beverage and other materials consumables used	312	299	286	273	247	234	221	208
Change in cost of foods and beverage and other materials consumables used for the year ended 31 December 2016	52	39	26	13	(13)	(26)	(39)	(52)
Change in profit for the year	(39)	(29)	(20)	(10)	10	20	29	39

Hypothetical changes in cost of foods and beverage and other materials consumables used for the year ended 31 December 2015

	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(in RMB in million)							
Foods and beverage and other materials consumables used	345	330	316	301	273	259	244	230
Change in cost of foods and beverage and other materials consumables used for the year ended 31 December 2015	57	43	29	14	(14)	(29)	(43)	(57)
Change in profit for the year	(41)	(31)	(21)	(10)	10	21	31	41

BUSINESS OF THE TARGET GROUP

The proposed Directors confirm that the above sensitivity analyses have covered the historical range of fluctuations in average costs of the foods and beverage and other materials consumables used by the Target Group during the Track Record Period.

Except live seafood which is priced and offered at the restaurant based on its prevailing price, as customary in the restaurant industry, the Target Group generally is not able to pass short-term price increases of its food ingredients to its customers. Accordingly, the Target Group relies on its procurement control system to maintain its profitability. Given the DIY nature of hotpot cuisine, a significant portion of food ingredients of the Target Group are procured from suppliers with minimal processing before serving to the customers at the restaurants. This saves the food preparation cost at each of the restaurants, such as the cost of additional kitchens and equipment for in-restaurant processing as well as the costs of staff training at each restaurant.

Purchasing procedures and inventory management

The Target Group has established centralised purchase procedures for all purchase orders. The Target Group also has established internal review, approval and monitoring procedures for all purchase orders, including the centralised purchases made through its purchase department. For live and fresh food ingredients, individual restaurants place purchase orders with the approved suppliers on a daily basis and they are required to record and pass to the headquarters details of the purchase orders. These food ingredients will be delivered to the restaurants directly by the suppliers. For other food ingredients and supplies, the headquarters will place orders and the goods will be delivered to the warehouses used by the Target Group. Both individual restaurants and the central warehouses keep a record of the movement of the supplies and such record is also sent to the headquarters as part of its inventory management procedure.

During the Track Record Period, the Target Group did not experience any interruption in the supply of food ingredients, early termination of supply agreements or failure to secure sufficient quantities of irreplaceable food ingredients that had any material adverse impact on business and results of operations of the Target Group.

PRODUCTION

Soup base and dipping sauce are an important element in enhancing the flavour of the foods. The Target Group develops its own soup bases and dipping sauces and engages third parties for preparing the soup bases and dipping sources based on the Target Group's recipes for its restaurants operating under the brands *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”). For restaurants under the brand *Faigo* (“輝哥”), the soup base is prepared in the early morning on a daily basis.

For other food ingredients, because of the DIY nature of hotpot and the fact that a significant portion of food ingredients procured from suppliers are processed such as washing and cutting, each restaurant is therefore not required to spend excessive time in food preparation.

BUSINESS OF THE TARGET GROUP

FOOD SAFETY AND QUALITY CONTROL

The Target Group fully understands that food safety and quality control are vital to the success of its business and protecting its reputation which takes years to build. The Target Group has implemented stringent food safety and quality control standards and measures throughout different aspects of its operations, including (i) supply chain, (ii) logistics and (iii) restaurants. The Target Group realises that food safety issues can arise in any aspect of its operation and therefore the Target Group formulates and implements its safety system from the top level by establishing a safety committee whose members comprise department heads of the operation department, purchase department, logistics department and external affairs department.

The responsibility of the safety committee includes:

- ensuring compliance with the laws and regulations relating to food safety;
- establishing and optimizing the organization structure in relation to food quality and safety management system;
- analyzing, evaluating and managing potential food safety risks;
- adjusting the operation procedures in response to the new laws and regulations applicable to the catering service industry or the business of the Target Group; and
- establishing and enforcing quality standards and building teams responsible for quality assurance.

As at the Latest Practicable Date, the Target Group had a total of 106 employees dedicated to quality control function. The Target Group will also send its employees to attend seminars and, if required, take part in examination organised by the relevant food safety government department for the purpose of keeping the Target Group abreast of the prevailing food safety requirement.

The Target Group has put in place various procedures to ensure food safety.

Supply chain and logistics quality control

Apart from the stringent screening procedure for selecting suppliers, the Target Group has clear and detailed internal guidelines on inspection of goods from supplier upon delivery. The guidelines set out the inspection criteria with respect to different types of food ingredients so that staff at individual restaurants or third party warehouse service providers can consistently apply the acceptance standards of the Target Group.

BUSINESS OF THE TARGET GROUP

The Target Group also has a checklist setting out the documents required to be obtained from suppliers with respect to different type of food ingredients, especially for meat or poultry where a quarantine certificate is required before they are accepted by the Target Group. If there is deviation or irregularity in the condition of the food ingredients, the Target Group will reject acceptance and require replacement from the suppliers.

Following acceptance of the goods delivered, the Target Group will closely monitor the movement of its inventory to ensure that no food ingredients will be served beyond their shelf life. The Target Group also has an internal policy specifying the shelf life of different type of food ingredients as well as the condition under which they should be stored. For fresh vegetables, its shelf life under the Target Group's requirement is one day, for live seafood and fresh meat, their shelf life is two to three days, for frozen meat, its shelf life is two years.

Restaurant quality control

The Target Group adopts stringent food safety and quality control standards for all the restaurants in its restaurant network with respect to food preparation at the restaurants.

During the food preparation stage, restaurant staff are required to strictly adhere to the procedures and standards stipulated in the manuals developed by the Target Group to ensure the flavor, presentation, quality and hygiene standards. Accordingly, customers of the Target Group can enjoy the same dishes with consistent quality and taste at any of the restaurants in the Target Group's restaurant network. The Target Group believes that consistency helps retain existing customers and attract new customers by generating customer confidence in the Target Group's quality control system. In particular, the Target Group's food safety and quality control policies include the following:

- *Continuous training programs.* The Target Group continuously provides training programs to its restaurant staff on operating procedures and quality standards. Post-training tests are conducted to ensure the effectiveness of the training.
- *Strict adherence to inventory level.* Individual restaurants order most of the fresh or perishable ingredients on a daily basis, which ensures the quality and freshness of the dishes and maintain minimal inventory level.
- *Food safety and hygiene.* The Target Group has implemented a hygiene manual for the overall cleanliness of its restaurants.
- *Presentation.* Food ingredients are checked by restaurant-level kitchen staff on a daily basis to assure the appearance, taste, colour and portion of the ingredients adhere to the Target Group's uniform standard.
- *Spot-check.* The regional manager regularly visits the restaurants to perform inspection and examination to ensure strict adherence to the Target Group's food safety and quality standards.

BUSINESS OF THE TARGET GROUP

- *Collection of customer feedback.* Individual restaurants will collect customer feedback on the quality of dishes and service level and convey customer opinions to the restaurant.

COMPETITION

The hotpot restaurants market in the PRC is fragmented and no one single brand or operator dominated the market. According to the Market Research Report, the top five hotpot restaurants accounted for 4.7% of the entire market in terms of sales revenue and the top restaurant only had 1.7% of the market in 2016. The hotpot restaurant market in China can be divided into Cantonese-style, Mongolia-style, Sichuan-style, and other-style hotpot. Cantonese-style hotpot restaurants accounted for around 13.8% of total hotpot restaurant market in 2016 in the PRC. Within the Cantonese-style hotpot restaurants segment, the Target Group had a market share of 1.3% in terms of revenue in 2016. The Target Group accounted for approximately 0.2% of the market share of the overall hotpot market in terms of revenue in 2016 in the PRC.

The Cantonese-style hotpot restaurant market is comparatively less fragmented, with the top five Cantonese-style hotpot restaurants having an aggregate market share of approximately 18.0% in terms of sales revenue in 2016. The Target Group ranked fourth in the Cantonese-style hotpot restaurant market according to the Market Research Report, having a market share of 1.3% in 2016. The top three brands were *Macao Doulao*, *Xiabuxiabu* and *Luxi Beef* based on the Market Research Report. Accordingly, the Target Group directly competes with these restaurants.

For further details about the key success factors and entry barriers of the hotpot restaurant market in the PRC as well as its future outlook, please refer to the section headed “Industry overview” in this circular.

BUSINESS OF THE TARGET GROUP

EMPLOYEES

As at the Latest Practicable Date, the Target Group employed a total of 2,657 employees that are classified as follows:

Function	Number of employees	Percentage of total number of employees %
Chairman office	13	0.5
Personnel and administration	25	1.0
Finance	67	2.5
Information technology	5	0.2
Development	1	0.04
Marketing	6	0.2
Planning	12	0.5
Engineering	38	1.4
Procurement	24	0.9
Logistics	7	0.3
Warehouse	14	0.5
Research	7	0.3
Restaurant management and operations	<u>2,438</u>	<u>91.8</u>
Total	<u><u>2,657</u></u>	<u><u>100.0</u></u>

Of these 2,657 employees, 1,783 are based in Shanghai, 249 are based in Beijing, 625 are based in other cities in the PRC.

The Target Group considers that quality of service is one of element that differentiate itself from other restaurant operators. In order to achieve the expected standard of quality of service, it is important for the Target Group to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and staff. Accordingly, the Target Group offers competitive wages and other benefits to its restaurant employees. The Target Group also pays performance bonus as an incentive to its restaurant staff if a specific restaurant target is achieved.

Training

The personnel and administration department of the Target Group is responsible for overseeing the employee training and training of managerial staff. The training programs provide to the employees are specifically designed based on the responsibilities of the relevant staff member so as to help them perform their duties effectively. The personnel and administration department will also involve other relevant departments in designing and delivering the relevant training programs.

BUSINESS OF THE TARGET GROUP

The goal of the training program is to train the employees in terms of operation and management and to identify talent, with the aim of providing upward mobility within the Target Group, fostering employee loyalty and incorporating customised mentoring, coaching and training. The Target Group has a two-year training program through which a newly recruited trainee may progress to the rank of a restaurant manager. Such internal upward mobility helps staff retention and produces the type and quality of management personnel needed for the Target Group's expanding restaurant network. Employees will also learn and become acquainted with the Target Group's standards and procedures for the day-to-day operation of its restaurants.

Another fundamental objective of the training programs is to provide a sufficient number of well-trained employees for newly opened restaurants. The Target Group generally relocates the restaurant general manager from an existing restaurant to a new restaurant, where the restaurant general manager is able to utilise his or her training and know-how and will coordinate the training of the new restaurant staff within approximately one to two weeks before the expected opening.

Recruiting and retention

Recruiting in the restaurant industry is highly competitive, especially with respect to recruiting of restaurant staff, including waiting staff, cashier, and kitchen staff. To attract the candidates with the right calibres, the Target Group offers competitive remuneration to its staff.

The Target Group believes continuous training and internal upward mobility are also important to retain its employees. To achieve this, the Target Group has implemented the following initiatives:

- establishing an orientation program for new employees to instill corporate values and culture of the Target Group in new employees;
- conducting employee training programs to improve their job skills and help with their career advancement; and
- providing management training programs on employee retention, encouraging internal communication by conducting annual employee surveys, and promote an open-door policy within the organization.

Human resources agency agreement and labour relationship

On 1 September 2017, the Target Group entered into a human resources agency agreement (the "**HR Agency Agreement**") with Ningbo Tianxin Catering Management Co., Ltd. ("**Ningbo Tianxin**"), an Independent Third Party, as the service provider, pursuant to which Ningbo Tianxin provides human resources-related services, including effecting payment of salary and wages to certain staff of the Target Group as instructed by the Target Group. The HR Agency Agreement is for a term of two years commencing from 1 September 2017 to 31 August 2019. The Target Group shall pay a monthly service fee of RMB50 per number of staff to Ningbo Tianxin. Pursuant to the HR Agency Agreement, the

BUSINESS OF THE TARGET GROUP

labour relationship between the Target Group as the employer and the staff as the employee remains unchanged, therefore, the Target Group shall remain responsible for all obligations and liabilities under the Labour Law of the PRC and other labour laws in the PRC.

The proposed Directors are of the view since staff turnover rate of the PRC catering industry is high, in particular junior staff who are responsible for the frontline restaurant operations, the HR Agency Agreement is beneficial to the Target Group because it reduces the administrative burden of the Target Group in handling employment-related matters and thus, enhances the cost efficiency in human resources management of the Target Group.

Mandatory benefit plans

The Target Group is required under PRC law to make contributions to its employee benefit plans. In the years ended 31 December 2015, 2016 and 2017, the Target Group made contributions to mandatory employee benefit plans including pension, work-related injury benefits, maternity insurance, medical, unemployment benefit plans and other benefits amounting to approximately RMB29.5 million, RMB33.2 million and RMB33.3 million, respectively.

During the Track Record Period, the Target Group did not experience any major disputes with its employees and it believes it has maintained a good working relationship with its employees.

INFORMATION TECHNOLOGY

The Target Group employs various information technology to enhance its operation efficiency, details of which are as follows:

- *Point-of-sale systems.* All of restaurants of the Target Group has licenced from an Independent Third Party computerized point-of-sale systems controlled by the headquarters, which are designed to improve operating efficiency, provide management standardized and centralized control over menu mix and pricing, collect financial and marketing data and reduce restaurant and corporate administrative time and expense. These systems record each order and print the food requests in the kitchen for the cooks to prepare. The data captured for use by operations and corporate management includes guest count, time and date of meal, location of the guest's seat, quantities of each menu item sold and alcoholic and nonalcoholic drinks consumption, cash and credit card receipts, and membership card number, if available. The collected data is generally automatically transmitted to the headquarters every night, enabling management to continually monitor operating results and consumer spending patterns at each restaurant.
- *Enterprise resource planning systems.* The Target Group has licenced from an Independent Third Party an enterprise resource planning systems which serves as the platform for monitoring and managing a variety of functions at each restaurant and central warehouse, including purchasing, warehousing, human resources and accounting. The systems provide management with operating

BUSINESS OF THE TARGET GROUP

reports for each restaurant that set forth restaurant performance, based on which the management of the Target Group can prepare the restaurant performances budget and control the restaurant operations on a centralized basis. These systems allow the Target Group to monitor restaurant sales, food and beverage costs, labour expense and other restaurant trends on a regular basis. Purchases of food ingredients and other supplies are managed on a centralized basis through the purchasing module in the Target Group enterprise resource planning systems, which controls qualification of suppliers, quality standards of food ingredients and other supplies, and pricing of purchase orders. The Target Group believes this function helps it to achieve standardization of quality and economies of scale in purchases.

INTELLECTUAL PROPERTY

The major brands of Target Group are *Xiao Faigo Hotpot* (“小輝哥火鍋”), *Faigo* (“輝哥”) and *Hong Yuanwai* (“洪員外”) in the PRC and the Target Group holds the trademark registration of the three brands in the PRC. Further details of the intellectual property of the Target Group can be found in the paragraph headed “Further information about the Target Group — Intellectual property of the Company and the Target Group” in Appendix V to this circular.

The Target Group confirms that, as at the Latest Practicable Date, the Target Group was not involved in any proceedings in respect of, and the Target Group has not received any notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which the Target Group may be involved whether as claimant or respondent and which, if not decided in favour of the Target Group, may have a material and adverse impact on the Target Group’s financial condition or business operation.

INSURANCE

The Target Group maintains (i) public liability insurance to cover liability for damages arising out of its business operations, (ii) money insurance for loss of cash in transit (against robbery or attempted robbery at certain prescribed zones) or at the Target Group’s business premises, (iii) property insurance covering all risks for the restaurants to protect its businesses from certain natural disasters and other unfortunate events and (iv) employer’s liability insurance. The Target Group considers its insurance coverage to be customary for business of its size and type and in line with the standard commercial practice in the PRC.

PROPERTIES

The Target Group does not own any property and leases all of its restaurant premises, staff quarters, central warehouse and head office premises from third parties. The Target Group believes this leasing strategy reduces its capital investment requirements. The Target Group currently does not intend to acquire any property for its restaurant sites in the future. The average monthly rental expenses in relation to the properties leased for the Target Group’s restaurants were approximately RMB9.7 million, RMB10.4 million and RMB10.1 million for each of the years ended 31 December 2015, 2016 and 2017, respectively.

BUSINESS OF THE TARGET GROUP

As at 31 December 2017, being the end of the Track Record Period, no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of its total assets as at the same date.

As at the Latest Practicable Date, the Target Group leased 186 premises in the PRC with a total GFA of approximately 52,645.2 square meters. The following table sets out a summary of the properties leased by the Target Group:

Nature of use	Number of premises	GFA <i>(approx. square meters)</i>
Restaurants	105	46,217.5
Warehouse <i>(note)</i>	36	2,593.7
Office <i>(note)</i>	9	1,731.2
Staff quarters <i>(note)</i>	38	2,102.8

Note:

Out of the 186 premises, two premises with a GFA of approximately 500 square meters and 89.3 square meters, respectively, were used for dual purposes of, respectively, warehouse plus office and staff quarters plus office. For the purpose of the above break-down, each of these two premises were taken as two premises, with each occupying half of the GFA of the relevant premise.

Defects associated with the leasing and usage of properties leased by the Target Group

A. Title certificate of leased properties

With respect to 53 out of 186 of the leased properties of the Target Group in the PRC, the lessors of such properties had not been able to provide the Target Group with the relevant title ownership certificates for the properties the Target Group leased or proof of authorizations from the property owners to sublease the properties to the Target Group. 22 of these properties are or will be used for restaurant operations, with an aggregate GFA of approximately 9,849.2 square meters. In aggregate, the GFA of these 22 properties accounted for approximately 18.7% of the total GFA of the leased properties of the Target Group. During the Track Record Period, revenue generated from the restaurant operations at these 22 premises amounted to approximately RMB58.0 million, RMB67.3 million, and RMB75.7 million, respectively, representing approximately 8.1%, 9.5% and 10.8% of the revenue of the Target Group for the corresponding period, respectively.

Based on the advice of the PRC Legal Advisers, if the lessors of the leased properties do not have the requisite rights to lease the relevant properties, the relevant lease agreements may be deemed invalid, and as a result, the Target Group may be required to vacate from the relevant properties and relocate its restaurants. Please refer to the section headed “Risk factors — Risks relating to the Target Group — The rights of the Target

BUSINESS OF THE TARGET GROUP

Group to use its leased properties for certain restaurants could be challenged by property owners or other third parties, which may result in a disruption of the operations of the Target Group” in this circular.

The Target Group expects to incur total costs of approximately RMB57.2 million if it were required to vacate and relocate from these premises, consisting of approximately RMB2.6 million per restaurant. Since the commencement of operations of the Target Group and up to the Latest Practicable Date, the proposed Directors confirmed that the leases of the Target Group had never been challenged by any third parties, the Target Group believes the risk that it is required to vacate and relocate from these premises is remote. The landlords’ failure to provide the relevant title ownership certificates for the properties the Target Group leased or proof of authorizations from the property owners to sublease the properties to the Target Group does not result in any discount on the rent the Target Group had to pay. Based on the experiences of the Target Group, proper title ownership certificates or proof of authorizations does not result in any material premium on the rent charged by the landlord.

B. Inconsistency in actual usage of leased properties

Of the 186 leased properties of the Target Group, 14 premises were used for purposes different from the permitted property uses specified in relevant ownership certificate. In aggregate, the GFA of these 14 properties accounted for approximately 7.0% of the total GFA of the leased properties of the Target Group. One of these 14 properties situates on allocated land where it was also uncertain whether the leasing arrangement has been approved by the relevant government authorities.

According to the PRC Legal Advisers, there are uncertainties in relation to Target Group’s rights under the relevant lease agreements, as a result which the Target Group may have to vacate the premises. Out of the 14 premises, four premises were used for restaurant operations and revenue contribution of these restaurants amounted to RMB80.6 million, RMB72.7 million and RMB76.2 million for each of the years ended 31 December 2015, 2016 and 2017, representing approximately 11.3%, 10.3% and 10.9% of the Target Group’s total revenue of the relevant year, respectively.

As at the Latest Practicable Date, the operations of the abovementioned four restaurants had not been disrupted nor was the Target Group forced to relocate the relevant restaurants because of such non-compliance. However, the Target Group can give no assurance that it will not be subject to any loss in the future. Please see the section headed “Risk factors — Risks relating to the Target Group — Certain leased properties in the PRC are used as restaurants in breach of the ownership certificate” in this circular.

C. Impact on the Target Group and views of the proposed Directors

Accordingly, there are 26 premises for restaurant operations are affected by defects associated with properties leased by the Target Group as at the Latest Practicable Date, of which 22 premises are concerned with title certificate in the leased properties and four premises are concerned with inconsistency usage.

BUSINESS OF THE TARGET GROUP

The Target Group became subject to said defects as soon as the Target Group entered into the relevant lease agreement and the proposed Directors confirmed that when the Target Group entered into the relevant leases agreements, the Target Group was not aware of the absence of title certificate or the restriction on the usage of the relevant properties. The proposed Directors considered that in practice the risk that the Target Group would be required to vacate from these properties by reason of such defect was remote and the Target Group does not intend to relocate its restaurants operating at those properties subject to the said defects of its own accord. As an enhanced internal control procedure to avoid these defects in the future, the Target Group will ensure the ownership certificate and other necessary licences, permits and approvals of the landlords are obtained before commencing the business for new restaurants.

The audited profit after tax contributed by these affected restaurants for the years ended 31 December 2015, 2016 and 2017 amounted to, respectively, approximately RMB22.0 million, RMB21.6 million and RMB22.5 million, representing approximately 60.1%, 56.1% and 87.8% of the audited profit after tax of the Target Group for the corresponding period. If these affected restaurants had been required to vacate from their current properties, the proposed Directors estimated that the profit after tax of the Target Group would be decreased by the same extent if no alternative location could be secured on a timely basis for continuation of the business of the affected restaurants. While, purely based on estimated decrease in net profit as illustrated, the affected restaurants are individually and collectively crucial to the operations of the Target Group, the proposed Directors are of the view that the defects in relevant properties will not result in material adverse impact to the Target Group's operation in reality because the relevant leases had never been challenged or the Target Group had been requested to vacate the relevant properties.

The Target Group estimates that it would need three months to vacate all restaurants from the current premises affected by title or usage issues to an alternative one. As a contingency plan, the Target Group has identified four locations for the four restaurants affected by inconsistent property uses, all of which are operated under the brand *Faigo* (“輝哥”) in Shanghai. The Target Group's development department will constantly look for suitable premises with similar area for these restaurants which may be affected. The proposed Directors estimated that the loss of revenue during the three month period of relocation amounted to approximately RMB40.0 million. The proposed Directors are of the view that there will not be a material impact on its financial performance as a whole by reason of vacating from these properties and resuming its business restaurants elsewhere. In terms of the relocation cost, it will involve a restoration cost of about RMB0.5 million for each existing restaurant and a capital expenditure of approximately RMB8.0 million for each replacement premise. In view of the ongoing urbanization in the PRC, the scalability of the business model and market recognition of the brands of the Target Group, the proposed Directors are of the view that alternative premises are readily available to the Target Group on competitive terms in the event it has to relocate its restaurants. Meanwhile, the Vendors have agreed to indemnify the Target Group against any cost, expenses, loss or liabilities that the Company or Target Group may sustain if any restaurants of the Target Group being required to vacate the premises in which they are

BUSINESS OF THE TARGET GROUP

operating by reason of the competent authority decide to revoke the land use rights of the landlords of such premises for purposes different from the permitted land uses specified in relevant ownership certificate.

Lease registration

As at the Latest Practicable Date, the lease agreements with respect to all 186 leased properties of the Target Group had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to fulfill their obligation under the relevant PRC laws and regulations to register the leases with the local government authorities.

As advised by the PRC Legal Advisers, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in the Target Group being required to vacate the leased properties. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease. Accordingly, the aggregate amount of maximum fine will be approximately RMB1.9 million, which the proposed Directors believe will not have any material adverse impact on the business operations of the Target Group. Please refer to the section headed “Risk factors — Risks relating to the Target Group — The Target Group may be subject to fines as a result of unregistered leases” in this circular.

According to the PRC Legal Advisers, if the lease registration is completed in accordance with relevant laws and regulations, the probability of receiving penalty imposed by the competent government authorities on the Target Group with respect to its leased properties for its failure to register and file to relevant lease agreements is remote, on the basis that (i) no penalty was imposed on the Target Group for its failure to register and file the relevant lease agreements during the Track Record Period and as at the Latest Practicable Date, and (ii) according to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), if the parties to a lease agreement do not register and file the lease with the competent government authorities, the competent government authorities may order the non-compliant parties to register and file the lease within a prescribed time limit, and the relevant companies that fail to do so may be subject to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease and during the Track Record Period and as at the Latest Practicable Date, the Target Group has not received any notice or order from the competent government authorities that requires the Target Group to rectify its failure to complete the registration and file lease agreements within a prescribed time limit. The landlords’ failure to provide the necessary documents for the Target Group to register the leases does not result in any discount on the rent. Based on the experiences of the Target Group, proper registration of the lease does not result in any material premium on the rent charged by the landlord.

The Vendors have agreed to indemnify the Target Group against any cost, expenses, loss or liabilities that the Company or Target Group may sustain arising from the failure of any member of the Target Group to complete the registration and filing of any lease agreements concerning the properties in which Target Group operate its restaurants.

BUSINESS OF THE TARGET GROUP

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The Target Group is subject to the PRC national and local environmental laws and regulations. Under applicable PRC laws and regulations, any restaurant construction or renovation must be subject to an environmental impact assessment. The relevant environmental protection authorities will also ensure continuing compliance with applicable laws and regulations through random visits after the relevant site is put into use. If any incidents of non-compliance are found during such visits, the authorities may order rectification within a designated period of time and/or impose a fine. If the Target Group fails to rectify the area of non-compliance as ordered, the environmental protection authorities may order the Target Group to suspend its operations on such property and/or to pay a fine.

Due to the nature of the operation of the Target Group, the waste that the Target Group produces is not hazardous and has minimal impact on the environment. The Target Group is of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period. In the years ended 31 December 2015, 2016 and 2017, the cost of compliance with environmental protection rules and regulations of the Target Group was approximately RMB5.2 million, RMB5.2 million and RMB5.9 million, respectively.

The Target Group is also subject to the PRC laws and regulations regarding labour, safety and work related incidents. The Target Group strives to provide a safe working environment to its employees and has implemented work safety guidelines for all its employees which set out the work safety policies and promote safety on work sites. In addition, the kitchen operation manual of the Target Group provides clear guidance on various occupational and restaurant safety matters which the restaurant-level staff are required to follow. The Target Group has also implemented an internal control system to ensure the proper documentation of any work place safety incidents. The proposed Directors confirmed that the Target Group had not encountered any material accidents related to work safety during the course its operation and had not faced any material claim for compensation for personal injury or damage to property during the Track Record Period.

During the Track Record Period, the Target Group has complied with the relevant PRC workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which related to workplace safety and had materially and adversely affected its financial condition or business operations.

LEGAL PROCEEDINGS

The Target Group is currently not a party to, and it is not aware of any threat of, any legal, arbitral or administrative proceedings, which, in the Target Group's opinion, is likely to have a material and adverse effect on its business, financial conditions or results of operations. The Target Group may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of its business.

BUSINESS OF THE TARGET GROUP

LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

During the Track Record Period, some of the Target Group's restaurants commenced their operations without obtaining all the requisite licenses, approvals and permits from relevant regulatory authorities, details of which are summarised in the table below. The proposed Directors, as advised by the PRC Legal Advisers, confirm that save as disclosed below, the Target Group has complied with the relevant PRC laws and regulations in all material respects and has obtained the material licences, approvals and permits from relevant PRC regulatory authorities, for the ongoing operations of the Target Group as a whole in the PRC, during the Track Record Period.

A. NON-COMPLIANCE MATTERS RELATING TO LICENCE AND PERMITS

Particulars of non-compliance incidents	Reasons for the non-compliance	Current status																				
<p>Fire safety</p> <p>It is a requirement under the PRC laws that the restaurants of the Target Group shall complete their fire safety inspection before commencement of businesses.</p> <p>During the Track Record Period, certain restaurants of the Target Group commenced or operated their businesses without completing the fire safety inspection, details of which were as follows:</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Year</th> <th style="text-align: left;">Number of restaurants operated during the year</th> <th style="text-align: left;">Number of restaurants which the Target Group had operated during the year without completing the fire safety inspection</th> <th style="text-align: left;">Time of rectification</th> <th style="text-align: left;">Total revenue generated during the period of non-compliance</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>98 (note 1)</td> <td>32 (note 1)</td> <td>During February 2015 and May 2017</td> <td>RMB127.2 million</td> </tr> <tr> <td>2016</td> <td>101 (note 2)</td> <td>19 (note 2)</td> <td>During January 2016 and May 2017</td> <td>RMB94.1 million</td> </tr> <tr> <td>2017</td> <td>107 (note 3)</td> <td>7 (note 3)</td> <td>During February 2017 and January 2018</td> <td>RMB10.9 million</td> </tr> </tbody> </table>	Year	Number of restaurants operated during the year	Number of restaurants which the Target Group had operated during the year without completing the fire safety inspection	Time of rectification	Total revenue generated during the period of non-compliance	2015	98 (note 1)	32 (note 1)	During February 2015 and May 2017	RMB127.2 million	2016	101 (note 2)	19 (note 2)	During January 2016 and May 2017	RMB94.1 million	2017	107 (note 3)	7 (note 3)	During February 2017 and January 2018	RMB10.9 million	<p>The non-compliance incidents occurred because completing the Target Group's own fire safety inspection depends on the relevant property owner's completion of the same type of inspection, which is beyond the Target Group's control and has contributed in the failure or delay in completing the fire safety inspection by the Target Group. Also the management of the Target Group failed to strictly adhere to the relevant PRC laws and regulations and inadvertence in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations before commencement of the business of the relevant restaurants.</p>	<p>Of those 97 restaurants that remained opened as at the Latest Practicable Date, all restaurants have completed the fire safety inspection. Accordingly, there was no outstanding non-compliance incident of fire safety inspection as at the Latest Practicable Date.</p>
Year	Number of restaurants operated during the year	Number of restaurants which the Target Group had operated during the year without completing the fire safety inspection	Time of rectification	Total revenue generated during the period of non-compliance																		
2015	98 (note 1)	32 (note 1)	During February 2015 and May 2017	RMB127.2 million																		
2016	101 (note 2)	19 (note 2)	During January 2016 and May 2017	RMB94.1 million																		
2017	107 (note 3)	7 (note 3)	During February 2017 and January 2018	RMB10.9 million																		

Notes:

1. Of those 98 restaurants, seven restaurants were closed during the year.
2. Of those 101 restaurants, four restaurants were closed during the year.
3. Of those 107 restaurants, seven restaurant was closed during the year.

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group has adopted a “Licenses and Permits Management Policy” to govern the procedures of new restaurant opening, licences maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities including the fire safety inspection.

A restaurant opening checklist is to be completed and approved by directors of all business departments before the restaurant commence business.

The Target Group will conduct rigorous due diligence as to the ownership certificate and other necessary licenses, permits and approvals of the landlords before signing leases for new restaurants.

The Target Group has engaged a PRC legal adviser to identify a list of the laws and regulations applicable to the Target Group that would be required in order to commence operation of a new restaurant, and training has been provided by the PRC legal adviser to the senior management of the Target Group and relevant staff.

The Target Group’s personnel and administration department will update the list from time to time based on its experience with local authorities and also advice given by the PRC legal adviser.

The Company has established a compliance committee to oversee all licencing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group’s policies.

Legal consequences, maximum penalty and financial impact

The maximum penalty for not being able to complete the necessary fire safety inspection when the Target Group started operation will be (i) a fine up to RMB300,000 for each restaurant; and (ii) closure of all of these restaurants.

The aggregate maximum fine that the Target Group might face is RMB3.6 million.

Revenue generated from these relevant restaurants amounted to RMB127.2 million, RMB94.1 million and RMB10.9 million in 2015, 2016 and 2017 respectively, representing 17.8%, 13.3% and 1.6% of the total revenue of the Target Group for the respective periods.

Net profit generated from these relevant restaurants amounted to RMB9.4 million, RMB8.3 million and RMB0.2 million in the years ended 31 December 2015, 2016 and 2017, respectively, representing 1.3%, 1.2% and 0.03% of the total revenue of the Target Group for the respective periods.

Analysis of the risk to the Target Group

Pursuant to the Administrative Penalty Law of PRC, where a non-compliance matter has not been discovered within two years since its commission, administrative penalty would not be imposed, except as otherwise prescribed by law; if the act is of a continual or continuous nature, the period of two years shall be counted from the date the act is terminated.

As verbally confirmed by the Shanghai Municipal Fire Services, those restaurants which did not timely complete fire safety inspection but have already completed the inspection and are operating in Shanghai would not be ordered to cease operation. The Shanghai Municipal Fire Services also mentioned that its subordinate branches inspect a restaurant in Shanghai approximately twice a year.

According to the PRC Legal Advisers, for those restaurants which have completed the fire safety inspection, based on the aforesaid provisions, verbal confirmation from Shanghai Municipal Fire Services and the rectifications made by those restaurants, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely complete the fire safety inspection prior to commencing their operation during the Track Record Period is remote. The PRC Legal Advisers is of the view that the above non-compliance will not result in any material adverse impact on the ongoing business operations of the entire Target Group.

Having considered the view of the PRC Legal Advisers, and the indemnity provided by the Vendors against any fines and penalties arising from such non-compliance incidents, the proposed Directors are of the view that even in the event that the government authorities take any action against the Target Group, there will not be any material adverse impact on the business operations of the Target Group. As a result, the Target Group did not make any provisions in connection with these non-compliance incidents during the Track Record Period.

Particulars of non-compliance incidents

Environmental protection — environmental impact assessment

It is a requirement under the PRC laws that the restaurants of the Target Group shall complete their environmental impact assessment before commencement of businesses.

During the Track Record Period, certain restaurants of the Target Group commenced or operated their businesses without completing the environmental impact assessment, details of which were as follows:

Year	Number of restaurants operated during the year	Number of restaurants which the Target Group had operated during the year without completing environmental impact assessment	Time of rectification	Total revenue generated during the period of non-compliance	
2015	98 (note 1)	13 (note 1)	During January 2015 and December 2016	RMB19.1 million	
2016	101 (note 2)	12 (note 2)	During February 2016 and January 2017	RMB14.4 million	
2017	107 (note 3)	3 (note 3)	During January 2017 and November 2017	RMB2.7 million	

Notes:

1. Of those 98 restaurants, seven restaurants were closed during the year.
2. Of those 101 restaurants, four restaurants were closed during the year.
3. Of those 107 restaurants, seven restaurant was closed during the year.

Reasons for the non-compliance

The non-compliance incident occurred because of completing the Target Group's own environmental impact assessment depends on the relevant property owner's completion of the same type of assessment, which is beyond the Target Group's control and has contributed in the failure or delay in completing the environmental impact assessment by the Target Group.

Also the senior management of the Target Group failed to strictly adhere to the relevant PRC laws and regulations and inadvertence in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations before commencement of the business of the relevant restaurants.

Current status

Of those 97 restaurants that remained opened as at the Latest Practicable Date, all restaurants have completed the assessment. Accordingly, there was no outstanding non-compliance incident of environmental impact assessment as at the Latest Practicable Date.

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group has adopted a “Licenses and Permits Management Policy” to govern the procedures of new restaurant opening, licenses maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities including the environmental impact assessment.

A restaurant opening checklist is to be completed and approved by the directors of all business departments before the restaurant commence business.

The Target Group has engaged a PRC legal adviser to identify a list of the laws and regulations applicable to the Target Group that would be required in order to commence operation of a new restaurant, and training has been provided by the PRC legal adviser to the senior management of the Target Group and relevant staff.

The Target Group will conduct due diligence as to the ownership certificate and other necessary licences, permits and approvals of the landlords before signing leases for new restaurants.

The Target Group’s human resources and administration department will update the list from time to time based on its experience with local authorities and also advice given by the PRC legal adviser.

The Company has established a compliance committee to oversee all licensing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group’s policies.

Legal consequences, maximum penalty and financial impact

The maximum penalty for not completing the necessary environmental impact assessment when the Target Group started operation will be a fine up to RMB50,000 for each restaurant.

The aggregate maximum fine that the Target Group might face is RMB0.35 million.

Revenue generated from these relevant restaurants amounted to RMB19.1 million, RMB14.4 million and RMB2.7 million in the years ended 31 December 2015, 2016 and 2017, respectively, representing 2.7%, 2.0% and 0.4% of the total revenue of the Target Group for the respective periods.

Net loss generated from these relevant restaurants amounted to RMB(5.4) million, RMB(2.8) million and RMB(0.2) million in the years ended 31 December 2015, 2016 and 2017, respectively.

Analysis of the risk to the Target Group

Pursuant to the Administrative Penalty Law of PRC, where a non-compliance matter has not been discovered within two years since its commission, administrative penalty would not be imposed, except as otherwise prescribed by law; if the act is of a continual or continuous nature, the period of two years shall be counted from the date the act is terminated.

According to the PRC Legal Advisers, for those restaurants which have completed the environmental impact assessment, since they have already made rectifications, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely complete the environmental impact assessment during the Track Record Period is remote. The PRC Legal Advisers is of the view that the above non-compliance will not result in any material adverse impact on the ongoing business operations of the entire Target Group.

Having considered the view of the PRC Legal Advisers, and the indemnity provided by the Vendors against any fines and penalties arising from such non-compliance incidents, the proposed Directors are of the view that even in the event that the government authorities take any action against the Target Group, there will not be any material adverse impact on the business operations of the Target Group. As a result, the Target Group did not make any provisions in connection with these non-compliance incidents during the Track Record Period.

BUSINESS OF THE TARGET GROUP

Particulars of non-compliance incidents

Environmental protection — environmental protection verification

It is a requirement under the PRC laws that the restaurants of the Target Group shall complete their environmental protection verification before commencement of businesses.

During the Track Record Period, certain restaurants of the Target Group commenced or operated their businesses without completing the environmental protection verification, details of which were as follows:

Year	Number of restaurants operated during the year	Number of restaurants which the Target Group had operated during the year without completing environmental protection verification	Time of rectification	Total revenue generated during the period of non-compliance
2015	98 (note 1)	73 (note 1)	During May 2015 and February 2017	RMB419.2 million
2016	101 (note 2)	67 (note 2)	During January 2016 and March 2017	RMB306.7 million
2017	107 (note 3)	18 (note 3)	During January 2017 and November 2017	RMB40.5 million

Notes:

- Of those 98 restaurants, seven restaurants were closed during the year.
- Of those 101 restaurants, four restaurants were closed during the year.
- Of those 107 restaurants, seven restaurant was closed during the year.

Reasons for the non-compliance

The non-compliance incident occurred because completing the Target Group's own environmental protection verification depends on the relevant owner's completion of the same type of verification, which is beyond the Target Group's control and has contributed in the failure or delay in completing the environmental protection verification by the Target Group.

Further, the senior management of the Target Group failed to strictly adhere to the relevant PRC laws and regulations and inadvertence in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations before commencement of the business of the relevant restaurants.

Current status

Of those 97 restaurants that remained opened as at the Latest Practicable Date, one restaurant has not completed the environmental protection verification.

For the one restaurant which has not completed the environmental protection verification, it locates in a shopping mall where the owner of the shopping mall has not completed the environmental protection verification, as a result of which the Target Group is not able to submit its own relevant application. The proposed Directors confirmed that the Target Group will submit its own application for the environmental protection verification once the owner has completed its own environmental protection verification. The proposed Directors expect that the Target Group will complete the outstanding environmental protection verification by 2018. Regarding the one outstanding non-compliance incident of environmental protection verification as at the Latest Practicable Date, the maximum penalty is (i) an order of rectification within a stipulated period and a fine up to RMB1,000,000; (ii) a fine up to RMB2,000,000 if rectification is not made within the stipulated period; and (iii) where significant environmental pollution or ecological damage is caused, closure of the relevant restaurant. The proposed Directors confirmed that as at the Latest Practicable Date, the Target Group has not received any order of rectification regarding environmental protection verification. The PRC Legal Advisers is of the view that the Target Group would not be imposed a fine of RMB2,000,000 unless it has received an order of rectification and failed to rectify within the prescribed period. According to the PRC Legal Advisers, there will not be any substantial legal impediment for the Target Group to complete environmental protection verification as long as its application complies with the relevant PRC laws and regulations and the requirements of the local authority; and once the Target Group completes the environmental protection verification, the risk that the government would retrospectively impose any fine due to the historical non-compliance is also remote. The PRC Legal Advisers is of the view that the above non-compliance will not result in any material adverse impact on the ongoing business operations of the entire Target Group.

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group has adopted a “Licenses and Permits Management Policy” to govern the procedures of new restaurant opening, licences maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities including the environmental protection verification.

A restaurant opening checklist is to be completed and approved by the directors of all business departments before the restaurant commence business.

The Target Group will conduct due diligence as to the ownership certificate and other necessary licences, permits and approvals of the landlords before signing leases for new restaurants.

The Target Group has engaged a PRC legal adviser to identify a list of the laws and regulations applicable to the Target Group that would be required in order to commence operation of a new restaurant, and training has been provided by the PRC legal adviser to the senior management of the Target Group and relevant staff.

The Target Group’s human resources and administration department will update the list from time to time based on its experience with local authorities and also advice given by the PRC legal adviser.

The Company has established a compliance committee to oversee all licensing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group’s policies.

Legal consequences, maximum penalty and financial impact

Pursuant to the Regulations on Administration of Construction Project Environmental Protection amended on 1 October 2017, the maximum penalty for not being able to complete the necessary environment protection verification when the Target Group started operation will be (i) an order of rectification within a stipulated period and a fine up to RMB1,000,000; (ii) a fine up to RMB2,000,000 where the rectification is not made within the stipulated period; and (iii) where the construction project causes significant environmental pollution or ecological damage, closure of all of these restaurants upon approval by the relevant governmental authorities.

Pursuant to the Regulations on Administration of Construction Project Environmental Protection effective as from 29 November 1998, the maximum penalty for not being able to complete the necessary environmental protection verification when the Target Group started operation will be (i) a fine up to RMB100,000 for each restaurant; and (ii) closure of all of these restaurants.

The aggregate maximum fine that the Target Group might face is RMB11.3 million.

Revenue generated from these relevant restaurants amounted to RMB419.5 million, RMB306.7 million and RMB40.5 million in the years ended 31 December 2015, 2016 and 2017, respectively, representing 38.5%, 43.4% and 5.8% of the total revenue of the Target Group for the respective periods.

Net profit generated from these relevant restaurants amounted to RMB30.1 million, RMB17.2 million and RMB3.5 million in the years ended 31 December 2015, 2016 and 2017, respectively, representing 4.2%, 2.4% and 0.5% of the total revenue of the Target Group for the respective periods.

Analysis of the risk to the Target Group

Pursuant to the Administrative Penalty Law of PRC, where a non-compliance matter has not been discovered within two years since its commission, administrative penalty would not be imposed, except as otherwise prescribed by law; if the act is of a continual or continuous nature, the period of two years shall be counted from the date the act is terminated.

According to the PRC Legal Advisers, for those restaurants which have completed the environmental protection verification, since they have already made rectifications, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely complete the environmental protection verification prior to commencing their operation during the Track Record Period is remote.

Having considered the view of the PRC Legal Advisers, and the indemnity provided by the Vendors against any fines and penalties arising from such non-compliance incidents, the proposed Directors are of the view that even in the event that the government authorities take any action against the Target Group, there will not be any material adverse impact on the business operations of the Target Group. As a result, the Target Group did not make any provisions in connection with these non-compliance incidents during the Track Record Period.

Particulars of non-compliance incidents

Food business licenses or food service license

It is a requirement under the PRC laws that a restaurant shall obtain a food business licenses (食品經營許可證) or a Food Service License (餐飲服務許可證) before commencement of businesses. As at the Latest Practicable Date, if a restaurant already had a valid food services license, it needs not apply for a food business license until the expiration of its food service license.

During the Track Record Period, certain restaurants of the Target Group commenced or operated their businesses without the food business licenses or the food services licenses, details of which were as follows:

Year	Number of restaurants operated during the year	Number of restaurants which the Target Group had operated during the year without food business license or a food service license	Time of rectification	Total revenue generated during the period of non-compliance
2015	98 (note 1)	20 (note 1)	During January 2015 and March 2017	RMB32.3 million
2016	101 (note 2)	9 (note 2)	During January 2016 and January 2017	RMB13.4 million
2017	107 (note 3)	0 (note 3)	N/A	nil

Notes:

1. Of those 98 restaurants, seven restaurants were closed during the year.
2. Of those 101 restaurants, four restaurants were closed during the year.
3. Of those 107 restaurants, seven restaurant was closed during the year.

Reasons for the non-compliance

The non-compliance incident occurred because the senior management of the Target Group failed to strictly adhere to the relevant PRC laws and regulations and inadvertence in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations.

Current status

Of those 97 restaurants that remained opened as at the Latest Practicable Date, all restaurants have obtained the requisite food business licenses or food service licenses. Accordingly, there was no outstanding non-compliance incident of food business licenses or food service license as at the Latest Practicable Date.

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group has adopted a “Licenses and Permits Management Policy” to govern the procedures of new restaurant opening, licenses maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities including the obtain of relevant food business licenses before commencement of business of each new restaurant.

A restaurant opening checklist is to be completed and approved by the directors of all business departments before the restaurant commence business.

The Target Group has engaged a PRC legal adviser to identify a list of the laws and regulations applicable to the Target Group that would be required in order to commence operation of a new restaurant, and training has been provided by the PRC legal adviser to the senior management of the Target Group and relevant staff. The Target Group will conduct due diligence as to the ownership certificate and other necessary licences, permits and approvals of the landlords before signing leases for new restaurants.

The Target Group’s human resources and administration department will update the list from time to time based on its experience with local authorities and also advice given by the PRC legal adviser.

The Company has established a compliance committee to oversee all licencing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group’s policies.

Legal consequences, maximum penalty and financial impact

The maximum penalty for such failure to obtain the food business licence or the food service licence includes (i) confiscation of all the income generated from unlicensed business; (ii) confiscation of all food, tools, equipment or raw materials for the unlicensed business activities; and (iii) a fine up to RMB100,000 where the value of the inventories sold at these restaurants is less than RMB10,000 or a fine ranges from 10 to 20 times the value of the inventories where the value of the inventories is not less than RMB10,000.

Taking into the consideration of the income generated from unlicensed business and the average inventory level, the aggregate maximum fine that the Target Group may face is RMB15.4 million.

Revenue generated from these relevant restaurants amounted to RMB32.3 million, RMB13.4 million and nil in the years ended 31 December 2015, 2016 and 2017, respectively, representing 4.5%, 1.9% and nil of the total revenue of the Target Group for the respective periods.

Net loss generated from these relevant restaurants amounted to RMB(3.8) million, RMB(0.8) million and nil in the years ended 31 December 2015, 2016 and 2017, respectively.

Analysis of the risk to the Target Group

Pursuant to the Administrative Penalty Law of PRC, where a non-compliance matter has not been discovered within two years since its commission, administrative penalty would not be imposed, except as otherwise prescribed by law; if the act is of a continual or continuous nature, the period of two years shall be counted from the date the act is terminated.

As verbally confirmed by the Shanghai Municipal Food and Drug Administration (the “SFDA”), where restaurants commenced their operation without timely obtaining the requisite food business licenses or food service licenses or public venue hygiene license and subsequently obtained such licenses, the SFDA would not take enforcement against such restaurants retrospectively. The SFDA also mentioned that the authority usually inspects a restaurant in Shanghai about four times a year.

According to the PRC Legal Advisers, since all the restaurants operating as at the Latest Practicable Date have obtained the food business licenses or the food service licences, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely obtain the food business licenses or the food service licenses prior to commencing their operation during the Track Record Period is remote. The PRC Legal Advisers also opined that for those restaurants that were already closed, the risk that the government will retrospectively impose any penalty on the Target Group for failing to obtain the food business licenses or the food service licenses is also remote.

Based on the revenue contribution and the assessment of probability of the maximum amount of fines that could be imposed on the Target Group, the Target Group believes that the potential penalty would not have a material and adverse impact on its business, results of operations or financial condition. Having considered the opinion of the PRC Legal Advisers that the risk that the government authorities will take action toward this non-compliance incident retrospectively is remote, the Target Group did not make any provisions in connection with this non-compliance during the Track Record Period.

BUSINESS OF THE TARGET GROUP

Particulars of non-compliance incidents

Public venue hygiene licence

It is a requirement under the PRC laws that the restaurants of the Target Group shall obtain a public venue hygiene licence if they do not hold a valid food business licence (食品經營許可證) before commencement of businesses.

During the Track Record Period, certain restaurants of the Target Group commenced or operated their businesses without obtaining a public venue hygiene licence, details of which were as follows:

Year	Number of restaurants operated during the year which were required to obtain a public venue hygiene licence	Number of restaurants which the Target Group had operated without public venue hygiene licence	Time of rectification	Total revenue generated during the period of non-compliance
2015	80	30	During January 2015 and June 2016	RMB50.0 million
2016	74	12	During June 2016	RMB30.2 million
2017	12	0	N/A	nil

Reasons for the non-compliance

The non-compliance incident occurred because the senior management of the Target Group failed to strictly adhere to the relevant PRC laws and regulations and was inadvertent in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations.

Current status

Of those 97 restaurants that remained opened as at the Latest Practicable Date, 9 restaurants are currently required to obtain public venue hygiene licences and all restaurants have obtained such licenses. Accordingly, there was no outstanding non-compliance incident of public venue hygiene licence as at the Latest Practicable Date. According to the PRC Legal Advisers, since all restaurants that are currently required to obtain the public venue hygiene licence have obtained the licences, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely obtain the public venue hygiene licence prior to commencing their operation during the Track Record Period is remote.

BUSINESS OF THE TARGET GROUP

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group has adopted a “Licenses and Permits Management Policy” to govern the procedures of new restaurant opening, licences maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licences and permits with PRC regulatory authorities including the obtain of relevant public venue hygiene license before commencement of business of each new restaurant.

A restaurant opening checklist is to be completed and approved by the directors of all business department before the restaurant commence business.

The Target Group has engaged a PRC legal adviser to identify a list of the laws and regulations applicable to the Target Group that would be required in order to commence operation of a new restaurant, and training has been provided by the PRC legal adviser to the senior management of the Target Group and relevant staff.

The Target Group will conduct rigorous due diligence as to the ownership certificate and other necessary licences, permits and approvals of the landlords before signing leases for new restaurants.

The Target Group’s human resources and administration department will update the list from time to time based on its experience with local authorities and also advice given by the PRC legal adviser.

The Company has established a compliance committee to oversee all licensing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group’s policies.

Legal consequences, maximum penalty and financial impact

The maximum penalty for not being able to obtain public venue hygiene licence when the Target Group started operation will be a fine up to RMB30,000 for each restaurant.

The aggregate maximum fine that the Target Group might face is RMB0.27 million.

Revenue generated from these relevant restaurants amounted to RMB50.0 million, RMB30.2 million and nil in the years ended 31 December 2015, 2016 and 2017, respectively, representing 7.1%, 4.3% and nil of the total revenue of the Target Group for the respective periods.

Net loss generated from these relevant restaurants amounted to RMB(6.7) million, RMB(3.3) million and nil in the years ended 31 December 2015, 2016 and 2017, respectively.

Analysis of the risk to the Target Group

Pursuant to the Administrative Penalty Law of PRC, where a non-compliance matter has not been discovered within two years since its commission, administrative penalty would not be imposed, except as otherwise prescribed by law, if the act is of a continual or continuous nature, the period of two years shall be counted from the date the act is terminated.

According to the PRC Legal Advisers, since all restaurants that are currently required to obtain the public venue hygiene licence have obtained the license, the risks that the government will retrospectively impose any penalty on the restaurants for which the Target Group did not timely obtain the public venue hygiene licence prior to commencing their operation during the Track Record Period is remote.

Having considered the view of the PRC Legal Advisers, and the indemnity provided by the Vendors against any fines and penalties arising from such non-compliance incidents, the proposed Directors are of the view that even in the event that the government authorities take any action against the Target Group, there will not be any material adverse impact on the business operations of the Target Group. As a result, the Target Group did not make any provisions in connection with these non-compliance incidents during the Track Record Period.

Particulars of non-compliance incidents	Reasons for the non-compliance	Current status
<p>Selling unqualified beef</p> <p>One of the restaurants of The Target Group sold unqualified beef during January to March 2016.</p>	<p>The non-compliance incident occurred because the senior management was inadvertent in monitoring of the Target Group's supplier even though such supplier was one of the qualified suppliers of the Target Group and had the import inspection documents and a food supplies license.</p>	<p>The proposed Directors confirmed that the sale of unqualified beef was an isolated incident involving one restaurant only and the Target Group did not discover any similar non-compliance in other restaurant of the Target Group.</p>
<p>Mis-labelling of food item on menu</p> <p>In May 2017, the Target Group wrongly labelled a type of fish in its menu in one of its restaurants.</p>	<p>The non-compliance happened because the senior management's inadvertence in ongoing monitoring of the Target Group's compliance status with the PRC laws and regulations.</p>	<p>The proposed Directors confirmed that the mis-labelling of the food item was an isolated incident.</p>

Measures adopted by the Target Group to prevent re-occurrence of the non-compliance and ensure continuing compliance

The Target Group had temporary suspended purchase from the supplier of the unqualified beef for six months and resumed the business relationship after scrutiny by the Target Group of the supply chain of the relevant supplier. The Target Group subsequently ceased the business relationship with the relevant supplier. The Target Group has established and implemented policies and procedures to monitor all procurement of food and a list of qualified food suppliers is maintained which will be reviewed by the management committee from time to time. In particular, the Target Group will review new potential supplier's relevant licences and permits to make sure the food ingredients to be supplied are within their business scope. Site visit of the ultimate source of the supply chain will be arranged for meat. Suppliers will also have to provide to the Target Group quarantine certification at the time of delivery.

The Company has established a compliance committee to oversee all licencing matters based on our compliance monitoring policy and have designated relevant department heads to oversee the day to day implementation of the Target Group's policies.

Legal consequences, maximum penalty and financial impact

The Target Group was fined for RMB253,311.5 and the unqualified food and the illegal income in the amount of RMB46,510.80 was confiscated in July 2016. The Target Group has not sought indemnification from the relevant supplier.

Analysis of the risk to the Target Group

According to the PRC Legal Advisers, since the relevant fine had been paid by the Target Group, the Target Group will not be subject to any further enforcement action by the relevant authorities in relation to the aforesaid sale of unqualified beef.

According to the PRC Legal Advisers, since the relevant fine had been paid by the Target Group, the Target Group will not be subject to any further enforcement action by the relevant authorities in relation to the aforesaid mis-labelling incident

BUSINESS OF THE TARGET GROUP

The aggregate revenue generated by restaurants of the Target Group during the period of operation which had failed to (i) complete fire safety inspection; (ii) complete environmental impact assessment; (iii) complete environmental protection verification; (iv) obtain food business licenses or food service license; and/or (v) obtain public venue hygiene license for the years ended 31 December 2015, 2016 and 2017 were, respectively, RMB518.1 million, RMB386.5 million and RMB49.8 million. The aforesaid illustration has not double-counted the revenue from restaurants that had more than one of the relevant non-compliance incidents during the same period of time.

Since a failure to obtain a food business license or food service license before commencement of food business operations involves confiscation of income generated from such business activities, the PRC Legal Advisers is of the view that the income generated from food business operations without obtaining the food business license or food service license could be regarded as illegal income.

Save for (i) the fines of RMB253,311.5 and confiscation of income of RMB46,510.8 in relation to sale of unqualified food; and (ii) the fine of RMB50,000.00 in relation to mislabelling of food item on menu, the proposed Directors confirm that the Target Group had not been subject to any fines or penalties equal to or over RMB50,000 or ordered to suspend the operation of any of its restaurants due to non-compliances during the Track Record Period.

The proposed Directors confirmed that, before the commencement of operation of a new restaurant, the senior management had verbally confirmed with the relevant local authorities that the food business license/food service license and public venue hygiene license had been granted though the formal issuance of the said license had not yet completed. The proposed Directors confirmed that the Hong Kou Administration for Market Supervision is one of the local food and drug administration authorities that the senior management had obtained verbal confirmation from regarding food business or service licenses. The PRC Legal Advisers confirmed that the Hong Kou Administration for Market Supervision is the competent local district-level authority to review applications for the food business or service license and to consult regarding the food business or service license matters. Based on the understanding of the proposed executive Directors, there were incidents where restaurants operating in the PRC commenced operation without all requisite licenses from time to time. As far as the Target Group's operation is concerned, the proposed Directors were of the view that given the experience of the management of the Target Group in restaurant operation in the PRC, they had taken into consideration of the requirements for (i) obtaining food licenses; (ii) completing the environmental impact assessment; (iii) obtaining the environmental protection verification; and (iv) fire safety when designing the floor plans of the new restaurants. Generally, in order to comply with the relevant environmental law and regulations, the Target Group undertook certain measures before the commencement of operation of the new restaurants, including (i) installing filters or purifiers or taking other environmental protection measures in relation to discharge or disposal of oil fume, waste water and noise as may be required; (ii) engagement of solid waste management companies for daily collection of solid wastes; and (iii) engagement of waste oil management companies for daily collection of waste oil. Regarding fire safety requirements, the Target Group has engaged fire engineering

BUSINESS OF THE TARGET GROUP

contractors, who may have relevant experience or are certified fire engineering contractors, to draw or review fire engineering plans, install and test the fire safety systems and assist in and ensure the completion of fire safety inspection according to the regulatory requirements for new restaurants, before the commencement of operation of new restaurants. In consideration of the above, the proposed Directors were of the view that sufficient measures have taken to ensure compliance with the relevant laws and regulations regarding environmental protection and fire safety before the commencement of operation of new restaurants.

Meanwhile, the Target Group has obtained written undertaking from landlords for 12 restaurants that they will indemnify the Target Group if its restaurants incur loss by reason of failure to complete fire safety inspection, failure to obtain food business licenses, food service license or public venue hygiene licenses. The proposed Directors confirmed that while the Target Group's failure to obtain food business license or food service license and public venue hygiene licenses was not attributable to the fault of the landlords, the relevant landlords required the Target Group to commence operation of its restaurants in accordance with the landlords time schedule, which often tied together with the opening of the relevant shopping mall and therefore they agreed to indemnify the Target Group's loss arising from the failure to obtain food business license or food service license and public venue hygiene licenses. Further, the PRC Legal Advisers have verbally consulted the section chief (科長) and the detachment leader (支隊長) of the Shanghai Municipal Food and Drug Administration ("SFDA") in November 2017 and April 2018. According to the SFDA, which is responsible for overseeing food in Shanghai, it is a common practice in Shanghai that the relevant local district-level food and drug administration authorities will point out the problems on the spot when they review an application for and/or conduct on-site verification in relation to the food business license or food service license; if no problem is raised on the spot, the applicant will generally be granted the food business license or food service license afterwards. Also, where restaurants commenced their operation without timely obtaining the requisite food business licenses or food service licenses or public venue hygiene license, the SFDA would not take enforcement against such restaurants retrospectively if they subsequently obtained all such licenses. Accordingly, the SFDA will not retrospectively order closure of the relevant restaurants or forfeit the income from such operation without the requisite licenses. The PRC Legal Advisers confirmed that the SFDA is the relevant competent government authority to give the confirmation regarding compliance matters concerning food business and public venue hygiene of restaurants located in Shanghai. The PRC Legal Advisers also verbally consulted chief of staff (參謀長) of the Shanghai Fire Services in November 2017 and according to the Shanghai Fire Services, it would not order the restaurants which did not timely complete fire safety inspection but have already completed the inspection and are operating in Shanghai to cease operation; and the period between the commencement of operation and the time of completion of the fire inspection could be considered as a period of trial operation; the Shanghai Fire Services would not impose penalties on the restaurants which did not timely complete the fire inspection during the period of trial operation but have already completed. The PRC Legal Advisers confirmed that the Shanghai Fire Services is the relevant competent government authority to consult regarding compliance matters concerning fire safety inspection of restaurants located in Shanghai.

B. OTHER NON-COMPLIANCE INCIDENTS

Social insurance fund

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and other relevant regulations, the Target Group is required to provide its employees with welfare schemes covering social insurance. During the Track Record Period, the Target Group did not make adequate contribution to the social insurance fund for its employees. The Target Group made payments itself and through third parties engaged by the Target Group for provision of certain human resources duties. The aggregate outstanding amount incurred and accrued as at the Latest Practicable Date was approximately RMB31.9 million. The non-compliance happened because the staff at the human resources department was not familiar with the requirements of the social insurance fund. Further, the procedures for social insurance contribution varies from place to place in the PRC, which made it difficult for the Target Group to obtain a comprehensive understanding of the relevant requirements precisely. Since September 2017, the Target Group has engaged a third party service provider for the provision of human resources agency services, including effecting contributions to mandatory employee benefit plans. In addition, it is difficult in practice to make contribution to the social insurance fund for employees who are migrant workers and not willing to participate in the social welfare schemes of the city which they have moved to temporarily. As such, the staff of human resources department of the Target Group did not make adequate contribution to the social insurance fund for its employees.

Under the relevant PRC laws and regulations, the relevant governmental authority may require a company who fails to pay its portion of social insurance fund contributions to make the outstanding contribution within a given period and may impose on the company an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date and, if the company fails to do so, may impose a fine on the company ranging from one to three times of the total amount of the unsubscribed contribution.

For social insurance fund directly settled by the Target Group, it has obtained confirmation letter from the relevant social insurance bureau, the competent governmental authority, confirming that there was no outstanding social insurance fund due by the members of Target Group in the PRC or violation of relevant labour laws as of December 2016. As confirmed by the PRC Legal Advisers, the relevant social insurance bureau has the authority and is competent to issue the above confirmation. The PRC Legal Advisers had also made an enquiry with the relevant social insurance bureau in Shenzhen and was informed that it would not request payment for unsubscribed social insurance fund accrued two years ago. Accordingly, the PRC Legal Advisers opined that the likelihood that the relevant authority would request the Target Group to pay up the outstanding social insurance fund is low or pay late payment fee is remote. For social insurance fund settled by the third party human resources service provider, the PRC Legal Advisers, having considered confirmations issued by the third party human resources service providers and evidence of payments provided, opined that the likelihood that the relevant authority would request the

BUSINESS OF THE TARGET GROUP

Target Group to pay up the outstanding social insurance fund is low or to pay a late payment fee is remote. The PRC Legal Advisers is of the view that the non-compliance relating to social insurance fund will not result in any material adverse impact on the business operation of the Target Group in the PRC. Hefei Huige, which has not yet commenced business operations or had any employee, had not completed its registration for social insurance fund as at the Latest Practicable Date. Save for Hefei Huige, all registrations for social insurance fund of the PRC subsidiaries of the Target Group have been completed. As at the Latest Practicable Date, the Target Group was in the progress of rectifying non-compliance relating to social insurance fund contributions for the Target Group's employees and the proposed Directors expect that requirements to make social insurance fund contribution could be complied with before Resumption. Full provisions for the outstanding social insurance fund contributions have been made by the Target Group.

Meanwhile, the Vendors have agreed to indemnify the Target Group for all claims, costs, expenses and losses incurred by the Target Group as a result of any non-compliance incident with the relevant social insurance. The Target Group has also made provisions in its accounts for outstanding social insurance fund.

Housing provident fund

According to the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例) and other relevant regulations, the Target Group is required to provide its employees with housing funds. During the Track Record Period, the Target Group did not make adequate contribution to housing provident fund for certain of its employees. The Target Group made payments itself and through a third party engaged by the Target Group for provision of certain human resources duties. The aggregate outstanding amount incurred and accrued as at the Latest Practicable Date was approximately RMB24.6 million. The non-compliance happened because the staff at the human resources department was not familiar with the requirements of the housing provident fund. Further, the procedures for housing provident fund contribution varies from place to place in the PRC, which made it difficult to the Target Group to obtain a comprehensive understanding of the relevant requirements precisely. In addition, it is difficult in practice to make contributions to the housing provident fund for employees who are migrant workers and not willing to participate in the social welfare schemes of the city which they move to temporarily. As such, the staff of human resources department of the Target Group did not make contribution to the housing provident fund for certain of its employees.

According to the relevant PRC laws and regulations, the relevant governmental authority may require the Target Group to complete its registration for housing provident fund within a given period, and, if the Target Group fails to do so within the given period, may impose a fine ranging from RMB10,000 to RMB50,000 and may require the Target Group to make the unsubscribed contribution within a given period.

BUSINESS OF THE TARGET GROUP

For housing provident fund directly settled by the Target Group, it has obtained confirmation letter from the relevant housing provident fund bureau, the competent governmental authority, confirming that members of the Target Group in the PRC was not subject to any penalty for non-compliance of laws and regulations relating to the provident fund as of December 2016. As confirmed by the PRC Legal Advisers, the relevant housing provident fund bureau has the authority and is competent to issue the above confirmation. Accordingly, the PRC Legal Advisers opined that the likelihood that the relevant authority would request the Target Group to pay up the outstanding housing provident fund is low. For housing provident fund settled by the third party human resources service provider, the PRC Legal Advisers, having considered a confirmation issued by the third party human resources service provider and evidence of payments provided, opined that the likelihood that the relevant authority would request the Target Group to pay up the outstanding housing provident fund is also low. The PRC Legal Advisers is of the view that the non-compliance relating to housing provident fund will not result in any material adverse impact on the business operation of the Target Group in the PRC. Hefei Huige, which has not yet commenced business operations or had any employee, had not completed its registration for housing provident fund as at the Latest Practicable Date. Save for Hefei Huige, all registrations for housing provident fund of the PRC subsidiaries of the Target Group have been completed. As at the Latest Practicable Date, the Target Group was in the progress of rectifying non-compliance relating to housing provident fund contributions for the Target Group's employees and the proposed Directors expect that requirements to make housing provident fund contribution could be complied with before Resumption. Full provisions for the outstanding housing provident fund contributions have been made by the Target Group.

Meanwhile, the Vendors have agreed to indemnify the Target Group for all claims, costs, expenses and losses incurred by the Target Group as a result of any non-compliance incident with the relevant housing provident fund. The Target Group has also made provisions in its accounts for outstanding housing provident fund.

Failure to register prepaid cards within the statutory time limit

The Target Group has issued prepaid cards to its customers who may settle their bills by the value stored in those prepaid cards. It is a legal requirement that the Target Group should have completed certain filing formalities with respect to the issue of its prepaid cards within 30 days from the launch of its prepaid cards. Meanwhile the prepaid cards issued by the Target Group are for a validity of less than three years and the amount of a single prepaid card exceeds RMB1,000, which are also contrary to the PRC legislations.

The non-compliance occurred as a result of lack of understanding of the relevant PRC laws and regulations.

As at the Latest Practicable Date, the registration for the prepaid cards issued for the restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) and the restaurants under the brand *Faigo* (“輝哥”) in Shanghai have been completed. The Target Group

BUSINESS OF THE TARGET GROUP

expects that the relevant registration for the prepaid cards issued for the restaurants under the brand *Faigo* (“輝哥”) in Beijing and Wuhan will be completed before Resumption. The expected completion time is delayed due to more time is required for the authority to approve the application. Meanwhile, the Target Group has allowed holders of prepaid cards to continue to use the same beyond three years from issue.

According to the Administrative Measures on Single-purpose Commercial Prepaid Cards, the maximum penalty that the Target Group may face is a fine up to RMB360,000. According to the PRC Legal Advisers, there will not be any substantial legal impediment for the Target Group to complete registration of prepaid cards as long as its application complies with the relevant PRC laws and regulations and the requirements of the local authorities; and once the Target Group completes the registration of prepaid cards, the risk that the government would retrospectively impose any fine due to the historical failure of registration is also remote. The proposed Directors confirmed that as at the Latest Practicable Date, the Target Group has not received any order of rectification regarding pre-paid cards. The PRC Legal Advisers is of the view that the Target Group would not be imposed the aforesaid penalties unless it has received an order of rectification and failed to rectify within the stipulated period. In view of the amount of fine involved and the steps being taken to remedy the non-compliance, the proposed Directors are of the view that the said non-compliance in relation to prepaid cards will not result in any material adverse impact to the Target Group.

Advance of loans to related parties

During the Track Record Period, the Target Group has made interest-bearing loans to its related parties. These related parties loans were for no-fixed term and thus repayable on-demand and carried interest as equivalent the People’s Bank of China benchmark interest rate. As at 31 December 2015, 2016 and 2017, the principal amount of these loans amounted to RMB58.2 million, RMB89.5 million and RMB78.0 million, respectively. Interest charged on these loans was approximately 6% per annum. However, these loans provided by the Target Group contravene the General Lending Provisions (貸款通則).

The Target Group provided loans to related parties because the Target Group considered that it would be a better way to utilized idle cash. All loans granted to related parties are expected to be fully settled before the Resumption.

According to the PRC Legal Advisers, the Target Group may be liable to be fined from one to five times of the income generated from these financing activities. For the years ended 31 December 2015, 2016 and 2017, the finance income generated from these loans to related parties amounted to RMB1.6 million, RMB4.3 million and RMB4.3 million, respectively. Accordingly, the maximum penalty that the Target Group may face in relation to the unlawful loans to related parties amount to, respectively, RMB8.5 million, RMB21.5 million and RMB21.5 million. In accordance with Provisions of the Supreme People’s Court on Application of Laws to the Hearing of Private Lending Cases, except for the loan contract between natural persons, if the

BUSINESS OF THE TARGET GROUP

party claims that the contract of private lending has entered into force from the establishment of the contract, the People's Court shall uphold it; where a private lending contract is necessary for the purposes of production and business operation between legal persons, other organizations or between a legal person and other organization, unless circumstances under Article 52 of the Contract Law of the PRC and Article 14 of these Provisions exist, if the party claims that the private lending contract is valid, the People's Court shall uphold such claim. The PRC Legal Advisers are of the view that the risk that the Target Group being penalized due to the aforesaid loans is remote in reality. In view of the opinion of the PRC Legal Advisers, the proposed Directors are of the view that the non-compliance of the unlawful loans to related parties would not result in any material or adverse impact to the Target Group and do not consider that a provisions should be made for the potential fine which might be imposed against the Target Group.

Failure to file the catering management agreement in relation to the franchised restaurant

Pursuant to a catering management agreement entered into in November 2012 and a further agreement entered into in November 2016, the Target Group has authorized an Independent Third Party to operate a restaurant under the name “輝哥海鮮火鍋” for a term commencing from 1 November 2012 to 31 December 2022 at a designated location in Beijing.

The Target Group, as franchisor, is required to file records with the commerce administration authorities within 15 days upon conclusion of the first franchise contract under the applicable laws and regulations of the PRC. The Target Group, however, made such filing in December 2016 and, therefore, was in breach of the relevant laws and regulations, which may subject the Target Group to a maximum fine up to RMB50,000 and an order of rectification within a given period or a maximum fine up to RMB100,000 if the Target Group fails to rectify within the given period. The non-compliance occurred by reason of lack of complete understanding of the relevant regulatory requirements in the PRC on the part of the management of the Target Group.

According to the PRC Legal Advisers, since the Target Group has already completed the relevant filing, the risk that the Target Group will be penalized retrospectively for the aforesaid failure of filling is remote.

INTERNAL CONTROL MEASURES

In order to continuously improve the Target Group's corporate governance and to prevent future non-compliance, the Target Group intends to adopt or have adopted the following measures:

1. The Enlarged Group will establish a compliance committee (the “**Compliance Committee**”) comprising of one proposed independent non-executive Directors, one existing Independent non-executive Director and one proposed executive Director, namely, Mr. Hung, Mr. Ha Kee Choy Eugene, and Mr. Chan Chun Yiu Thomas, and chaired by Mr. Hung, to oversee all regulatory and accounts-related

BUSINESS OF THE TARGET GROUP

compliance matters and corporate governance requirements. The primary functions of the Compliance Committee include, among others, reviewing and making recommendations to the Board in respect of policies and practices on compliance with any requirement, direction or regulation that may be prescribed by the Board, contained in any of the constitutional documents, or imposed by the Listing Rules or other applicable laws, regulations, rules or codes; and ensuring that appropriate monitoring systems are in place to ensure compliance with the relevant internal control systems, processes and policies; and monitoring the implementation of the Enlarged Group's plan to maintain high standards of compliance with its own risk management standards.

2. In order to further ensure compliance with relevant statutory requirements, the Enlarged Group will engage external professional advisers, such as authorised persons, company secretary companies, consultancy firms, auditors and external legal advisers to render professional advice so as to comply with statutory requirements (including PRC rules and regulations and the Listing Rules) as applicable to the Enlarged Group from time to time.
3. The Company has appointed HeungKong Capital Limited as its compliance adviser upon the Resumption to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules.
4. The proposed Directors have on 6 and 22 February 2017 attended training sessions conducted by Hong Kong legal advisers of the Company on, among other things, ongoing obligations, general corporate governance requirements, the duties and responsibilities of directors of a company whose shares are listed on the Stock Exchange under applicable laws, rules and regulations, including but not limited to the Listing Rules and Hong Kong Companies Ordinance. The proposed Directors have provided confirmation in writing in relation to their understanding of their duties under the Listing Rules and other applicable laws and regulations.
5. The Enlarged Group will provide the proposed Directors, senior management and employees involved with training, development programs and/or updates regarding the legal and regulatory requirements applicable to the business operations of the Enlarged Group semi-annually.
6. The Enlarged Group will, from time to time, engage external legal advisers and seek legal advice on legal matters relating to the Enlarged Group to ensure the compliance of the Target Group's operation in the PRC. For example, on 11 November 2017, the proposed executive Directors and the senior management of the Target Group have attended a training session provided by the PRC Legal Advisers on legal requirements of the licensing requirements applicable to its restaurants operations.

BUSINESS OF THE TARGET GROUP

Indemnity by the Vendors

Pursuant to the Acquisition Agreement, the Vendors have agreed to indemnify the Enlarged Group against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Enlarged Group arising from any non-compliance of the Target Group disclosed in the paragraph headed “Licenses, regulatory approvals and compliance record” in this section.

Review by the internal control consultant

The Target Group engaged an internal control consultant, Protiviti Shanghai Co., Ltd., to conduct a comprehensive review of the Target Group’s internal control system, including, among other things, controls and procedures of the Target Group over entity-level controls, revenue and receipt cycle, expenses and payment cycle, financial reporting and compliance management. The first round review was conducted from 31 August 2016 through 28 October 2016. Following the first round review, the internal control consultant identified 55 control deficiencies, of which 15 deficiencies were non-compliance related or were considered to be material. The findings mainly related to lack of formalized policies and procedures to reflect the enterprise risk management, related party transaction management, and information disclosure and daily business operation at entity level, and internal control deficiencies regarding customer credit management, franchise revenue booking, supplier background check, payment approval, standardisation of treasury management, financial reporting and social insurance and housing funds calculation at process level. Deficiencies were also identified for license management process and lack of safety committee and policy to regulate inventory and food safety. In the initial review, certain subsidiaries of the Target Group had incomplete licence.

The Target Group has implemented the internal control enhancement measures recommended by the internal control consultant. In particular to the remediation of the non-compliance in relation to the license management, the Target Group adopted “Licenses and permits management policy” in June 2017 to govern the procedures of new restaurant opening, licenses maintenance and renewal, as well as existing restaurant closing, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities. Further, the commencement date of each new restaurant shall be approved by at least two proposed executive Directors and such approvals will be reviewed by the independent non-executive Directors on a monthly basis. The Target Group had also formulated the “Group Safety Management Policy” which includes daily guidelines and emergency plans for food safety, fire safety and environmental protection in relation to the deficiency and non-compliance in safety matters.

The internal control consultant completed a series of follow-up reviews in February 2017, May and June 2017 and March 2018 on the implementation of such enhancement measures. During the follow-up review in February 2017, the internal control consultant concluded that (i) 12 of the 15 non-compliance related or material deficiencies have been remediated completely; and (ii) the remaining three deficiencies concerns license management, social insurance fund and risk management. The internal control consultant conducted further follow-up reviews on the implementation of the enhancement measures

BUSINESS OF THE TARGET GROUP

on license policy and social insurance fund in May and June 2017 and concluded that the previous deficiencies concerning license management have been remediated and the Target Group was in the progress of rectifying non-compliance relating to social insurance fund contributions. The internal control consultant also conducted a further follow-up review in March 2018 and concluded that (i) there was no material deficiencies noted relating to the adoption of “Licenses and permits management policy”; and (ii) following the establishment and adoption of the risk management policy, previous deficiencies concerning on risk management have been remediated. The internal control consultant is of the view that the Target Group’s enhanced internal control measures are adequate and effective. The proposed Directors confirm that they will procure the Enlarged Group to follow the adopted internal control policies and measures and to ensure that Enlarged Group will comply with the relevant laws and regulations going forward.

The proposed Directors confirm and undertake to ensure that the Target Group will only open new restaurant in the future after it has obtained all the relevant material licences and permits as required under the PRC laws and regulations.

After considering our remedial actions and results of the reviews by the internal control consultant, the proposed Directors are of the view that these enhanced internal control measures, if implemented continuously, are adequate and effective to ensure future compliance with the relevant PRC laws and regulations. The Sponsor, on similar basis as the proposed Directors, concurs with the proposed Directors’ view.

Views of the proposed Directors and the Sponsor

The historical non-compliance incidents were mainly due to the inadvertent oversight of the proposed executive Directors and/or the Target Group’s relevant staff members or senior management’s failure to strictly adhere to the relevant laws and regulations.

The Sponsor also noted and considered that (i) the non-compliance in fire safety inspection, environmental impact assessment and environmental protection verification is not entirely within the control of the Target Group but depend on the relevant property owner’s completion of the same type of inspection as advised by the proposed Directors; (ii) the selling of unqualified beef, manufacturing and distributing pre-packed food and drinks without necessary licenses was an inadvertent oversight; (iii) the non-compliance incidents were unintentional and did not involve fraudulent act by the proposed Directors; and (iv) isolated nature of various non-compliance incidents. Having considered that (i) as at the Latest Practicable Date, there had not been any prosecution initiated against the Target Group or any of the directors of the subsidiaries of the Target Group, nor has any of them been subject, to any fine relating to the non-compliance incidents; (ii) the Target Group has implemented adequate and effective internal control measures as discussed in the paragraphs headed “Internal control measures” in this section; and (iii) the Vendors have given the Enlarged Group an indemnity covering the non-compliance incidents, the proposed Directors are of the view, and the Sponsor concurs, that the above non-compliance incidents would not affect the suitability of the proposed Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for listing under Rule 8.04 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

SUBSTANTIAL AND CONTROLLING SHAREHOLDER

Immediately after completion of the Acquisition, the Share Placing and the Open Offer, the following persons/entities will be the substantial Shareholders under the Listing Rules:

Name of Shareholder	Capacity	Number of Consolidated Shares	Approximate percentage of shareholding
Mr. Hung	Beneficial owner	3,548,683,696	68.86%

Immediately following completion of the Acquisition, the Placing and the Open Offer, Mr. Hung will be directly or indirectly interested in approximately 68.86% of the issued share capital of the Company (assuming no Consideration CBs have been converted). Accordingly, Mr. Hung will be the Controlling Shareholder of the Enlarged Group. Details of the Enlarged Group structure immediately after the Acquisition are set out in the section headed “Reorganisation of the Target Group” in this circular.

COMPETITION

Apart from the business of the Target Group relating to the provision of seafood hotpot cuisine in the PRC, Mr. Hung, being the Controlling Shareholder of the Enlarged Group and his close associates are currently operating other catering businesses in the PRC (the “**Excluded Businesses**”) and such Excluded Businesses will not form part of the Enlarged Group after Resumption due to the differences in their business nature and the small scales of the Excluded Businesses.

As at the Latest Practicable Date, the Excluded Business are under the direct or indirect control of Mr. Hung and his sister, Ms. Hung, further details of which are as follows:

Brand/Company name	Type of principal catering services	Location(s)	Number of shop(s)	Mr. Hung's Beneficial Interest in the capital	Ms. Hung's Beneficial Interest in the capital
Shanghai Xiao Ducheng Food & Beverage Management Co., Ltd. (上海小都成餐飲管理有限公司) (“Xiao Ducheng”) (Note 1)	Sichuan style Chinese cuisine	not applicable	0	100%	0%
Shanghai Tao Huayuan Food & Beverage Management Co., Ltd. (上海桃花源餐飲管理有限公司) (“Tao Huayuan”) (Note 1)	Cantonese style and seafood Chinese cuisine	not applicable	0	57.73%	12.86%
Shanghai Xiao Yingjie Food & Beverage Management Co., Ltd. (上海小瑩姐餐飲管理有限公司) (“Xiao Yingjie”) (Note 1)	Chinese style dessert	not applicable	0	60%	40%
Shanghai Zhipeng Food & Beverage Management Co., Ltd. (上海致鵬餐飲管理有限公司) (“Zhipeng”)	Chaoshan style braised food	Shanghai	2	80% (Note 3)	0%

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

Brand/Company name	Type of principal catering services	Location(s)	Number of shop(s)	Mr. Hung's Beneficial Interest in the capital	Ms. Hung's Beneficial Interest in the capital
Shanghai Zhaorong Investment Consulting Co., Ltd. (上海兆榮投資諮詢有限公司) ("Zhaorong")	Investment in Shanghai Pudong Cheng Long Heng Catering Co., Ltd. (上海浦東成隆行餐飲有限公司) ("Cheng Long Heng (Pudong)") and Shanghai Jin'an Cheng Long Heng Catering Co., Ltd. (上海錦安成隆行餐飲有限公司) ("Cheng Long Heng (Jinan)") <i>Note 2</i>	Shanghai	Not available	100%	—
Zhenwei (Shanghai) International Company Limited (甄味(上海)國際貿易有限公司) ("Zhenwei")	Trading of food and beverage supplies	Shanghai	Not available	—	50%

Notes:

- As at the Latest Practicable Date, Xiao Ducheng, Xiao Ying Jie and Tao Huayuan have ceased operation and ran no restaurants.
- Except for the 15% interest in Cheng Long Heng (Pudong) and 20% interest in Cheng Long Heng (Jinan), Zhaorong does not own or operate restaurants. Cheng Long Heng (Pudong) and Cheng Long Heng (Jinan) are principally engaged in the provision of Shanghai cuisine and are controlled by Independent Third Parties.
- The remaining 20% equity interest is held by Mr. So.

Xiao Ducheng is principally engaged in the provision of Sichuanese cuisine. As at the Latest Practicable Date, it has no shop in the PRC and has ceased its operation.

Tao Huayuan was principally engaged in the provision of Cantonese cuisine. As at the Latest Practicable Date, it has no shop in the PRC and has ceased its operation.

Xiao Yingjie was principally engaged in the provision of Chinese style dessert. As at the Latest Practicable Date, it has no shop in the PRC and has ceased its operation.

Zhipeng is principally engaged in the provision of Chaoshan cuisine especially braised food under the brand “一鵝風流”. As at the Latest Practicable Date, it has two shops in the PRC located in Shanghai and also has four stalls in a supermarket in Shanghai, Beijing and Shenzhen. It targets on the mid to high spending customers but does not provide hotpot cuisine.

During the Track Record Period, Mr. Hung owned 50% interests in Faigo F&B Management Pte., Ltd. (“**Faigo Singapore**”), a company incorporated in Singapore and was principally engaged in the operation of a Cantonese-style hotpot restaurant in Singapore. Faigo Singapore ceased its operation and has been wound up by way of creditors’ voluntary winding up as at the Latest Practicable Date.

The proposed Directors confirm that each of Xiao Ducheng, Tao Huayuan, Xiao Yingjie, Zhaorong, Zhenwei, Cheng Long Heng (Pudong), Cheng Long Heng (Jinan) and Faigo Singapore had not had any material non-compliance incidents during the Track Record Period.

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

Despite the above-mentioned interest of Mr. Hung and Ms. Hung in other catering services businesses, having taking into account (i) the types of cuisine and mode of food services of the Excluded Businesses are not in the provision of hotpot cuisine, (ii) the target customers; and/or (iii) the scale of operation of the Excluded Businesses are smaller than the Target Group, Mr. Hung, Ms. Hung and the proposed Directors of the Enlarged Group consider that the competition between the Excluded Businesses and the Target Group is limited. The Controlling Shareholder has no intention to inject his interest in the Excluded Business into the Enlarged Group.

While the Target Group principally engages in the operation of restaurants in Cantonese-style hotpot offering seafood as major raw food materials in the PRC, the Excluded Businesses provide different styles or genres of catering services from the Target Group and these companies do not provide Cantonese-style hotpots. Taking into account of the different types of catering services and size of operation, the Sponsor concurs with the proposed Directors that Excluded Businesses have different business nature and are of small scales with different target customers and therefore they do not direct compete with the business of the Target Group.

Further to the abovementioned none of the proposed Directors, Controlling Shareholder, nor any of their respective close associates is a director or a shareholder of any company, firm, corporation, business or enterprise (in whatever form) engaged in a business similar to or in competition with the existing business of the Enlarged Group or any of its subsidiaries, either directly or indirectly, apart from the Enlarged Group itself, in light of their size, nature and/or targeted customers.

Non-competition deed

Pursuant to the Deed of Non-Competition to be entered into between the Company and Mr. Hung on Acquisition Completion, Mr. Hung (the “**Covenantor**”) will undertake with the Company (for itself and for the benefits of its subsidiaries) that he shall not, and shall procure that his close associates and entities or companies controlled by him or his close associates not to, either on its own account or for any other person, firm or company, directly or indirectly be interested or involved or engaged in or acquire or hold an interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise) in any business which competes or is likely to compete, directly or indirectly, with the business engaged by the Enlarged Group’s from time to time in Hong Kong, the PRC or any other country to which the Enlarged Group provides services and/or in which any member of the Enlarged Group carries on business from time to time (the “**Restricted Activity**”).

The Covenantor will also undertake and agree that (a) he shall promptly provide the Company, in writing (by email, facsimile or otherwise) with any relevant information in respect of any new business opportunity (other than certain business opportunities as set out below) which competes or may compete with the Restricted Activity which he or his close associates may have knowledge for the Company to assess such new business opportunity. The Company shall, as soon as practicable upon provision by the Covenantor of such new business opportunities, submit such business opportunities to the independent

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

non-executive Directors of the Company for assessment as to whether the Company would pursue such opportunities. Neither the Covenantor nor any of his close associates shall pursue such business opportunities until the Company confirms that it will not pursue such business opportunities; (b) he shall provide all information necessary to the Company for the enforcement of the Deed of Non-Competition; and (c) he shall make an annual declaration in favour of the Company on whether he has fully complied with his obligations under the Deed of Non-Competition, for inclusion in the annual report of the Company in the manner consistent with the principles of making voluntary disclosures in the section headed “Corporate Governance Report” of the annual reports prepared in accordance with the requirements of the Listing Rules from time to time.

The undertakings above are subject to the exception that any of the close associates of the Covenantor are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to the Group, provided always that information about the principal terms thereof has been fully disclosed to the Company and the Directors, and the Company shall have, after review and approval by the independent non-executive Directors without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of the independent non-executive Directors, confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Activity and provided also that the principal terms on which that relevant close associate of the Covenantor invests, participates or engages in the Restricted Activity are substantially the same as or not more favourable than those disclosed to the Company. Subject to the above, if the relevant close associate of the Covenantor decides to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the detailed terms of such involvement, engagement or participation must be disclosed to the Company and the Directors as soon as practicable.

The said Deed of Non-Competition and the rights and obligations thereunder are subject to and conditional upon (1) the Stock Exchange having granted approval for the Resumption in connection with the New Listing Application; (2) the Acquisition Completion having completed as a result of which and (3) the Acquisition Completion such that the Covenantor and his close associates, individually and/or collectively, are interested in the Shares so as to directly or indirectly exercise or control the exercise of 30% or more of the then total voting rights at the general meetings of the Company. The obligations of the Covenantor under the said Deed of Non-Competition cease to be of any force and effect on the earliest of the date on which: (a) the Shares cease to be listed on the Stock Exchange; and (b) the principal business of the Enlarged Group ceases to be the Restricted Activity.

According to the said Deed of Non-Competition, the Covenantor undertakes to and agrees and covenants with the Company (for itself and for the benefits of its subsidiaries) to indemnify each member of the Enlarged Group (collectively, the “**Indemnified Parties**” and individually, an “**Indemnified Party**”) and keep each of the Indemnified Party fully and effectively indemnified against losses or liability suffered arising out of or in connection

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

with any breach or alleged breach on the part of the Covenantor of any of his obligations including any costs and expenses as a result of such breach under the Deed of Non-Competition.

The Deed of Non-Competition will take effect upon the Resumption Date and shall expire on the earlier of: (a) the day on which the shares of the Company cease to be listed on the Stock Exchange or other recognised stock exchange; or (b) the day on which the Covenantor and his close associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of the Company directly or indirectly or cease to be deemed as controlling shareholder of the Company and do not have power to control the board of directors of the Company or there is at least one other independent Shareholder other than the Covenantor and his close associates holding more shares of the Company than the Covenantor and his close associates taken together.

NON-DISPOSAL UNDERTAKINGS

Each of the Vendors and its respective substantial shareholder(s) will on Completion execute an undertaking in favour of the Company that it/he/she shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing from the date of Acquisition Completion and ending on the date which is six months from the Resumption Date dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of, any of the Consideration Shares, Consideration CBs and Conversion Shares issued and allotted to the relevant Vendors; or
- (b) in the period of six months commencing from the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Vendors would or might, taken together, hold less than 30% of the issued share capital of the Company.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

The Directors do not expect there to be any significant transactions between the Enlarged Group and the Controlling Shareholder or any transaction between the Group and the Excluded Businesses upon the Resumption.

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

The Directors consider that the Group is capable of operating its business independently from the Controlling Shareholder and his close associates following the Resumption, having taken into consideration the following factors:

(a) Management independence

Upon Resumption, the Board will comprise 4 executive Directors and 3 independent non-executive Directors. Save as disclosed in the section headed “Directors and Senior Management of the Enlarged Group” of this circular, there is no other relationship among the Directors. Also, apart from Mr. Hung, the Controlling Shareholder of the Enlarged Group, who is also an executive Director, the other Directors shall act independently from Mr. Hung.

The Directors are of the view that the Enlarged Group is capable of maintaining management independence as:

- (i) the Enlarged Group’s strategies, management, operations and affairs are formulated, led, managed and/or supervised by the Board and not by any individual Director. All major and important corporate actions of the Company are and will be fully deliberated and determined by the Board collectively and objectively as a collective body;
- (ii) the Company has maintained and will continue to maintain a balanced composition of executive Directors and independent non-executive Directors with diversified expertise and experience, so that a strong independent element is present to effectively exercise independent judgment on the corporate actions of the Company and a sufficient degree of checks and balances among members of the Board can be ensured;
- (iii) pursuant to the terms of the proposed service contracts to be entered into between the Company and the executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to the Company;
- (iv) in the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by the Board, the interested Director(s) shall abstain from voting at the relevant meeting of the Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Memorandum of Association and Articles of Association and/or the Listing Rules;
- (v) the Company will have 3 independent non-executive Directors, who are not associated with the Controlling Shareholder or his close associates. Resolutions of the Board approving any matters in which any of the executive Directors has a potential conflict of interest and/or material interest will, for so long as all the executive Directors or their respective

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

associates are also controlling shareholders and are relatives of the others, only be considered and approved by the independent non-executive Directors (as under the provisions of the Memorandum of Association, Articles of Association and the Listing Rules, the executive Directors will then be prohibited from voting on the resolution(s) and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolution(s) is/are approved). The independence of the Board's decisions in respect of any matters in which any of the Group's executive Directors has a potential conflict of interest and/or material interest is and can be ensured;

- (vi) the Company will established corporate governance procedures in safeguarding the interests of the Shareholders and enhancing Shareholders' value. Each Director is fully aware of his fiduciary duty to the Company, and will abstain from voting on any matter where there is or may be a conflict of interest as required under and in accordance with the Memorandum of Association, the Articles of Association and the Listing Rules; and
- (vii) the Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by the Board. The day-to-day management and operations of the Enlarged Group are operated independently from the influence of the Controlling Shareholder and his close associates.

(b) Financial independence

The Target Group has an independent financial system and makes financial decisions according to its own business needs. As at 31 December 2015, 31 December 2016 and 31 December 2017, the aggregate amounts due from related parties amounted to approximately RMB59.3 million, RMB90.0 million and RMB80.0 million, respectively. The above amounts will be settled prior to the Resumption. Save as disclosed above, the proposed Directors are of the view that the Target Group is not financially dependent on the Controlling Shareholder or his associates in the business operations and the Target Group is able to obtain external financing on market terms and conditions for the business operations as and when required.

(c) Operational independence

The operations of the Enlarged Group are independent of and not connected with the Controlling Shareholder. The Target Group has established its own organizational structure comprising individual departments including quality control, cost management, accounting and finance, procurement, design, sales and marketing, customer services, legal, human resources, internal control and risk management, each with specific areas of responsibilities. The Target Group has also established various internal control procedures to facilitate the effective operation of its business.

RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDER

During the Track Record Period and up to the Latest Practicable Date, the Target Group had independent access to suppliers of the Target Group for the business operation and all of the customers are Independent Third Parties. All of the operating subsidiaries of the Target Group hold the licences necessary for the operation of the Target Group's business in their own names.

CORPORATE GOVERNANCE MEASURES ADOPTED BY THE GROUP

The Directors believe that there are adequate corporate governance measures in place to manage any potential conflicts of interest and ensure compliance with the Non-Competition Deed by the Controlling Shareholder. In addition, the Company has adopted the following corporate governance measures to further strengthen protection of the interests of the Shareholders:

- (i) the Company is committed to ensuring that the Board has a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors, details of whom are set out in the section headed "Directors and Senior Management of the Enlarged Group" in this circular, together possess the requisite industry knowledge and experience for their views to carry weight. The majority of the independent non-executive Directors have experience as directors of listed companies and will be able to provide impartial and professional advice to protect the interests of the minority shareholders;
- (ii) any Director with material interest in any matter in respect of which a conflict or potential conflict of interest with the Enlarged Group may arise must make full disclosure in respect of such matter to the Board, and any conflicted Director, will abstain from participation in any board meeting when matters relating to any rights granted in favour of the Company under the Non-Competition Deed by the Controlling Shareholder, unless his attendance is requested by a majority of the independent non-executive Directors. Notwithstanding his attendance, he shall not vote or be counted towards the quorum in respect of such matters;
- (iii) the independent non-executive Directors will review the compliance by the Controlling Shareholder and enforcement of the Non-Competition Deed on an annual basis. The Controlling Shareholder will provide all information requested by the Enlarged Group which is necessary for such review by the independent non-executive Directors and the Enlarged Group will disclose such matters received by the independent non-executive Directors in its annual reports or by way of announcements; and
- (iv) the Controlling Shareholder will make an annual declaration on its compliance with the Non-Competition Deed in the annual report of the Company and ensure that the disclosure of details of the compliance with and the enforcement of the Non-Competition Deed is consistent with the principles of disclosure under the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

All the existing Directors, except for Mr. Ha Kee Choy Eugene, an independent non-executive Director of the Company, will resign upon Resumption.

The board of Directors of the Company immediately following the Resumption will consist of seven Directors, comprising four executive Directors and three independent non-executive Directors, including the proposed Directors and Mr. Ha Kee Choy Eugene as the remaining independent non-executive Director.

The following table sets out the composition of the proposed board of Directors of the Company and the roles and responsibilities of the proposed Directors upon Resumption.

PROPOSED BOARD

Name	Age	Proposed position/title	Effective date of appointment as Director (subject to passing of the relevant resolutions at the EGM)	Date of joining the Target Group	Proposed roles and responsibilities
Mr. Hung Shui Chak (洪瑞澤先生)	48	Executive Director	Upon Resumption	March 2009	Formulating the overall development strategies and business plan of the Enlarged Group
Mr. So Kam Chuen (蘇錦存先生)	37	Executive Director	Upon Resumption	1 November 2004	Overseeing the overall management, day-to-day operation and production of the Enlarged Group
Mr. Yuan Mingjie (袁明捷先生)	39	Executive Director	Upon Resumption	Upon Resumption	Overseeing the overall financial management and reporting and corporate finance matters of the Enlarged Group
Mr. Chen Jun (陳軍先生)	47	Executive Director	Upon Resumption	16 December 2012	Business development and overseeing the day-to-day operation and production of <i>Xiao Faigo Hotpot</i> (小輝哥火鍋)
Mr. Ha Kee Choy Eugene (夏其才先生)	61	Independent non-executive Director	Not applicable	Not applicable	Chairman of the audit committee and member of each of the nomination committee and the remuneration committee

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Name	Age	Proposed position/title	Effective date of appointment as Director (subject to passing of the relevant resolutions at the EGM)	Date of joining the Target Group	Proposed roles and responsibilities
Mr. Chan Chun Yiu Thomas (陳浚曜先生)	54	Independent non-executive Director	Upon Resumption	Not applicable	Chairman of the nomination committee and member of each of the audit committee and the remuneration committee
Mr. Mai Guangfan (麥廣帆先生)	49	Independent non-executive Director	Upon Resumption	Not applicable	Chairman of the remuneration committee and member of the audit committee and nomination committee

Note: The Company has incorporated corporate governance policies and supervision manual, which comply with the Listing Rules (including the Corporate Governance Code in Appendix 14 to the Listing Rules). The proposed Directors confirm that the Enlarged Group will maintain and comply with the existing corporate governance policies and supervision manual with the exception for Code A.2.1, which requires the roles of chairman of the board and chief executive officer be different individuals.

PROPOSED EXECUTIVE DIRECTORS

Mr. Hung Shui Chak (洪瑞澤先生) (“Mr. Hung”) (formerly known as Hung Pan (洪斌)), aged 48, is proposed to be an executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption.

Mr. Hung will be primarily responsible for formulating the overall development strategies and business plan of the Enlarged Group. Mr. Hung has engaged in the investment and operation of trading of raw materials in food and catering and automobile business in Hong Kong prior to 1990. He has vast experiences of investments in various business in the PRC and commenced in investments in the PRC. He has now accumulated over 7 years of experience in the management of food and catering industry in the PRC.

Mr. Hung took the overall business development of the Target Group since 2012 and continues to oversee the management of the operations and business of the Target Group. He has guided the operations and business of the Target Group in adhering to quality and innovation in the operations since he took up the business development of the Target Group in 2009.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Mr. Hung held a controlling interest in Carsone Car Detailing Service Company Limited* (上海比鄰美車堂汽車美容有限公司) (“Carsone”), a company which principally engaged in motor detailing business in the PRC, and Mr. Hung disposed of his interest in Carsone to an Independent Third Party in 2012 and now retains a minority interest of approximately 5.4% in Carsone. Mr. Hung also remains a director of a holding company of Carsone.

For further information regarding the relationship between Mr. Hung and the Target Group, please refer to the section headed “History and background of the Target Group”.

Mr. Hung was ordered bankrupt by High Court of Hong Kong in 2001 as one of the borrowers stemming from an outstanding mortgage due to a bank in 1999. In 2000, the bank applied to the High Court of Hong Kong for a bankruptcy order against Mr. Hung. The bankruptcy order was fully discharged in 2007. The Asia financial crises that began in 1997 and the property prices in Hong Kong crashed in 1998 led to the above legal proceedings against Mr. Hung. Mr. Hung has not further involved in other similar bankruptcy cases subsequent to the above discharge. Subsequent to his discharge of the bankruptcy order, he got acquainted with business partners and later successfully assisted in the disposal of the business partners’ investment and was therefore awarded with certain listed shares and cash.

In early 2009, Mr. Hung used his own resources and funds borrowed from an independent third party to establish Shanghai Longhui. Subsequently, he also utilised the cash and proceeds from the disposal of the listed shares to further develop the business of the Target Group as disclosed in the section headed “History and background of the Target Group”.

Mr. Hung was a director and a legal representative of Shanghai Denghui Catering Management Company Limited* (上海燈輝餐飲管理有限公司), a company incorporated in the PRC with limited liability and was dissolved on a voluntary basis on 30 July 2013 as it ceased to carry on business. It was principally engaged in catering business. As confirmed by Mr. Hung, there was no wrongful act on his part leading to the dissolutions and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolutions.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

He was also a director of the following companies, all of which were incorporated with limited liability and were dissolved or wound-up with details set out below.

Company Name	Place of incorporation	Nature of Business before dissolution	Nature of proceeding	Date of dissolution
Homelite Enterprises Limited	Hong Kong	Investment holding	Striking Off	22 September 2017
Honour Smart (Hong Kong) Limited	Hong Kong	Investment holding	Deregistration	2 September 2016
Moral Art Investment Limited	Hong Kong	Investment holding	Deregistration	8 July 2016
Treasure Success Investment Limited	Hong Kong	Investment holding	Members' Voluntary Winding Up	1 September 2012
S.W. Holdings Company Limited	Hong Kong	Trading	Striking Off	22 April 2005
Win West Investment Limited	Hong Kong	Investment holding	Striking Off	11 March 2005
S.W. Trading Company Limited	Hong Kong	Trading	Compulsory Winding Up (<i>Note 1</i>)	5 September 2004
Action Pro Enterprises Limited	Hong Kong	Trading	Compulsory Winding Up (<i>Note 2</i>)	22 March 2003
Rich Ease Far East Limited	Hong Kong	Trading	Striking Off	4 March 2005
Shanghai Lian Lian Hotpot Catering Management Company Limited* (上海連連火鍋餐飲管理有限公司)	PRC	Catering business	Deregistration	2 August 2013

As confirmed by Mr. Hung, except S.W. Trading Company Limited and Action Pro Enterprises Limited, each of the above companies was inactive and solvent at the time when dissolved and there was no wrongful act on his part leading to the dissolutions and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolutions.

Notes:

1. Because of the Asia financial crisis in around 1997, the business of S. W. Trading Company Limited (“**S.W. Trading**”) was heavily affected. In March 1999, a bank entered into possession of a property owned by S.W. Trading pursuant to a legal charge. Subsequently, another creditor of S.W. Trading made a petition in 1999 to the courts of Hong Kong for the compulsory winding-up of S.W. Trading in order to recover the repayment of unpaid amounts.
2. Because of the Asia financial crisis in around 1997, the business of Action Pro Enterprises Limited (“**Action Pro**”) was heavily affected. In March 1999, a creditor of Action Pro made a petition to the courts of Hong Kong for the compulsory winding-up of Action Pro in order to recover the repayment of unpaid amounts.

None of the above wound-up companies are related to the Group or the Target Group.

In 2011, Mr. Hung and Dragonfair were investigated by the SFC and subsequently charged for failure to perform a duty of disclosure within the specific period without reasonable excuse contrary to sections 310(1)(a), 313(1)(b), 316(2)(a), 324, 325(1)(a) and 328(a)(ii) of the SFO (the “**Breach**”), which arose from certain transactions involved the dealing in shares of Kaisun Energy Group Limited (“**KEG**”), a company listed on the GEM

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

of the Stock Exchange (stock code: 8203). Such dealings happened on 11 December 2009 when Dragonfair disposed of 7,000,000 shares of KEG, and the shareholdings in KEG of Mr. Hung (being the sole shareholder of Dragonfair) and Dragonfair fell to below 5%, hence ceased to have a notifiable interest. However, pursuant to sections 310(1)(a), 313(1)(b), 324 and 325(1)(a) of the SFO, Mr. Hung and Dragonfair came under a duty to disclose to the Stock Exchange and KEG the cessation of his/its notifiable interest as a result of such disposal within the specific period under the SFO, but due to miscommunication with agents who were asked to prepare the disclosure forms for Dragonfair and Mr. Hung, such disclosure of interest notifications were not filed with the Stock Exchange and KEG until 31 August 2010. The summonses were heard at the Eastern Magistracy and Mr. Hung and Dragonfair pleaded guilty to the relevant charges, and each of them was fined HK\$4,000 and ordered to pay legal costs of HK\$6,396, which had been fully settled by Mr. Hung and Dragonfair. Taking into account that the Breach was mainly due to Mr. Hung's inadvertence, without full understanding of his duty of disclosure under SFO at the time of the Breach and does not involve dishonesty or fraudulent act on the part of Mr. Hung, the amount of fine was in small amount due to the immaterial nature of the Breach and that Mr. Hung had attended training sessions on directors' duties conducted by the Hong Kong legal advisors of the Company, the proposed Directors and Sponsor consider that the Breach would not negatively affect the suitability of Mr. Hung as a Director under Rules 3.08 and 3.09 of the Listing Rules.

The proposed Directors of the Enlarged Group considers that Mr. Hung has the requisite character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as an executive Director of the Enlarged Group for the following reasons:

1. The bankruptcy order against Mr. Hung resulted from his personal investment in the property and was not related to the affairs of the Target Group and the Group.
2. The disputes which prompted Mr. Hung's bankruptcy did not involve fraud or cast any doubt on Mr. Hung's integrity.
3. The bankruptcy order was made against Mr. Hung over 15 years ago.
4. Mr. Hung has been discharged from bankruptcy in 2007 and there is no restriction or limitation on Mr. Hung's capacity to act as directors of private or public companies in Hong Kong and the bankruptcy order ceased to have any implications on him.
5. The Breach was committed due to Mr. Hung's misunderstanding of the relevant rules and miscommunication on the filing arrangement between him and other parties involved in the transactions, and hence were inadvertent mistake made by him.
6. Mr. Hung made significant contribution for the Target Group's development and expansion and has in-depth knowledge of the operation of catering business in the PRC which is valuable and important to the Target Group.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Having considered the information above and Mr. Hung confirmed that he is not involved in any legal proceedings or any other claims as at the Latest Practicable Date. The bankruptcy order against Mr. Hung was due to the economic crisis at that time and did not involve any fraud by him. The Sponsor and the proposed Directors of the Enlarged Group consider that Mr. Hung is suitable to act as a Director pursuant to the Listing Rules.

Mr. So Kam Chuen (蘇錦存先生) (“Mr. So”), aged 37, is proposed to be an executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption.

Mr. So will be responsible for overseeing the overall management, day-to-day operation and production of the Enlarged Group. He joined the Target Group in November 2004 and is serving as the Executive Chef and Brand General Manager of *Faigo* (輝哥) and *Xiao Faigo* (小輝哥) and has over 12 years of experience in the catering industry and operations management. He joined the catering business in Hong Kong after finishing school education in Hong Kong in 1997. During his service with the Target Group, Mr. So is responsible for overseeing the operations of all the restaurants of the Target Group, developing new cuisine, controlling the quality of food and services of *Faigo* (輝哥) and *Xiao Faigo* (小輝哥) to ensure the upscale of food and services.

Mr. Yuan Mingjie (袁明捷先生) (“Mr. Yuan”), aged 39, is proposed to be an executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption.

Mr. Yuan will be responsible for overseeing the overall financial management and reporting and corporate finance matters of the Enlarged Group. He has over two years of experience in auditing and accounting in various industries. He was the Vice President and Corporate Secretary of CY Oriental Holdings Ltd., a company listed on the Toronto Stock Exchange (Stock code: CYO:APH), from 2004 to 2008. He also served as an auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 2001 to 2003. Mr. Yuan is currently the Executive Vice President & Chief Operating Officer of Carsone Car Detailing Service Company Limited* (上海比鄰美車堂汽車美容有限公司) (“Carsone”), a company which was previously controlled by Mr. Hung who disposed of his interest in Carsone to Independent Third Party in 2012 and now only retains approximately 5.4% shareholding in Carsone and remains as a director of Carsone, since 2012. Mr. Yuan was awarded a Bachelor Degree in English Language and Literature from Shanghai International Studies University (上海外國語大學) in 2001 and a Master Degree in Business Administration from Shanghai Jiao Tong University (上海交通大學) in 2012.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Mr. Yuan was a director or a supervisor of the following companies, all of which were incorporated with limited liability and were dissolved or wound-up with details set out below.

Company name	Place of incorporation	Position of Mr. Yuan before dissolution	Nature of business before dissolution	Nature of proceeding	Date of dissolution
Jinan Bilin Carsone Car Services Company Limited* (濟南比鄰美車堂汽車服務有限公司)	PRC	Supervisor	Car services	Deregistration	27 August 2015
Zhenjiang Bilin Car Services Company Limited* (鎮江比鄰汽車服務有限公司)	PRC	Director	Car services	Deregistration	2 June 2015
Yichang Bilin Carsone Car Services Company Limited* (宜昌比鄰美車堂汽車美容有限公司)	PRC	Director	Car services	Deregistration	14 November 2014
Grand Capital Partners, Financial Services Limited	Hong Kong	Director	Financial consultancy services	Deregistration	24 May 2013
Xiangyuan Clothing (Tengzhou) Company Limited* (祥源製衣(滕州)有限公司)	PRC	Director	Sale of clothing	Revocation	9 February 2009

As confirmed by Mr. Yuan, each of the above companies were inactive and solvent at the time when dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Mr. Yuan confirmed that he will resign from all positions in Carsone upon Resumption.

Mr. Chen Jun (陳軍先生) (“Mr. Chen”), aged 47, is proposed to be an executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption.

Mr. Chen will be responsible for business development and overseeing the day-to-day the operation and production of *Xiao Faigo* (小輝哥). He joined the Target Group in December 2012 and has been serving as the Brand Manager of *Xiao Faigo* (小輝哥) since then. He has over 15 years of experience in catering industry and operation management.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Since 2001, Mr. Chen has served as a management in various catering business, including Shanghai Min Catering Management Company Limited* (小南國餐飲管理有限公司) and Shanghai Jinmeng Suzhehui Catering Company Limited* (上海金萌蘇浙滙餐飲有限公司).

PROPOSED INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Yiu Thomas (陳浚耀) (“Mr. Thomas Chan”) (formerly known as Chan Chee Choi (陳子才)), aged 54, is proposed to be an independent non-executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption. It is also proposed that he will act as the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company.

Mr. Thomas Chan obtained a bachelor of laws degree in 1987 and the postgraduate certificate in laws in 1988, both at the University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1990, and as a solicitor in United Kingdom in 1991. Following his admission as a solicitor in Hong Kong, he spent almost 15 years in private practice in Hong Kong with various local and international law firms, specialising in banking, commercial and real estate areas. He then left private practice and joined the Hong Kong Branch of Société Générale S.A. in March 2005, and left in August 2011 as its legal counsel at director level, specialising in listed and unlisted structured products, retail funds, exchange traded funds and general banking advisory work. Subsequently, he joined CLSA Hong Kong Holdings Limited as its senior legal adviser from August 2011 to April 2015. In February 2017, he joined International Entertainment Corporation (stock code: 1009), a company listed on the Main Board of the Stock Exchange. He is currently employed as the group general counsel of International Entertainment Corporation. He is also a director of various subsidiaries of International Entertainment Corporation incorporated in Hong Kong and British Virgin Islands. He has been appointed as an independent non-executive director of LEAP Holdings Group Limited (stock code: 1499) since November 2017 and has resigned with effective from 30 April 2018.

Mr. Thomas Chan was a director of the following companies, all of which were incorporated in Hong Kong with limited liability and were dissolved on a voluntary basis by way of deregistration as these companies ceased to carry on business. As confirmed by Mr. Thomas Chan, each of these companies was inactive and solvent at the time when they were dissolved and there was no wrongful act on his part leading to the dissolutions and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolutions.

Company name	Nature of Business before dissolution	Nature of proceeding	Date of dissolution
Racetime Limited	Investment holding	Striking Off	21 June 2002
Top Cat Limited	Inactive	Deregistration	5 August 2005

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Mr. Mai Guangfan (麥廣帆先生) (“Mr. Mai”), aged 49, is proposed to be an independent non-executive Director of the Enlarged Group which, subject to approval by the Shareholders at the EGM, will take effect upon Resumption. It is also proposed that he will act as the chairman of the remuneration committee and member of the audit committee of the Company.

Mr. Mai has over 22 years experience in the catering industry and management. Since 1994, Mr. Mai founded the Prince Group, including Prince Restaurant, a restaurant in Hong Kong, Shenzhen and Xiamen, PRC focusing on high-end market; Prince Home Cuisine* (王子私房菜), a restaurant in Zhongshan principally serving homemade style cuisine on high-end market; and Prince Banquet Hotel* (王子國宴飯店), a restaurant in Shenzhen principally served for wedding banquets.

Currently, Mr. Mai is the Chairman of Catering Business Association of Zhongshan* (中山飲食商會), a Vice President of International Master Chef Committee of the World Federation of Chinese Catering Industry (世界中餐業聯合會國際中餐名廚專業委員會), an Executive Director and General Manager of Shenzhen Mai Guangfan Catering Planning and Management Company Limited* (深圳市麥廣帆飲食策劃管理有限公司).

Mr. Mai was a director of Prince Restaurant (Causeway Bay) Company Limited, which was incorporated in Hong Kong with limited liability and was dissolved on a voluntary basis by way of deregistration on 9 July 2009 as it ceased to carry on business. As confirmed by Mr. Mai, it was inactive at the time when it was dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Saved as disclosed above, none of the proposed Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this circular. Please refer to the section headed “Appendix V — Statutory and General Information” in this circular for further information about the proposed Directors, including the particulars of their service contracts and remuneration, and details of the interests of the proposed Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed in this circular, there are no other matters in respect of each of the proposed Directors that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to the proposed Directors that need to be brought to the attention of the Shareholders.

PROPOSED SENIOR MANAGEMENT

The proposed senior management of the Enlarged Group will be responsible for the daily operations of the business of the Enlarged Group.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

The following table sets for certain information in respect of the proposed senior management of the Enlarged Group:

Name	Age	Title	Date of joining the Target Group	Roles and responsibilities
Ms. Bi Jia (畢佳女士)	37	Public Affair Manager	1 September 2012	Managing the public and external affairs, coordination between departments and handling brands related matters of the Target Group
Mr. Liu Chisheng (劉遲生先生)	54	Financial Director	11 September 2012	Managing audit, accounting and financial related matters of the Target Group
Mr. Yu Jun (余俊先生)	35	Manager of Information Technology	18 October 2013	Managing IT related matters of the Target Group
Ms. Shen Lihua (沈麗華女士)	39	Director of Human Resources and Administration	20 July 2015	Managing human resources and administration related matters of the Target Group
Mr. Wu Yuanqing (吳元慶先生)	45	Logistics Director	1 November 2004	Managing warehouse and logistics related matters of the Target Group
Mr. Li Chao (李超先生)	32	Development Director	1 January 2012	Managing expansion and development related matters of the Target Group
Mr. Zhang Ming (張明先生)	35	Marketing Director	15 April 2016	Managing marketing related matters of the Target Group
Mr. Tse Chi Kwai (謝自貴先生)	36	Purchasing Director	1 August 2016	Managing procurement related matters of the Target Group

Ms. Bi Jia (畢佳女士) (“Ms. Bi”), aged 37, is the Public Affair Manager of the Target Group. She is primarily responsible for managing the public and external affairs, coordination between departments and handling brands related matters of the Target Group. Ms. Bi joined the Target Group on 1 September 2012. She has over 6 years of experience in secretarial duties. Prior to joining the Target Group, Ms. Bi served as the Chairman Assistant at Carsone from 2010 to 2012. Prior to it, she was the Finance Manager of Carsone from 2005 to 2010. She obtained a Diploma in Finance and Accounting (財務會計) from Central Radio and TV University* (中央廣播電視大學) (currently known as The Open University of China) in 2002.

Mr. Liu Chisheng (劉遲生先生) (“Mr. Liu”), aged 54, is the Financial Director of the Target Group. He is primarily responsible for managing audit, accounting and financial related matters of the Target Group. Mr. Liu joined the Target Group on 11 September 2012. He has over 15 years of experience in financial management. Prior to joining the Target Group, Mr. Liu served as Financial Controller at Carsone in 2012. Prior to the

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

joining of Carsone, Mr. Liu was the Financial Controller of Shenzhen Meidao Shiye Development Company Limited* (深圳市美道實業發展有限公司) (currently known as Shenzhen Aiyubeiai Jewellery Company Limited* (深圳市愛與被愛珠寶有限公司)) from 2001 to 2012. He has been a fellow of Institute of Financial Accountants since 2012. He obtained a Diploma in Accounting from Dongbei University of Finance & Economics (東北財經大學) in 2013.

Mr. Yu Jun (余俊先生) (“Mr. Yu”), aged 35, is the Manager of Information Technology of the Target Group. He is primarily responsible for managing IT related matters of the Target Group. Mr. Yu joined the Target Group on 18 October 2013. He has over 9 years of experience in managing IT operations. Prior to joining the Target Group, Mr. Yu served as IT Manager at Shanghai Longbong Clothing Company Limited* (上海隆邦服飾有限公司) from 2012 to 2013. He was the IT Manager at Shanghai Baishihao Electronic Business Company Limited* (上海百世好電子商務有限公司) from 2007 to 2012. He obtained a Bachelor degree in Mathematics and Applied Mathematics from Donghua University (東華大學) in 2005.

Ms. Shen Lihua (沈麗華女士) (“Ms. Shen”), aged 39, is Director of Human Resources and Administration of the Target Group. She is primarily responsible for managing human resources and administration related matters of the Target Group. Ms. Shen joined the Target Group on 20 July 2015. She has over 10 years of experience in human resources management in the food and beverage industry. Prior to joining the Target Group, Ms. Shen served as the General Manager at Shanghai Shenhai 800m Catering Management Company Limited* (上海深海八百米餐飲管理有限公司) from 2014 to 2015. From 2010 to 2014, she was the Senior Human Resources Manager at Shanghai Babei Layizhou Catering Management Company Limited* (上海巴貝拉意舟餐飲管理有限公司). She worked at Shanghai Mingtian Shiye Company Limited* (上海銘天實業有限公司) as the Group Human Resources from 2006 to 2010. She was awarded Executive Management Career Award — Higher Professional Module Certificate — Human Resource Management by Cambridge International Examinations and Director of Human Resources Management (《人力資源總監崗位證書》) by Cambridge Associate in 2014. She obtained a Master degree in Business Administration from Benedictine University in 2015.

Mr. Wu Yuanqing (吳元慶先生) (“Mr. Wu”), aged 45, is the Logistics Director of the Target Group. He is primary responsible for managing warehouse and logistics related matters of the Target Group. Mr. Wu joined the Target Group on 1 November 2004. He has over 12 years of experience in management of engineering and logistics in the food and beverage industry. Mr. Wu obtained a Bachelor in Economics and Management from Beijing Science Technology College* (北京科技管理學院) in July 2016.

Mr. Li Chao (李超先生) (“Mr. Li”), aged 32, is the Development Director of the Target Group. He is primarily responsible for managing expansion and development related matters of the Target Group. Mr. Li joined the Target Group on 1 January 2012. He has over 8 years of experience in expansion and development of business. Mr. Li served as Development Director at Carsone, an associated company of the Target Group, from 2008 to February 2017.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Mr. Zhang Ming (張明先生) (“Mr. Zhang”), aged 35, is the Marketing Director of the Target Group. He is primarily responsible for managing marketing related matters of the Target Group. Mr. Zhang joined the Target Group on 15 April 2016. He has over 12 years of experience in marketing and brand management of the food and beverage industry. Prior to joining the Target Group, Mr. Zhang served as the Collaborative Founder at Shanghai Yiqing Information Technology Company Limited* (上海亦清信息科技有限公司) from 2015 to 2016. He was the Senior District Manager at Dianping.com (大眾點評網) from 2009 to 2015. Meanwhile, he was a Designer at Daji International Trading (Shanghai) Company Limited* (達記國際貿易(上海)有限公司) from 2004 to 2011. Mr. Zhang obtained a Diploma in Arts and Design (藝術設計) from Zhengzhou University of Light Industry (鄭州輕工業學院) in 2008.

Mr. Tse Chi Kwai (謝自貴先生) (“Mr. Tse”), aged 36, is the Purchasing Director of the Target Group. He is primarily responsible for managing procurement related matters of the Target Group. He joined the Target Group on 1 August 2016. He has extensive experience in procurement in the catering industry. Prior to joining the Target Group, he was the Procurement Assistant at Hong Kong Super Star Group from 2006 to 2007. Mr. Tse is a member of The Chartered Institute of Procurement and Supply. He obtained a Bachelor degree in Logistics and Supply Chain Management from University of Northumbria at Newcastle in 2013. He also obtained a Professional Diploma in Purchasing and Supply from School of Continuing Education of Hong Kong Baptist University in April 2009 and a Higher Diploma in Business (Marketing and Management) from School of Professional and Continuing Education of The University of Hong Kong in September 2006.

COMPANY SECRETARY

Mr. Wong Chun Kit (王震傑), aged 38, is the company secretary of our Company. He has been an associate of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since July 2015. Mr. Wong obtained a Bachelor degree of Engineering in Chemical and Polymer Engineering from The Hong Kong University of Science and Technology in November 2003 and a Master degree of Science in Professional Accounting and Corporate Governance from City University of Hong Kong in July 2012. He has extensive professional experience in company secretarial practice.

BOARD COMMITTEES

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Enlarged Group to review the Company’s interim and annual reports and financial statements. The audit committee of the Company will consist of Mr. Ha Kee Choy Eugene, Mr. Chan Chun Yiu Thomas and Mr. Mai Guangfan and will be chaired by Mr. Ha Kee Choy Eugene. All of them are proposed independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Remuneration committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to determine the specific remuneration packages of all executive Directors and senior management of the Company, including benefits-in-kind, pension rights and compensation payments, and to advise the Board on the remuneration of the non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management of the Company, the remuneration committee will take into account the performance of the Enlarged Group as well as individual Directors and senior management of the Company. The remuneration committee will consist of Mr. Ha Kee Choy Eugene, Mr. Chan Chun Yiu Thomas and Mr. Mai Guangfan and will be chaired by Mr. Mai Guangfan, a proposed independent non-executive Director.

Nomination committee

The Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to the Board on potential candidates to fill vacancies on or additional appointment to the Board and for senior management positions. Nominations of Directors and senior management candidates by the nomination committee are based on considerations such as vacancy available, the candidate's competence and experience, possession of requisite skills and qualifications, independence and integrity. The nomination committee will consist of Mr. Mai Guangfan, Mr. Ha Kee Choy Eugene and Mr. Chan Chun Yiu Thomas and will be chaired by Mr. Chan Chun Yiu Thomas, a proposed independent non-executive Directors.

COMPENSATION OF PROPOSED DIRECTORS AND SENIOR MANAGEMENT

The proposed Directors and senior management receive compensation from the Target Group in the form of fees, salaries, contributions to pension schemes and allowances and benefits in kind. The aggregate amount of remuneration the proposed Director has received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for the years ended 31 December 2015, 2016 and 2017 was approximately RMB0.45 million, RMB0.31 million and RMB0.37 million, respectively.

The aggregate amount of emoluments, including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind, paid to the five highest paid individuals of the Target Group, including one proposed Director and four highest paid employees, during each of the years ended 31 December 2015, 2016 and 2017 was approximately RMB1.50 million, RMB1.63 million and RMB2.06 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT OF THE ENLARGED GROUP

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to the proposed Director for the year ending 31 December 2018 is estimated to be RMB1.6 million.

No remuneration was paid by the Target Group to the proposed Director or the five highest paid individuals as an inducement to join or upon joining the Target Group or as a compensation for loss of office in respect of the years ended 31 December 2015, 2016 and 2017. Furthermore, the proposed Directors had not waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended years ended 31 December 2015, 2016 and 2017 by the Target Group to the proposed Directors.

It is expected that, upon Resumption, the Enlarged Group will be able to offer competitive remuneration packages to the proposed Director and senior management of the Enlarged Group including discretionary bonus, retirement scheme benefits and share options are structured to commensurate with their individual job duties, qualifications, performance and years of experience.

COMPLIANCE ADVISER

The Company has appointed HeungKong Capital Limited as its compliance adviser upon Resumption pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company, among others, at the following circumstances:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases; and
- (iii) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment of the compliance adviser will commence on the date of Resumption and end on the date on which the Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Resumption and this appointment may be subject to extension by mutual agreement.

FINANCIAL INFORMATION OF THE TARGET GROUP

You should read the following discussion and analysis of our financial condition and results of operations together with the combined financial statements of the Target Group as of and for each of the years ended 31 December 2015, 2016 and 2017 and the accompanying notes included Appendix I to this circular. The combined financial statements have been prepared in accordance with IFRSs. Potential investors should read the whole of financial information set out in Appendix I to this circular and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties (including those discussed below or elsewhere in this circular). For purposes of this section, unless the context otherwise requires. For additional information regarding these risks and uncertainties, please refer to the section headed “Risk factors” in this circular.

OVERVIEW

The Target Group is one of the top five Cantonese-style hotpot restaurant operators in China in terms of sales revenue in 2016 according to the Market Research Report. The hotpot restaurant market in China can be divided into Cantonese-style, Mongolia-style, Sichuan-style, and other-style hotpot. Cantonese-style hotpot restaurants accounted for around 13.8% of total hotpot restaurant market in the PRC in 2016. According to the Market Research Report, within the Cantonese-style hotpot restaurants segment, the Target Group had a market share of 1.3% in terms of revenue in 2016. The Target Group accounted for approximately 0.2% of the market share of the overall hotpot market in terms of revenue in the PRC in 2016. The Target Group specializes in seafood hotpot cuisine with a signature menu which is characterized by the Target Group’s aromatic soup base and a wide range of selection of seafood and beef. As at 31 December 2017, the Target Group owned and operated itself a total of 100 restaurants. The restaurants of the Target Group have three major brands, namely, *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”). The three different brands of Target Group’s business aim at different customers.

The Target Group’s audited revenue was approximately RMB716.2 million for the year ended 31 December 2015, RMB707.3 million for the year ended 31 December 2016 and RMB700.4 million for the year ended 31 December 2017. The Target Group’s audited net profit was approximately RMB36.5 million, RMB38.5 million and RMB25.7 million for the years ended 31 December 2015, 2016 and 2017, respectively.

BASIS OF PRESENTATION

The Target Group’s financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. The financial information of the Target Group have been prepared under the historical cost convention.

FACTORS AFFECTING THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE TARGET GROUP

The Target Group's business, financial positions and results of operations have been and will be significantly affected by a number of internal and external factors. The principal factors directly or indirectly affecting the Target Group's results of operations are set out below:

- Economic growth in China

The Target Group's business and assets are located in the PRC and all of its revenues are derived from the PRC. Therefore, the financial position and prospects of the Target Group are subject, to a significant degree, to the economic, political and legal developments of the PRC. This includes the PRC legal system, fluctuations in the value of the Renminbi, regional and local economic conditions, employment levels and consumer spending patterns in the PRC. Any deterioration of the PRC economy, decrease in disposable consumer income, fear of a recession and decreases in consumer confidence may lead to a reduction of customer traffic and average spending per customer at the restaurants of the Target Group, which could materially and adversely affect the financial condition and results of operations of the Target Group.

- Food prices in China

The food is the major cost ingredient of the Target Group. Key ingredients the Target Group use include beef, live and frozen seafood. Fluctuations in weather, supply and demand and economic conditions could adversely affect the cost, availability and quality of the critical food ingredients for the Target Group's operation. According to the Market Research Report, the PRC food price index, its food inflation indicator, increased by 21.1% from 2011 to 2016. Despite the various initiatives the Target Group has undertaken as shown in the section headed "Business of the Target Group — Purchase cost control" in this circular, the change in the cost of ingredients that the Target Group uses in its restaurants will directly affect the operating margins of the Target Group that could be beyond the Target Group's control. Also, the Target Group is dependent on prompt delivery and transportation of its food ingredients and raw materials. Certain events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays and labour strikes, could lead to delayed or lost deliveries of food supplies to the restaurants of the Target Group which may result in the loss of potential business and thus revenue.

FINANCIAL INFORMATION OF THE TARGET GROUP

- Growth of the catering service industry and casual dining market in China

The PRC catering service market has experienced rapid growth in recent years. According to the Market Research Report, in terms of sales revenue, the PRC's catering service market grew at a CAGR of 10.9% from RMB2,129.5 billion in 2011 to RMB3,579.9 billion in 2016. The growth of the catering service industry in the PRC was due to the fast pace of economic growth in the PRC for the past several years. The rapid economic development in the PRC and the influx of migrants from rural areas to urban areas has been steadily increased the urban population in the PRC. These increase the consumer spending in the catering service in the PRC.

- Number of restaurants in operation and expansion of restaurant networks

The Target Group is largely affected by the number of restaurant in the Target Group's network, and its future revenue growth of the Target Group depends on its ability to open and profitably operate new restaurants. The number of restaurants in the Target Group's network increased from 65 as at 1 January 2015, to 91 as at 31 December 2015 and further increased to 97 as at 31 December 2016 and 100 as at 31 December 2017. The Target Group currently plans to open an additional 29 new restaurants by the end of 2019. Some of the planned new restaurants are expected to be opened in regions where the Target Group does not have existing restaurants. Although the Target Group will closely monitor the performance of its restaurants and will adjust its restaurant network where appropriate, the actual number, location and timing of new restaurant openings will be subject to a number of uncertainties and the Target Group may not be able to open new restaurants as quickly as planned or as quickly as it has been able to in the past. Delays or failures in opening new restaurants could materially and adversely affect the growth strategy and the expected financial and operational results of the Target Group.

- Employee benefit expenses

Employee benefit expenses which comprises wages and salaries and benefits payable to all the employees has been a major component of the costs of the Target Group. The economic growth in the PRC causes the average wage in the PRC to continue growing which will result in decrease of the profit margin of the Target Group. Also, any shortages in the availability of labour or any material increases in the cost of labour will have a material and adverse effect on its business, financial condition and results of operations of the Target Group.

- Property rentals and related expenses

As the Target Group leases the property for all of its restaurants and warehouses, the Target Group has significant exposure to the retail rental market in the PRC. Restaurants operating under the three major brands of *Xiao Faigo Hotpot* (“小輝哥火鍋”), *Faigo* (“輝哥”) and *Hong Yuanwai* (“洪員外”) of the Target Group in the PRC typically have a GFA that approximately ranges from, respectively, 220

FINANCIAL INFORMATION OF THE TARGET GROUP

square meters to 820 square meters and 500 square meters to 1,500 square meters. Since property rental related expenses represent a significant portion of the total operating expenses of the Target Group, profitability of the Target Group may be adversely affected by any substantial increase in the rental expenses of its restaurant premises.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Target Group has identified certain accounting policies that are significant to the preparation of the financial statements. The significant accounting policies, which are important for an understanding of the financial condition and results of operations of the Target Group which are set forth in detail in note 2 to the accountant's report of the Target Group included in Appendix I to this circular. The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set forth in note 4 "Critical accounting estimates and assumptions" to the accountant's report of the Target Group included in Appendix I to this circular. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. The Target Group applied the accounting estimates throughout the Track Record Period and the proposed Directors do not foresee any changes in the near future. When reviewing the financial statements of the Target Group, you should consider (i) the selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. It is set forth below those accounting policies and estimates that the proposed Directors believe involve the most significant estimates and judgments used in the preparation of financial statements of the Target Group. In addition, the proposed Directors discuss the revenue recognition policy below because of its significance, even though it does not involve significant estimates or judgment.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for catering services provided, stated net of discounts, returns and value added taxes. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities. The Target Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Restaurant operations and provision of catering services

Revenue is recognized when the related services have been rendered to customers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Receipts of customers' prepaid cards and proceeds received from sale of prepaid coupons to online group-purchasing websites, for which the relevant services have not been rendered to end customers, are deferred and recognised as deferred revenue in the combined balance sheets.

Income taxes

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

Deferred tax assets are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Useful lives of property, equipment and leasehold improvements

The Target Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, equipment and leasehold improvement. The estimates are based on the historical experience of the actual useful lives of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisable lives and therefore affect the depreciation and amortisation charges in future periods.

Impairment of property, equipment and leasehold improvements

The Target Group's management evaluates the impairment risks of property, equipment and leasehold improvements based on accounting policies stated in note 2(f) to the accountant's report of the Target Group included in Appendix I to this circular. Recoverable amounts of property, equipment and leasehold improvements is the value in use, which is higher than the asset's fair value less costs of disposal. When calculating the value in use, the Target Group is required to estimate and evaluate the future cash flow of each assets group and the discount rate to determine the current value.

FINANCIAL INFORMATION OF THE TARGET GROUP

PRINCIPAL INCOME STATEMENT COMPONENTS

The following table sets forth the Target Group's combined result of operations for the Track Record Period.

	Year ended 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)	(audited)
Revenue	716,199,456	707,311,006	700,432,193
Foods and beverage and other materials consumables used	(287,259,782)	(260,127,781)	(248,958,640)
Employee benefit expenses	(162,950,490)	(176,305,869)	(183,190,488)
Property rentals and related expenses	(123,748,874)	(134,938,599)	(131,495,872)
Utilities expenses	(20,030,380)	(22,342,838)	(20,613,190)
Depreciation, amortization and impairment	(43,544,166)	(45,887,320)	(49,411,750)
Other expenses	(33,025,934)	(28,544,668)	(37,876,067)
Other gains — net	<u>6,292,662</u>	<u>12,007,118</u>	<u>4,803,080</u>
Operating profit	51,409,409	50,525,577	33,689,266
Finance income	1,741,379	4,296,130	6,725,590
Finance expenses	<u>(292,414)</u>	<u>—</u>	<u>(2,616,124)</u>
Finance income — net	1,448,965	4,296,130	4,109,466
Profit before income tax	52,858,374	54,821,707	37,798,732
Income tax expense	<u>(16,314,788)</u>	<u>(16,319,053)</u>	<u>(12,146,663)</u>
Profit for the year	<u><u>36,543,586</u></u>	<u><u>38,502,654</u></u>	<u><u>25,652,069</u></u>
Profit/(loss) attributable to			
Owners of the Target Company	36,543,586	38,502,654	25,675,497
Non controlling interest	—	—	(23,428)
Other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income	<u><u>36,543,586</u></u>	<u><u>38,502,654</u></u>	<u><u>25,652,069</u></u>
Attributable to:			
Owners of the Target Company	36,543,586	38,502,654	25,652,069
Non controlling interest	<u>—</u>	<u>—</u>	<u>(23,428)</u>

FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

- (i) There were no audit qualifications issued by the auditors of the Target Company for each of the years ended 31 December 2015, 2016 and 2017. There were no exceptional or extraordinary items for each of the years ended 31 December 2015, 2016 and 2017.
- (ii) No dividend has been declared or made by the Target Group for the years ended 31 December 2015 and 2016. The Target Group has declared dividend of approximately RMB33,436,000 in February 2017. The dividend per share and earnings per share information are not presented as they are not considered meaningful due to the Reorganisation.

Revenue

During the Track Record Period, the Target Group's revenue was generated from the sales of food and beverages at the restaurants, which stated at net of discounts, returns and value added taxes. The restaurants of the Target Group have two major brands, namely, *Faigo* (“輝哥”) and *Xiao Faigo Hotpot* (“小輝哥火鍋”). The Target Group launched a new brand, namely *Hong Yuanwai* (“洪員外”) in July 2017 which has generated revenue of approximately RMB2.8 million during the Track Record Period. The three different brands of Target Group's business aim at different customers. Primary factors affecting the Target Group's revenue are the number of restaurants, customer traffic at the restaurants and average customer spending.

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brand *Faigo* (“輝哥”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai	113,492,488	104,937,803	107,765,544
Beijing	15,219,397	14,511,612	13,265,385
Other cities	<u>10,770,775</u>	<u>8,177,702</u>	<u>7,328,985</u>
Total	139,482,660	127,627,117	128,357,914
Number of restaurants			
Shanghai	5	5	5
Beijing	1	1	1
Other cities	<u>3</u>	<u>2</u>	<u>2</u>
Total	9	8	8

FINANCIAL INFORMATION OF THE TARGET GROUP

	Year ended 31 December		
	2015	2016	2017
Average customer per day per restaurant			
<i>(note 1)</i>			
Shanghai	97.8	80.8	73.5
Beijing	69.9	69.5	53.8
Other cities	<u>82.4</u>	<u>63.2</u>	<u>68.2</u>
Total	90.6	75.0	69.9
Seat turnover rate per day per restaurant			
<i>(note 2)</i>			
Shanghai	0.7	0.6	0.5
Beijing	1.8	1.8	1.4
Other cities	<u>1.0</u>	<u>1.1</u>	<u>1.2</u>
Nationwide	0.8	0.7	0.6
Average daily restaurant sales (in RMB)			
<i>(note 3)</i>			
Shanghai	62,187.7	55,140.5	58,446.6
Beijing	41,697.0	39,649.2	36,343.5
Other cities	<u>16,123.9</u>	<u>16,678.0</u>	<u>18,564.5</u>
Average	48,804.3	43,588.5	48,535.8
Average spending per customer (in RMB)			
<i>(note 4)</i>			
Shanghai	635.9	682.2	795.1
Beijing	596.8	570.5	675.2
Other cities	<u>195.7</u>	<u>263.9</u>	<u>272.3</u>
Average	538.5	639.4	694.6

Notes:

1. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.
2. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
3. Calculated by dividing revenue for the year by total restaurant operation days during the year.
4. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year.

FINANCIAL INFORMATION OF THE TARGET GROUP

Set forth below are certain key performance indicators of the restaurants of the Target Group under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in different regions in the PRC during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Revenue (in RMB)			
Shanghai (<i>note 1</i>)	409,959,879	389,620,768	388,378,462
Beijing	40,368,679	44,997,958	47,845,440
Wuxi	32,520,208	30,489,719	30,175,250
Nanjing	21,588,553	18,528,775	17,228,713
Hangzhou	14,856,469	13,021,516	9,916,232
Other cities	<u>57,423,008</u>	<u>83,025,153</u>	<u>78,530,182</u>
Total	576,716,796	579,683,889	572,074,279
Number of restaurants			
Shanghai (<i>note 2</i>)	47	51	58
Beijing	9	8	9
Wuxi	5	5	5
Nanjing	5	4	3
Hangzhou	4	3	2
Other cities	<u>19</u>	<u>22</u>	<u>22</u>
Total	89	93	99
Average customer per day per restaurant			
<i>(note 3)</i>			
Shanghai (<i>note 4</i>)	241.5	194.5	170.2
Beijing	151.0	153.3	133.1
Wuxi	195.9	157.9	139.2
Nanjing	129.7	126.8	135.3
Hangzhou	127.1	124.2	118.7
Other cities	<u>131.6</u>	<u>110.5</u>	<u>90.1</u>
Total	199.5	163.6	143.7

FINANCIAL INFORMATION OF THE TARGET GROUP

	Year ended 31 December		
	2015	2016	2017
Seat turnover rate per day per restaurant			
<i>(note 5)</i>			
Shanghai <i>(note 6)</i>	2.2	2.1	1.8
Beijing	1.4	1.8	1.5
Wuxi	1.8	1.8	1.6
Nanjing	1.1	1.6	1.7
Hangzhou	1.1	2.1	1.9
Other cities	<u>1.2</u>	<u>1.3</u>	<u>1.1</u>
Nationwide	1.8	1.8	1.6
Average daily restaurant sales (in RMB)			
<i>(note 7)</i>			
Shanghai <i>(note 8)</i>	28,618.5	21,719.7	20,654.6
Beijing	17,207.5	17,502.1	16,235.7
Wuxi	21,869.7	16,661.1	16,534.8
Nanjing	14,726.7	12,656.3	15,734.4
Hangzhou	12,359.8	11,859.3	13,584.2
Other cities	<u>13,255.5</u>	<u>10,327.9</u>	<u>9,775.7</u>
Nationwide <i>(note 8)</i>	22,923.8	17,416.1	17,111.5
Average spending per customer (in RMB)			
<i>(note 9)</i>			
Shanghai <i>(note 10)</i>	118.5	113.5	121.3
Beijing	113.9	114.1	122.0
Wuxi	111.7	107.0	118.8
Nanjing	113.5	101.5	116.3
Hangzhou	97.3	97.2	114.5
Other cities	<u>100.7</u>	<u>92.6</u>	<u>108.5</u>
Nationwide <i>(note 10)</i>	114.9	108.3	119.0

Notes:

1. The revenue generated by restaurants in Shanghai for the year ended 31 December 2017 included RMB2.75 million generated by one restaurant under the brand *Hong Yuanwai* (“*洪員外*”) in Shanghai, which was opened in July 2017.
2. The number of restaurants in Shanghai for the year ended 31 December 2017 included one restaurant operated under the brand *Hong Yuanwai* (“*洪員外*”) in Shanghai, which was opened in July 2017.
3. Calculated by dividing total customer traffic for the year by total restaurant operation days during the year.

FINANCIAL INFORMATION OF THE TARGET GROUP

4. The calculation of average customer per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
5. Calculated by dividing total customer traffic by the product of total restaurant operation days and average seating capacity per restaurant during the year.
6. The calculation of seat turnover per day per restaurant in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
7. Calculated by dividing revenue for the year by total restaurant operation days during the year.
8. The calculation of average daily restaurant sales in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.
9. Calculated by dividing revenue before business tax/value added tax for the year by total customer traffic for the year.
10. The calculation of average spending per customer in Shanghai for the year ended 31 December 2017 included one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

The Target Group’s revenue was approximately RMB716.2 million, RMB707.3 million and RMB700.4 million for the years ended 31 December 2015, 2016 and 2017 respectively.

The decrease in the revenue of Target Group from the year ended 31 December 2015 to the year ended 31 December 2016 was primarily due to the increase of competition in the malls where the restaurants of the Target Group are located and the decrease of average number of customers per day per restaurant in *Faigo* (“輝哥”) during the period. The decrease in revenue from the year ended 31 December 2016 to the year ended 31 December 2017 was primarily due to a decrease in revenue generated from *Xiao Faigo Hotpot* (“小輝哥火鍋”) as a result of the decrease in average customer per day per restaurant in *Xiao Faigo Hotpot* (“小輝哥火鍋”).

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table shows the breakdown of revenue by payment methods:

	Year ended 31 December					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
Cash	128,548,046	17.9	108,201,391	15.3	75,134,347	10.7
Credit card	277,591,600	38.8	246,067,789	34.8	199,141,279	28.4
Prepaid card	14,507,790	2.0	32,075,006	4.5	98,509,256	14.1
Coupons	290,276,857	40.5	307,233,243	43.4	321,827,670	45.9
Others	5,275,163	0.8	13,733,577	2.0	5,819,641	0.8
Total	716,199,456	100.0	707,311,006	100.0	700,432,193	100.0

The payments by credit cards, coupons and cash contributed the largest proportion of the payment methods by the customers of the Target Group during the Track Record Period. Since the increase of popularity by the payment of prepaid coupons, the proportion of payments by prepaid coupons increased from approximately 40.5% in 2015 to 45.9% in 2017. The proportion of payment by credit cards decreased from 38.8% in 2015 to 28.4% in 2017. The proportion of payment by cash also decreased from 17.9% in 2015 to 10.7% in 2017. The continuing decrease in the payment by credit card and cash as the customers increased to make the payment by coupon which usually offer discount to customers and increased in the popularity of settling via mobile applications.

Shanghai is the major market of the Target Group, and revenue generated from the restaurants in Shanghai constituted majority of the total revenue of the Target Group during the Track Record Period, representing 73.1%, 69.9% and 70.8% of the revenue for the years ended 31 December 2015, 2016 and 2017 respectively. This is primarily due to the majority of the restaurants being based in Shanghai and a strong brand recognition in Shanghai. Going forward, the Target Group expects to continue to capitalize on such favorable trends by further expanding the restaurant network while driving same-store sales growth.

Restaurants operating under the brand *Faigo* (“輝哥”) in the PRC focus on high-end market whereas restaurants operating under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in the PRC target the mid-tier market and appeals to mass public. The table below sets forth the revenue contribution from *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) during the Track Record Period, both in absolute terms and as percentage:

Revenue	Year ended 31 December					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Faigo	139,482	19.5	127,627	17.7	128,358	18.3
Xiao Faigo Hotpot (note)	576,717	80.5	579,684	82.3	572,074	81.7
Total	716,199	100	707,311	100	700,432	100

FINANCIAL INFORMATION OF THE TARGET GROUP

Note:

Revenue generated by restaurants for the year ended 31 December 2017 included RMB2.75 million generated by one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

During the Track Record Period, revenue from *Faigo* (“輝哥”) decreased from approximately RMB139.5 million for the year ended 31 December 2015 to approximately RMB127.6 million for the year ended 31 December 2016 was mainly due to the close down of a shop in Tianjin in February 2015 and decrease of average number of customer per day per restaurant in all cities from 91 for the year ended 31 December 2015 to 75 for the year ended 31 December 2016. The revenue increased to approximately RMB128.4 million for the year ended 31 December 2017 mainly due to an increase in average spending per customer.

On the other hand, revenue from *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) increased from approximately RMB576.7 million for the year ended 31 December 2015 to approximately RMB579.7 million for the year ended 31 December 2016. Such increase was primarily due to the increase in the number of restaurants of *Xiao Faigo Hotpot* (“小輝哥火鍋”) from 83 for the year ended 31 December 2015 to 89 for the year ended 31 December 2016. The revenue decreased to approximately RMB572.1 million for the year ended 31 December 2017 respectively mainly due to a decrease in the average customer per day per restaurant.

The following table shows the revenue of the Target Group in different geographical locations (in Shanghai and other cities in the PRC) derived from *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) respectively:

Revenue by geographical location	Year ended 31 December											
	2015				2016				2017			
	Shanghai		Other cities		Shanghai		Other cities		Shanghai		Other cities	
	RMB (in thousand)	%	RMB (in thousand)	%	RMB (in thousand)	%	RMB (in thousand)	%	RMB (in thousand)	%	RMB (in thousand)	%
Faigo	113,492	21.7	25,990	13.5	104,938	21.2	22,689	10.7	107,766	21.7	20,592	10.1
Xiao Faigo Hotpot (note)	409,960	78.3	166,757	86.5	389,621	78.8	190,063	89.3	388,378	78.3	183,696	89.9
Total	523,452	100	192,747	100	494,559	100	212,752	100	496,144	100	204,288	100

Note:

Revenue generated by restaurants in Shanghai for the year ended 31 December 2017 included RMB2.8 million generated by one restaurant under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

FINANCIAL INFORMATION OF THE TARGET GROUP

The revenue of *Faigo* (“輝哥”) in Shanghai decreased from approximately RMB113.5 million for the year ended 31 December 2015, to approximately RMB104.9 million for the year ended 31 December 2016, which was primarily due to decrease of average number of customer per day per restaurant in Shanghai from 98 for the year ended 31 December 2015 to 81 for the year ended 31 December 2016 which offset the increase in average spending per customer per restaurant during the same period. The revenue of *Faigo* (“輝哥”) in Shanghai increased to approximately RMB107.8 million for the year ended 31 December 2017 which was due to the average spending per customer per restaurant in Shanghai increased from approximately RMB682.2 to approximately RMB795.1 for the years ended 31 December 2016 and 2017 respectively.

The revenue of *Faigo* (“輝哥”) in Beijing and other cities in the PRC decreased from approximately RMB26.0 million for the year ended 31 December 2015 to approximately RMB22.7 million for the year ended 31 December 2016, which was primarily due to the closure of a restaurant in Shenzhen and a decrease of the average number of customers per day per restaurant in other cities from 82 for the year ended 31 December 2015 to 63 for the year ended 31 December 2016. The revenue of *Faigo* (“輝哥”) in other cities in the PRC remained stable at approximately RMB20.6 million for the year ended 31 December 2017.

The revenue of *Xiao Faigo Hotpot* (“小輝哥火鍋”) in Shanghai decreased from approximately RMB410.0 million for the year ended 31 December 2015 to approximately RMB389.6 million for the year ended 31 December 2016, which was primarily due to the decrease of average number of customer per day per restaurant in Shanghai from 242 for the year ended 31 December 2015 to 195 for the year ended 31 December 2016. The revenue of *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) in Shanghai slightly decreased to approximately RMB388.4 million for the year ended 31 December 2017 which was mainly due to decrease in average customer per day per restaurant offset by an increase in number of restaurants.

The revenue of *Xiao Faigo Hotpot* (“小輝哥火鍋”) in other cities in the PRC increased from approximately RMB166.8 million for the year ended 31 December 2015 to approximately RMB190.1 million for the year ended 31 December 2016. Such increase was mainly driven by the increase in revenue from Beijing and the additional contribution from the three new restaurants in other cities in the PRC during the period. The revenue of *Xiao Faigo Hotpot* (“小輝哥火鍋”) in other cities in the PRC decreased by approximately RMB6.4 million to approximately RMB183.7 million for the year ended 31 December 2017 due to a net decrease of one restaurant.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth the operating profit margin under the brands *Faigo* (“輝哥”), *Xiao Faigo Hotpot* (“小輝哥火鍋”) and *Hong Yuanwai* (“洪員外”) by geographical locations:

Operating profit margin

	Year ended 31 December 2015												Unallocated	Total
	Faigo				Xiao Faigo Hotpot					Subtotal				
	Shanghai	Beijing	Other cities	Subtotal	Shanghai	Beijing	Wuxi	Nanjing	Hangzhou			Other cities		
Revenue (in RMB)	113,492,488	15,219,397	10,770,775	139,482,660	409,959,879	40,368,679	32,520,208	21,588,553	14,856,469	57,423,008	576,716,796	—	716,199,456	
Operating profit/(loss) (in RMB)	<u>28,728,905</u>	<u>1,189,999</u>	<u>(1,523,993)</u>	<u>28,394,911</u>	<u>95,028,882</u>	<u>(28,602)</u>	<u>6,456,869</u>	<u>(1,559,730)</u>	<u>(2,914,338)</u>	<u>(25,568,364)</u>	<u>71,414,717</u>	<u>(48,400,219)</u>	<u>51,409,409</u>	
Operating profit margin	25.3%	7.8%	-14.1%	<u>20.4%</u>	23.2%	-0.1%	19.9%	-7.2%	-19.6%	-44.5%	<u>12.4%</u>		<u>7.2%</u>	
Number of restaurants making positive operating margin	4	1	1	6	38	5	4	1	1	4	53		59	
Number of restaurants making negative operating margin	1	0	2	3	9	4	1	4	3	15	36		39	
	Year ended 31 December 2016												Unallocated	Total
	Faigo				Xiao Faigo Hotpot					Subtotal				
	Shanghai	Beijing	Other cities	Subtotal	Shanghai	Beijing	Wuxi	Nanjing	Hangzhou			Other cities		
Revenue (in RMB)	104,937,803	14,511,612	8,177,702	127,627,117	389,620,768	44,997,958	30,489,719	18,528,775	13,021,516	83,025,153	579,683,889	—	707,311,006	
Operating profit/(loss) (in RMB)	<u>21,749,178</u>	<u>1,733,046</u>	<u>(119,392)</u>	<u>23,362,832</u>	<u>63,479,692</u>	<u>3,256,494</u>	<u>3,582,647</u>	<u>(1,560,635)</u>	<u>(879,063)</u>	<u>(5,250,964)</u>	<u>62,628,171</u>	<u>(35,465,426)</u>	<u>50,525,577</u>	
Operating profit margin	20.7%	11.9%	-1.5%	<u>18.3%</u>	16.3%	7.2%	11.8%	-8.4%	-6.8%	-6.3%	<u>10.8%</u>		<u>7.1%</u>	
Number of restaurants making positive operating margin	4	1	1	6	41	5	3	1	1	6	57		63	
Number of restaurants making negative operating margin	1	0	1	2	10	3	2	3	2	17	36		38	
	Year ended 31 December 2017												Unallocated	Total
	Faigo				Xiao Faigo Hotpot					Subtotal				
	Shanghai	Beijing	Other cities	Subtotal	Shanghai (Note 2)	Beijing	Wuxi	Nanjing	Hangzhou			Other cities		
Revenue (in RMB)	107,765,544	13,263,385	7,328,985	128,357,914	388,378,462	47,845,440	30,175,250	17,228,713	9,916,232	78,530,182	572,074,279	—	700,432,193	
Operating profit/(loss) (in RMB)	<u>31,774,683</u>	<u>959,246</u>	<u>(134,304)</u>	<u>32,599,625</u>	<u>49,347,129</u>	<u>535,844</u>	<u>5,093,285</u>	<u>1,153,845</u>	<u>(756,137)</u>	<u>(4,290,373)</u>	<u>51,083,593</u>	<u>(49,993,952)</u>	<u>33,689,266</u>	
Operating profit margin	29.5%	7.2%	-1.8%	<u>25.4%</u>	12.7%	1.1%	16.9%	6.7%	-7.6%	-5.5%	<u>8.9%</u>		<u>4.8%</u>	
Number of restaurants making positive operating margin	5	1	0	6	42	5	4	2	1	8	62		68	
Number of restaurants making negative operating margin	0	0	2	2	16	4	1	1	1	14	37		39	

Notes:

- The unallocated segment refers to those expenses occurred by the headquarters including payroll, rental, office related, professional services fee, marketing and promotion expenses and etc, which cannot be allocated to store levels.
- The revenue generated by restaurants in Shanghai for the year ended 31 December 2017 included one restaurant operated under the brand *Hong Yuanwai* (“洪員外”) in Shanghai, which was opened in July 2017.

FINANCIAL INFORMATION OF THE TARGET GROUP

The operating profit margin shown in the above table is calculated as operating profit/loss dividing by revenue. The operating profit margin of *Faigo* (“輝哥”) decreased from 20.4% for the year ended 31 December 2015 to 18.3% for the year ended 31 December 2016 which was mainly attributable to a decrease in revenue and incurred of operating loss in other cities because of the weakened customer spending in the PRC. The operating profit margin of *Faigo* (“輝哥”) increased to 25.4% for the year ended 31 December 2017 which was mainly due to (i) the decrease of depreciation and amortization expenses along with the ending of amortization period; and (ii) the impact of change in VAT policies which enable to deduct certain input value-added tax on the raw materials and consumable purchased, which decreased the cost of foods and beverage and other materials consumables used. The proposed Directors advised that to the best of their knowledge, approximately RMB27.9 million was saved from the purchase of foods and beverage and other materials consumables used for the year ended 31 December 2017 due to the effect of the change in VAT policy. For details of the new VAT laws, please refer to the section headed “Regulatory overview” in this circular.

The operating profit margin of *Xiao Faigo Hotpot* (“小輝哥火鍋”) decreased from 12.4% for the year ended 31 December 2015 to 10.8% for the year ended 31 December 2016 which was mainly attributable to the increase in operating costs such as employee benefit expenses. The operating profit margin of *Xiao Faigo Hotpot* (“小輝哥火鍋”) decreased to 8.9% for the year ended 31 December 2017 which was mainly due to the increase in depreciation and amortization expenses along with the ending of amortization period.

Taxation

Pursuant to the “*Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax* (Cai Shui [2016] 36)” jointly issued by the Ministry of Finance and the State Administration of Taxation, as at the Latest Practicable Date, the PRC subsidiaries of the Target Group is considered as general taxpayers and the catering business of the Target Group is subject to VAT from 1 May 2016, the applicable tax rate is 6%, while the business tax was 5% before then.

Under the VAT regime, for small-scale taxpayers, tax amount payable under the simple tax computation method based on the sales amount and VAT rate and input tax amount shall not be offset. The PRC subsidiaries of the Target Group as the general taxpayers are entitled to claim for tax deductions in respect of its major expenditures, such as raw materials and consumables purchased, property rentals expenses and utilities expenses. However such tax deductions can be only claimed when the qualified VAT invoices are obtained from the Target Group’s suppliers.

For the years ended 31 December 2016 and 2017, the sum of the foods and beverage and other materials consumables used, property rentals expenses and utilities expenses amounted to approximately RMB417.4 million and RMB401.1 million, respectively, representing 59.0% and 57.3% of the revenue of the Target Group for the relevant period. The applicable VAT rate on foods and beverage and other materials consumables used, property rentals expenses and utilities expenses is 13% or 17%, 6% and 6%,

FINANCIAL INFORMATION OF THE TARGET GROUP

respectively, which were deducted from the expenses causing certain increase in the Target Group's operating profits during the corresponding period. The proposed Directors are of the view that the VAT reform has no material adverse impact on the Target Group's financial position.

Foods and beverage and other materials consumables used

The table below sets forth the foods and beverage and other materials consumables used during the Track Record Period.

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
Beef	68,029,969	23.7	64,203,283	24.7	61,465,622	24.7
Live seafood	38,922,216	13.5	36,324,234	14.0	37,001,081	14.9
Frozen seafood	14,732,655	5.1	10,215,998	3.9	8,707,888	3.5
Fresh vegetables	25,927,551	9.0	27,279,066	10.5	24,559,981	9.9
Meat-ball	23,759,413	8.3	18,311,127	7.0	18,546,518	7.4
Drinks	9,439,015	3.3	8,970,350	3.4	9,246,321	3.7
Others	<u>106,448,964</u>	<u>37.1</u>	<u>94,823,725</u>	<u>36.5</u>	<u>89,431,230</u>	<u>35.9</u>
Total	<u><u>287,259,782</u></u>	<u><u>100.0</u></u>	<u><u>260,127,781</u></u>	<u><u>100.0</u></u>	<u><u>248,958,640</u></u>	<u><u>100.0</u></u>

The foods and beverage and other materials consumables used comprise (i) cost of ingredients procured from external suppliers; and (ii) consumables used in the restaurants (including plates, bowls, pots, chopsticks, spoons, napkins, advertising materials and other miscellaneous costs consumed in the restaurants). The largest item in the foods and beverage and other materials consumables used by the Target Group is other consumables used in the restaurant which contributed approximately 37.1% of the total foods and beverage and other materials consumables used by the Target Group in the year ended 31 December 2015 which decreased to 36.5% and to 35.9% in the years ended 31 December 2016 and 2017 respectively. The beef and live seafood are the second and third largest cost items of the Target Group. The beef contributed for approximately 23.7% of the total foods and beverage and other materials consumables used in the year ended 31 December 2015 which further increased to 24.7% and 24.7% for the years ended 31 December 2016 and 2017 respectively and live seafood has contributed approximately of 13.5% in the years ended 31 December 2015 which increased to 14.0% and 14.9% for the years ended 31 December 2016 and 2017 respectively.

For the years ended 31 December 2015, 2016 and 2017, foods and beverage and other materials consumables used amounted to approximately RMB287.3 million, RMB260.1 million and RMB249.0 million, respectively, representing 40.1%, 36.8% and 35.6% of the revenue of the Target Group for the respective periods.

FINANCIAL INFORMATION OF THE TARGET GROUP

Throughout the Track Record Period, the foods and beverage and other materials consumables used were in line with the revenue growth. The foods and beverage and other materials consumables used remained as a stable percentage of the revenue despite inflation and increasing food price in the PRC throughout the Track Record Period. Going forward, the Target Group expects the foods and beverage and other materials consumables used to further increase as the Target Group further expand the restaurant network throughout China. The aggregate cost amount of foods and beverage and other materials consumables used is expected to increase but as a percentage of the Target Group's revenue is expected to remain relatively stable in the future because of the success in cost control and the transfer of the cost increase to customers.

Employee benefit expenses

The employee benefit expenses of the Target Group comprise wages, salaries, bonuses, retirement benefit costs, other social security cost and housing provident fund, medical insurance costs and other allowances and benefits payable to all the employees and staff, including (i) executive director, (ii) headquarters staff, and (iii) the restaurants staff. The employee benefit expenses of the Target Group amounted to approximately RMB163.5 million, RMB176.9 million and RMB183.2 million for the years ended 31 December 2015, 2016 and 2017 respectively, representing approximately 22.8%, 25.0% and 26.2% of the revenue of the Target Group for the respective periods.

The following table sets forth a breakdown of the employee benefit expenses during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Wages and salaries	133,985	82.0	143,752	81.2	149,852	81.8
Defined contribution plan	15,107	9.2	13,917	7.9	14,194	7.7
Other social security costs and housing benefits	9,666	5.9	10,632	6.0	8,562	4.7
Other employee benefits	<u>4,715</u>	<u>2.9</u>	<u>8,650</u>	<u>4.9</u>	<u>10,581</u>	<u>5.8</u>
Total	<u><u>163,473</u></u>	<u><u>100.0</u></u>	<u><u>176,951</u></u>	<u><u>100.0</u></u>	<u><u>183,190</u></u>	<u><u>100.0</u></u>

Property rentals and related expenses

The property rentals and related expenses primarily consist of lease payments under operating leases for the restaurants premises, central warehouse and head office premises. The property rentals and related expenses of the Target Group amounted to approximately RMB123.7 million, RMB134.9 million and RMB131.5 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing 17.3%, 19.1% and 18.8% of the revenue of the Target Group for the respective periods. The increase of property rentals and related expenses was due to the increase in number of new restaurants for the year ended 31 December 2015 to the year ended 31 December 2016. The property rentals and related expenses of the Target Group decreased for the year ended 31 December 2017 due to the closure of restaurants and relevant employee dormitories.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at the Latest Practicable Date, the lease agreements for 57 out of the 89 restaurants under the brand of *Xiao Faigo Hotpot* (“小輝哥火鍋”) of the Target Group in the PRC were under contingent rent arrangement where the rent payable by the Target Group was based on a particular agreed percentage of the sales generated at the relevant restaurant. In some cases, the leases also include a minimum rent payment clause and the Target Group is to pay the higher of the minimum rent and the contingent rent. The remainder of the Target Group’s leases were under fixed rent arrangement. Please refer to the section headed “Business of the Target Group — Lease arrangement” in this circular for more details of lease agreements.

Utilities expenses

The utilities expenses primarily consist of expenses incurred for electricity, gas and water utilities. The utilities expenses amounted to RMB20.0 million, RMB22.3 million and RMB20.6 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing 2.8%, 3.2% and 2.9% of the revenue of the Target Group for the respective periods. The utilities expenses of the Target Group was increased for the year ended 31 December 2015 to the year ended 31 December 2016 as a result of increase in revenue and number of new shops however the decrease in revenue for the year ended 31 December 2017 reduced the utilities expenses during the period.

Depreciation, amortization and impairment

Depreciation, amortization and impairment represents depreciation charges and impairment loss of the property and equipment, which comprises vehicles, machineries, furniture, equipment and computers and leasehold improvements. The depreciation, amortization and impairment amounted to approximately RMB43.5 million, RMB45.9 million and RMB49.4 million for the years ended 31 December 2015, 2016 and 2017 respectively, representing 6.1%, 6.5% and 7.1% of the revenue of the Target Group for the respective periods.

Other expenses

The other expenses mainly represent travelling expenses, cleaning fee, office expenses, promotion and marketing expenses and professional service expenses and others (including food and beverage, paper and printing expenses, communication fee, staff training, recruitment and uniform and business entertainment fee). The other expenses amounted to RMB33.0 million, RMB28.5 million and RMB37.9 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing 4.7%, 4.0% and 5.4% of the revenue of the Target Group for the respective periods.

Other gains — net

The other gains mainly represent the subsidies received from local government for the Target Group’s local business development, which amounted to RMB6.3 million, RMB12.0 million and RMB4.8 million for the years ended 31 December, 2015, 2016 and 2017 respectively, representing 0.9%, 1.7% and 0.7% of the revenue of the Target Group for the respective periods.

FINANCIAL INFORMATION OF THE TARGET GROUP

The table below sets forth the breakdown of the government grants:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
Subsidies from local government	1,700,000	28.8	1,900,000	17.3	1,100,000	25.1
Staff training	70,631	1.2	—	—	140,000	3.2
Subsidies on newly development						
Shanghai Expo area	3,990,000	67.6	8,800,000	80.3	3,151,000	71.7
Others	<u>146,100</u>	<u>2.5</u>	<u>258,408</u>	<u>2.4</u>	<u>—</u>	<u>—</u>
Total	<u><u>5,906,731</u></u>	<u><u>100.0</u></u>	<u><u>10,958,408</u></u>	<u><u>100.0</u></u>	<u><u>4,391,000</u></u>	<u><u>100.0</u></u>

The Target Group received subsidies from local government and recognized these subsidies as income during the Track Record Period. During the Track Record Period, such subsidies amounted to approximately RMB5.9 million, RMB11.0 million and RMB4.4 million, respectively, which representing approximately 0.8%, 1.6% and 0.6% of the revenue for the years ended 31 December 2015, 2016 and 2017, respectively. The increase in the amounts of subsidies received in from 2015 to 2016 was due to the increase of subsidies from approximately RMB4.0 million to RMB8.8 million on the new restaurants operated in the newly development Shanghai Expo area. These subsidies were granted under different reasons or for different purposes including a preferential incentive committed by local government in attracting establishment of business entity in a specified district, subsidies for staff training and for food safety purpose. Some of these subsidies were one-off in nature while some were recurring in nature during the Track Record Period. However, there is no assurance that the Target Group will continue to receive the same or similar government subsidies as the relevant government policies may change over time. In the event government subsidies are reduced substantially or entirely, the business, financial condition and results of operations of the Target Group could be adversely affected. Further disclosure on the subsidies has been made in the section headed “Risk factors” in this circular.

Finance income and finance expenses

The Target Group’s finance income increased from approximately RMB1.7 million for the year ended 31 December 2015 to approximately RMB4.3 million for the year ended 31 December 2016 which was mainly derived from the increase of interest income on financing provided to related parties as a result of the increased average balance of loans granted to related parties during the period. The finance income of the Target Group was approximately RMB6.7 million for the year ended 31 December 2017.

The Target Group’s finance expenses primarily consist of the interest on bank loan. For the years ended 31 December 2015, 2016 and 2017, the Target Group’s finance expenses were approximately RMB0.29 million, nil and RMB2.6 million respectively. The decrease of the finance expenses from 2015 to 2016 was mainly due to the loan repayment of the

FINANCIAL INFORMATION OF THE TARGET GROUP

outstanding loan during the year 2015. The finance expenses increased from 2016 to 2017 was mainly due to the interest expenses incurred on the borrowing granted in 28 December 2016.

The amount of receivable due from related parties of the Target Group as at 31 December 2015, 2016 and 2017 were approximately RMB59.3 million, RMB90.0 million and RMB80.0 million respectively. The interest income on financing provided to related parties of the Target Group for the years ended 31 December 2015, 2016 and 2017 were approximately RMB1.6 million, RMB4.3 million and RMB4.3 million respectively.

The table below sets forth the amount of receivable due from related parties of the Target Group during the Track Record Period.

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Loans to related parties	58,244,588	89,494,393	78,049,122
Other receivables from related parties	<u>1,094,517</u>	<u>531,105</u>	<u>1,991,308</u>
	<u><u>59,339,105</u></u>	<u><u>90,025,498</u></u>	<u><u>80,040,430</u></u>

The table below sets forth the amount of the loans to related parties of the Target Group during the Track Record Period.

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Mr. Hung	43,426,598	67,396,002	74,418,721
Xiao Ducheng	<u>14,817,990</u>	<u>22,098,391</u>	<u>3,580,401</u>
	<u><u>58,244,588</u></u>	<u><u>89,494,393</u></u>	<u><u>78,049,122</u></u>

The balances of Mr. Hung and Xiao Ducheng represented the loans made by the Target Group to them. The loans have no fixed terms of repayment and are repayable on demand. The loans bear interest at 6% per annum for the relevant periods. As advised by the proposed Directors, the above amounts will be settled prior to the Resumption.

According to the PRC Legal Advisers, although the loans provided by the Target Group to its related parties were prohibited under the General Lending Provisions (貸款通則) and the Target Group may be liable to be fined from one to five times of the income generated from these financing activities, the risk that the Target Group being penalized due to the aforesaid loans is remote in reality. The proposed Directors confirm that the Target Group and the relevant related parties have not been imposed of any penalty in this regard. For further disclosures, please refer to the section headed “Business of the Target Group — Advance of loans to related parties” in this circular.

FINANCIAL INFORMATION OF THE TARGET GROUP

Income tax expense

The Target Group is subject to PRC enterprise income tax rate of 25%. The effective tax rate of the Target Group was 30.9%, 29.8% and 32.1% for the years ended 31 December 2015, 2016 and 2017 respectively. Income tax mainly represented the amount of enterprise income tax.

The Target Group's income tax expense amount to approximately RMB16.3 million for the year ended 31 December 2015. The income tax expense remained stable for the year ended 31 December 2016, amounting to approximately RMB16.3 million. The Target Group's income tax expense decrease to approximately RMB12.1 million for the year ended 31 December 2017. The effective tax rate remained stable for the years ended 31 December 2015, 2016 and 2017 respectively.

As at the Latest Practicable Date, the Target Group has fulfilled its tax obligation and did not have any disputes or unresolved issues with the relevant tax authorities.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

The Target Group's revenue decreased from approximately RMB707.3 million for the year ended 31 December 2016 to approximately RMB700.4 million for the year ended 31 December 2017. Such decrease was primarily due to a decreased in revenue generated from *Xiao Faigo Hotpot* (“小輝哥火鍋”) as a result of the decrease in average customer per day per restaurant in *Xiao Faigo Hotpot* (“小輝哥火鍋”).

Foods and beverage and other materials consumables used

The Target Group's foods and beverage and other materials consumables used decreased from approximately RMB260.1 million for the year ended 31 December 2016 to approximately RMB249.0 million for the year ended 31 December 2017. The foods and beverage and other materials consumables used represented 36.8% and 35.5% of the revenue of the Target Group for the years ended 31 December 2016 and 2017 respectively. Such decrease was primarily attributable to the impact of the transition from business tax to value-added tax effective from 1 May 2016, which enables the Target Group to deduct certain input value-added tax and lower the foods and beverage and other materials consumables used. For details of the new VAT laws, please refer to the section of “Regulatory overview” in this circular.

Employee benefit expenses

The Target Group's employee benefit expenses increased from approximately RMB177.0 million for the year ended 31 December 2016 to approximately RMB183.2 million for the year ended 31 December 2017. The increase of employee benefit expenses was mainly due to an increase in the number of restaurants operating during the period.

FINANCIAL INFORMATION OF THE TARGET GROUP

Property rentals and related expenses

The Target Group's property rentals and related expenses decreased from approximately RMB134.9 million for the year ended 31 December 2016 to approximately RMB131.5 million for the year ended 31 December 2017. The decrease of property rentals and related expenses was mainly due to the impact of change in VAT policy which entitles the Target Group to claim for tax deduction.

Utilities expenses

The Target Group's utilities expenses for the year ended 31 December 2017 were approximately RMB20.6 million which decreased from approximately RMB22.3 million for the year ended 31 December 2016. Such decrease was mainly due to the impact of change in VAT policy which entitles the Target Group to claim for tax deduction.

Depreciation, amortization and impairment

The Target Group's depreciation, amortization and impairment increased from approximately RMB45.9 million for the year ended 31 December 2016 to approximately RMB49.4 million for the year ended 31 December 2017 which was mainly due to the increase in the number of restaurants.

Other gains — Net

The Target Group recorded a decrease of other gains to approximately RMB4.8 million for the year ended 31 December 2017 in comparing with approximately RMB12.0 million for the year ended 31 December 2016. Such decrease was mainly due to the decrease in government subsidies in which offset the benefits obtained from the VAT reform.

Finance income

The Target Group's finance income increased from approximately RMB4.3 million for the year ended 31 December 2016 to approximately RMB6.7 million for the year ended 31 December 2017 which was mainly due to an increase of average loan balance that was granted to related parties.

Finance expenses

The Target Group's finance expenses increased from nil for the year ended 31 December 2016 to approximately RMB2.6 million for the year ended 31 December 2017 which was mainly due to the interest expense incurred on the borrowing granted to the Target Group on 28 December 2016.

FINANCIAL INFORMATION OF THE TARGET GROUP

Income tax expense

The Target Group's income tax expenses decreased from approximately RMB16.3 million for the year ended 31 December 2016 to approximately RMB12.1 million for the year ended 31 December 2017. The effective income tax rate was increased by approximately 2.3% to 32.1% for the year ended 31 December 2017 which was due to an increase in non-tax deductible expense of approximately HK\$1.2 million.

Profit for the year

The operating profit of the Target Group decreased from approximately RMB50.5 million for the year ended 31 December 2016 to approximately RMB33.7 million for the year ended 31 December 2017 was mainly due to the increase (i) in promotion and marketing expenses; (ii) professional services expenses; and (iii) transportation expenses in developing the Target Group's takeaway business. As a result of an increase in the overall operating costs, the profit attributable to the owners of the Target Group decreased from approximately RMB38.5 million to approximately RMB25.7 million for the years ended 31 December 2016 and 2017 respectively.

Year ended 31 December 2016 compared to year ended 31 December 2015

Revenue

The Target Group's revenue decreased from approximately RMB716.2 million for the year ended 31 December 2015 to approximately RMB707.3 million for the year ended 31 December 2016. Such decrease was primarily due to the increase of competition where the restaurants under the brand *Faigo* (“輝哥”) of the Target Group are located. The average number of customers per day per restaurant under the brand *Faigo* (“輝哥”) decreased from 91 for the year ended 31 December 2015 to 75 for the year ended 31 December 2016 because of the slowing down of the PRC economy and the weakened consumer spending. Please also refer to the section headed “Business of the Target Group” in this circular for the same-store sales of the Target Group during the Track Record Period.

Foods and beverage and other materials consumables used

The Target Group's foods and beverage and other materials consumables used decreased from approximately RMB287.3 million for the year ended 31 December 2015 to approximately RMB260.1 million for the year ended 31 December 2016. The decrease in foods and beverage and other materials consumables used was in line with the decreased revenue during the period. The foods and beverage and other materials consumables used represented 40.1% and 36.8% of the revenue of the Target Group for the years ended 31 December 2015 and 2016 respectively. Such decrease was primarily attributable to the success in procurement cost control by bulk purchase. Moreover, procurement team of the Target Group closely monitored the price fluctuation of food ingredients to ensure that competitive price could be obtained from the suppliers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Employee benefit expenses

The Target Group's employee benefit expenses increased from approximately RMB163.5 million for the year ended 31 December 2015 to approximately RMB177.0 million for the year ended 31 December 2016. The increase of the Target Group's employee benefit expenses was mainly due to an increase of calculation basis of social welfare and increase of average salary paid by the Target Group.

Property rentals and related expenses

The Target Group's property rentals and related expenses increased from approximately RMB123.7 million for the year ended 31 December 2015 to approximately RMB134.9 million for the year ended 31 December 2016. The increase of the Target Group's property rentals and related expenses was mainly due to the increase in the number of restaurants.

Utilities expenses

The Target Group's utilities expenses primarily consist of expenses incurred for electricity, gas and water utilities. The Target Group's utilities expenses for the year ended 31 December 2016 were approximately RMB22.3 million which increased from approximately RMB20.0 million for the year ended 31 December 2015. Such increase was mainly driven by the increase in the number of restaurants and the increased unit price of utilities in major cities arisen from inflation in PRC during the period.

Depreciation, amortization and impairment

The following table sets forth the breakdown of depreciation, amortization and impairment of the Target Group:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Depreciation and amortization	42,103,895	45,887,320	49,411,750
Impairment	<u>1,440,271</u>	<u>—</u>	<u>—</u>
	<u>43,544,166</u>	<u>45,887,320</u>	<u>49,411,750</u>

The Target Group's depreciation, amortization and impairment for the year ended 31 December 2016 were approximately RMB45.9 million, an increase of approximately 5.4%, from depreciation, amortization and impairment of approximately RMB43.5 million for the year ended 31 December 2015 which was mainly due to an increase in property and equipment as the number of restaurants of the Target Group increased during the period.

FINANCIAL INFORMATION OF THE TARGET GROUP

The property and equipment in a few of stores were impaired in 2015 due to the continuous loss-making situation or other specific impairment indicators. The management used “value in use” as the recoverable amount of each store. The “value in use” was calculated based on estimated future cash flow. Please refer to the note 12 to the accountant’s report of the Target Group for the details of the impairment tests for property and equipment during the Track Record Period. For more details on the reasons of impairment and assumptions adopted, please also refer to note 12 of the accountant’s report of the Target Group in Appendix I to this circular.

Other gains — Net

The Target Group recorded an increase of other gains to approximately RMB12.0 million for the year ended 31 December 2016 in comparing with the other gains of approximately RMB6.3 million for the year ended 31 December 2015. Such increase was mainly due to the increase of subsidies granted by local governments for the Target Group’s local business development.

Finance income

The Target Group’s finance income for the year ended 31 December 2016 was approximately RMB4.3 million which increased from approximately RMB1.7 million for the year ended 31 December 2015. Such increase was due to the increased interest income on financing provided to related parties, partially offset by the decrease of exchange gain on financing activities.

Finance expenses

The Target Group’s finance expenses for the year ended 31 December 2016 were nil which decreased from approximately RMB0.3 million for the year ended 31 December 2015. Such decrease was due to the repayment of the outstanding bank borrowings in 2015.

Income tax expense

The Target Group’s income tax expense remained stable at RMB16.3 million for both the year ended 31 December 2015 and 2016. Although there was a slight increase in profit before income tax from RMB52.8 million for the year ended 31 December 2015 to RMB54.8 million for the year ended 31 December 2016, there was a decrease in expenses which were non tax-deductible from RMB1.3 million for the year ended 31 December 2015 to RMB0.2 million for the year ended 31 December 2016, causing the total income tax expenses remaining stable for both years.

FINANCIAL INFORMATION OF THE TARGET GROUP

Profit for the year

Due to the higher employee benefit expenses, property rental and related expenses and utilities expenses, the operating profit of the Target Group decreased from approximately RMB51.4 million for the year ended 31 December 2015 to approximately RMB50.5 million for the year ended 31 December 2016. However, with the increased finance income from approximately RMB1.7 million for the year ended 31 December 2015 to RMB4.3 million for the year ended 31 December 2016 which was mainly arisen from the increased average balance of the financing provided to related parties, the profit attributable to the owners of the Target Group increased from approximately RMB36.5 million for the year ended 31 December 2015 to RMB38.5 million for the year ended 31 December 2016.

ANALYSIS ON VARIOUS ITEMS OF THE TARGET GROUP'S COMBINED STATEMENTS OF FINANCIAL POSITION

Net current liabilities

The below table sets forth the Target Group's current assets and current liabilities as at the dates indicated:

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)	(audited)	(unaudited)
Current assets				
Inventories	28,626,777	28,334,013	27,954,984	25,427,134
Trade receivables	5,357,187	4,444,472	15,135,804	10,535,434
Prepayments and other receivables	14,296,700	29,930,806	59,756,612	62,455,218
Receivables from related parties	59,339,105	90,025,498	80,040,430	100,055,128
Cash and cash equivalents	<u>13,124,796</u>	<u>71,716,832</u>	<u>60,431,119</u>	<u>29,595,165</u>
Total current assets	120,744,565	224,451,621	243,318,949	228,068,079
Current liabilities				
Trade payables	108,127,173	105,667,874	74,440,013	65,168,435
Other payables and accruals	83,199,288	89,195,231	108,271,648	90,923,813
Deferred revenue	48,714,046	38,729,441	41,593,137	39,701,038
Current income tax liabilities	6,990,356	10,348,417	10,743,535	9,120,079
Borrowings	—	—	—	—
Dividend payables	<u>—</u>	<u>—</u>	<u>33,436,000</u>	<u>33,436,000</u>
Total current liabilities	<u>247,030,863</u>	<u>243,940,963</u>	<u>268,484,334</u>	<u>238,349,365</u>
Net current liabilities	<u>(126,286,298)</u>	<u>(19,489,342)</u>	<u>(25,165,385)</u>	<u>(10,281,286)</u>

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2015, 2016, 2017 and 31 March 2018, the Target Group had net current liabilities of approximately RMB126.3 million, RMB19.5 million, RMB25.2 million and RMB10.3 million, respectively.

The net current liabilities of the Target Group during the Track Record Period was mainly because (i) the liabilities of the Target Group are mostly in short term nature including deferred revenue, dividend payables and other payables and accruals; (ii) the trade receivables are relative smaller than the trade payables mainly attributed to the nature of the business of the Target Group is in cash basis and shorter credit terms for customers than suppliers; and (iii) a large portion of the current liabilities consist of deferred revenue mainly attributed to the advanced payments received from online group-purchasing websites, prepaid cards and cash coupons.

The Target Group's net current liabilities decreased from RMB126.3 million as at 31 December 2015 to RMB19.5 million as at 31 December 2016. The decrease in the net current liabilities was mainly attributable to (i) increase in prepayments and other receivables of approximately RMB15.6 million which consisted of the increase of value added tax inputs amounting to approximately RMB11.9 million, (ii) increase in receivables due from related parties amounting to RMB30.7 million, (iii) increase in cash and cash equivalent of approximately RMB58.6 million which was mainly due to the proceeds received from the borrowings amounting to HK\$50 million on 28 December 2016, (iv) decrease in trade payables of approximately RMB2.5 million, and (v) decrease in deferred revenue of approximately RMB10.0 million, partially offset by (i) decrease in inventories of approximately RMB0.3 million, (ii) decrease in trade receivables of approximately RMB0.9 million, and (iii) increase in other payables and accruals of approximately RMB6.0 million.

The Target Group's net current liabilities increased from approximately RMB19.5 million as at 31 December 2016 to RMB25.2 million as at 31 December 2017. The increase in the net current liabilities was mainly attributable to (i) an increase in other payables and accruals from approximately RMB89.2 million to RMB108.3 million as at 31 December 2016 and 31 December 2017 respectively due to the payable to salary and wages distribution services for certain junior staffs of approximately RMB11.9 million; (ii) an increase in dividend payable from nil to approximately RMB33.4 million as at 31 December 2016 and 31 December 2017 respectively; and (iii) an increase of deferred revenue from approximately RMB38.7 million to RMB41.6 million as at 31 December 2016 to 31 December 2017 respectively. The effect was partially offset by (i) a decrease in Trade payables from approximately RMB105.7 million to RMB74.4 million as at 31 December 2016 and 31 December 2017 respectively; (ii) an increase of trade receivables from approximately RMB4.44 million to approximately RMB15.1 million as at 31 December 2016 to 31 December 2017 respectively; (iii) an increase of prepayments and other receivables from approximately RMB29.9 million to approximately RMB59.8 million as at 31 December 2016 to 31 December 2017 respectively; (iv) a decrease of receivables from related parties from approximately RMB90.0 million to approximately RMB80.0 million as at 31 December 2016 to 31 December 2017 respectively; (v) a decrease of cash and cash equivalents from approximately RMB71.7 million to approximately RMB60.4 million as at 31 December 2016 to 31 December 2017 respectively; (vi) an increase in current income tax liabilities from approximately RMB10.3 million to RMB10.7 million as at 31 December

FINANCIAL INFORMATION OF THE TARGET GROUP

2016 to 31 December 2017 respectively; and (vii) a decrease of inventories from approximately RMB28.3 million to RMB28.0 million as at 31 December 2016 to 31 December 2017 respectively.

The Target Group's net current liabilities decreased from approximately RMB25.2 million as at 31 December 2017 to RMB10.3 million as at 31 March 2018 which was due to the decrease in other payables and accruals from approximately RMB108.3 million to RMB90.9 million as at 31 December 2017 and 31 March 2018 respectively.

Deferred revenue

The following table sets forth the breakdown of deferred revenue of the Target Group:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Advance received from online group-purchasing websites	42,585,750	25,035,630	149,730
Prepaid cards	6,062,945	12,662,722	39,811,084
Cash coupons and others	<u>65,351</u>	<u>1,031,089</u>	<u>1,632,323</u>
Total	<u>48,714,046</u>	<u>38,729,441</u>	<u>41,593,137</u>

Deferred revenue consisted of advance payments received from online group-purchasing websites, prepaid cards and cash coupons and others sold by the Target Group. The Target Group's deferred revenue decreased from approximately RMB48.7 million as at 31 December 2015 to RMB38.7 million as at 31 December 2016. Such decrease was primarily caused by the decrease in advance received from online group-purchasing websites by approximately RMB17.6 million due to a quicker settlement of advance from online group-purchasing websites which in line with the increasing percentage of settlement of bills by electronic coupons which offset by an increase in prepaid cards and cash coupons and others by approximately RMB6.6 million and RMB1.0 million respectively which was mainly due to a quicker turnover of advance settlement because more consumptions in our restaurants were settled through coupons purchased on these websites. Please also refer to note 24 of the accountant's report of the Target Group in Appendix I to this circular. The deferred revenue increased from approximately RMB38.7 million for the year ended 31 December 2016 to approximately RMB41.6 million for the year ended 31 December 2017. Such increase was primarily driven by the promotion of the Target Group in favour of payment through its own prepaid membership cards rather than through the electronic vouchers issued by online group purchasing websites.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth the breakdown of the outstanding deferred revenue of the Target Group as at 31 December 2017:

	As at 31 December 2017	
	RMB	%
Advance received from online group-purchasing websites	149,730	0.4
Prepaid cards	39,811,804	95.7
Cash coupons and others	<u>1,632,323</u>	<u>3.9</u>
Total	<u>41,593,137</u>	<u>100.0</u>

The outstanding deferred revenue of the Target Group as at 31 December 2017 was approximately RMB41.6 million, of which advance received from online group-purchasing websites, prepaid cards and cash coupons and others was approximately RMB0.1 million, RMB39.8 million and RMB1.6 million respectively, representing 0.4%, 95.7% and 3.9% of the outstanding deferred revenue.

The subsequent utilisation amount as at 31 March 2018 was approximately RMB29.0 million which represents approximately 69.7% of the outstanding deferred revenue. The subsequent utilisation amount of advance received from online group-purchasing websites, prepaid cards and cash coupons and others as at 31 March 2018 was approximately RMB0.2 million, RMB28.5 million and RMB0.5 million respectively, which represents approximately 100.0%, 71.6% and 30.7% of the outstanding deferred revenue respectively.

Please refer to the notes to the accountant's report of the Target Group for the details and breakdown of deferred revenue of the Target Group during the Track Record Period.

DISCUSSION OF CERTAIN KEY STATEMENTS OF FINANCIAL POSITION'S ITEMS

Inventories

During the Track Record Period, inventories were one of the core components of the Target Group's current assets. As the Target Group does not involve in any production activities, the inventories primarily represented foods and beverage and other materials consumables.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth the balance of the Target Group's inventories as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Foods and beverage	21,839,739	22,360,492	22,898,030
Other materials consumables	<u>6,787,038</u>	<u>5,973,521</u>	<u>5,056,954</u>
	<u><u>28,626,777</u></u>	<u><u>28,334,013</u></u>	<u><u>27,954,984</u></u>

The following tables set forth the ageing analysis of the Target Group's inventories as at the dates indicated:

As at 31 December 2017

	0–90 days	91–180 days	Over 180	Total
	<i>RMB</i>	<i>RMB</i>	days	
			<i>RMB</i>	<i>RMB</i>
Food and beverage	20,784,481	216,410	1,800,375	22,801,266
Other materials consumables	<u>1,081,553</u>	<u>59,903</u>	<u>4,012,262</u>	<u>5,153,718</u>
Total balance as at 31 December 2017	<u><u>21,866,034</u></u>	<u><u>276,313</u></u>	<u><u>5,812,637</u></u>	<u><u>27,954,984</u></u>

As at 31 December 2016

	0–90 days	91–180 days	Over 180	Total
	<i>RMB</i>	<i>RMB</i>	days	
			<i>RMB</i>	<i>RMB</i>
Food and beverage	22,294,452	66,040	—	22,360,492
Other materials consumables	<u>5,973,521</u>	<u>—</u>	<u>—</u>	<u>5,973,521</u>
Total balance as at 31 December 2016	<u><u>28,267,973</u></u>	<u><u>66,040</u></u>	<u><u>—</u></u>	<u><u>28,334,013</u></u>

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2015

	0–90 days	91–180 days	Over 180	Total
	<i>RMB</i>	<i>RMB</i>	days	<i>RMB</i>
			<i>RMB</i>	
Food and beverage	21,839,739	—	—	21,839,739
Other materials consumables	<u>6,787,038</u>	<u>—</u>	<u>—</u>	<u>6,787,038</u>
Total balance as at 31 December 2015	<u><u>28,626,777</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>28,626,777</u></u>

The Target Group's inventory balance amounted to approximately RMB28.6 million as at 31 December 2015, approximately RMB28.3 million as at 31 December 2016, and approximately RMB28.0 million as at 31 December 2017. Such inventory level was kept between minimum safety level and maximum limit level in which (i) inventory level was sufficient for operation for 30 days for dipping sauces and other materials consumables, and (ii) a zero-inventory policy, which allowed live and fresh food ingredients to be consumed by customers on the same day the products arrived at the restaurants. As at 31 March 2018, approximately RMB25.5 million, or approximately 91.2% of inventory outstanding as 31 December 2017 had been subsequently utilised.

Inventory turnover days is calculated based on the average balance of inventory divided by the revenue for the relevant year multiplied by 365 days for the years ended 31 December 2015 and 2017. Inventory turnover days for the year ended 31 December 2016 is calculated based on the average balance of inventory divided by the revenue for the relevant year multiplied by 366 days. Average balance of inventory is calculated as the sum of the beginning balance and ending balance for the relevant year, divided by two.

The Target Group's inventory turnover days were 15.8 days, 14.7 days and 14.7 days for the years ended 31 December 2015, 2016 and 2017 which was consistent with the inventory management policy of the Target Group. The Target Group's inventory control measure has been implemented stringently, the inventory turnover days during the Track Record Period remained relatively stable.

The Target Group's inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The Target Group also has an allowance policy for slow-moving inventories made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. No allowance for slow-moving inventories was made for the years ended 31 December 2015, 2016 and 2017.

As at 31 March 2018, there were no outstanding obsolete inventories.

FINANCIAL INFORMATION OF THE TARGET GROUP

Trade receivables and prepayments and other receivables

The following table sets out a breakdown of the Target Group's trade receivables, prepayments and other receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Trade receivables	5,357,187	4,444,472	15,135,804
Less: allowance for impairment of trade receivables	<u>—</u>	<u>—</u>	<u>—</u>
	<u>5,357,187</u>	<u>4,444,472</u>	<u>15,135,804</u>
Prepayments and other receivables			
<i>Included in non-current assets</i>			
— Rental deposits	<u>31,059,064</u>	<u>31,658,742</u>	<u>32,955,358</u>
<i>Included in current assets</i>			
— Rental and utilities prepayments	10,869,537	13,470,111	14,699,764
— Raw materials procurement prepayments	655,067	1,174,581	18,842,848
— Rental deposits	1,589,515	1,857,781	2,746,580
— Value added tax inputs	—	11,880,877	19,095,786
— Staff advances	996,655	1,210,420	1,787,409
— Others	<u>185,926</u>	<u>337,036</u>	<u>2,584,255</u>
Subtotal	<u>14,296,700</u>	<u>29,930,806</u>	<u>59,756,612</u>
Total	<u>45,355,764</u>	<u>61,589,548</u>	<u>92,711,970</u>
	Year ended 31 December		
	2015	2016	2017
Turnover days of trade receivables (days)	<u>2.6</u>	<u>2.5</u>	<u>5.1</u>

The Target Group's trade receivables represented the amount due from the Target Group's customers for services provided.

During the Track Record Period, certain credit payments were granted to business friends of Mr. Hung who were mainly individual customers. Since October 2016, new internal policy was applied that no further credit payment will be granted to any party unless specifically reviewed and approved by the chairman or chief executive of the Target Group however such credit should be in normal commercial terms and not longer than the usual credit period to other customers.

FINANCIAL INFORMATION OF THE TARGET GROUP

As most of the customers paid the bills in the restaurants on the day of spending, the trade receivables of the Target Group were relatively low in proportion to its revenue during the Track Record Period. The trade receivables decreased from RMB5.4 million as at 31 December 2015 to RMB4.4 million as at 31 December 2016, which was mainly due to the slight decrease in revenue of the Target Group during the year 2016 comparatively. The trade receivables increased to RMB15.1 million as at 31 December 2017 was mainly due to the increase in customers settling the bills by credit cards and mobile payments.

Prepayments and other receivables mainly consisted of rental deposits, rental prepayments, raw materials procurement prepayments and staff advances. The Target Group's prepayments and other receivables further increased from approximately RMB45.4 million as at 31 December 2015 to RMB61.6 million as at 31 December 2016. Such increase was primarily driven by the increased balance of the rental prepayments by approximately RMB1.8 million and increased value added tax inputs of approximately RMB11.9 million which was mainly due to the implementation of the new VAT tax policies in PRC since May 2016. The prepayments and other receivables under the current assets further increased to RMB59.8 million as at 31 December 2017. Such increase was primarily driven by (i) an increase of value added tax input from approximately RMB11.9 million to RMB19.1 million as at 31 December 2016 and 2017 respectively mainly due to more VAT input was collected after change of VAT policy; and (ii) an increase of the raw materials procurement prepayments from approximately RMB1.2 million to RMB18.8 million as at 31 December 2016 and 31 December 2017 respectively. The raw materials procurement prepayments mainly refer to the prepayment of purchase of premium seafood and imported beef and wine, which is required by the suppliers upon placing order. Sometimes, prepayment is also required by new supplier of other raw materials procurement. Such increase was mainly due to (i) the Target Group imported beef from the US which required full prepayment of approximately RMB11.0 million while no prepayment generally required for the procurement of beef from local beef suppliers; and (ii) purchased beef, premium seafood and offal from suppliers which required prepayment of approximately RMB7.0 million.

Pursuant to the pilot program since 1 May 2016 on the levy of value-added tax in place of business tax shall be launched nation-wide and all business tax taxpayers in the construction industry, real estate industry, financial industry, living services industry, etc. shall be included in the scope of the pilot program. Since the Implementing Measures for Pilot Collection, the business tax was replaced by value added tax, the proposed Directors have not noticed any material changes to the business of the Target Group as a result of the implementation of the new VAT laws. For details of the new VAT laws, please refer to the section of "Regulatory overview" in this circular.

Turnover days of trade receivables are calculated based on average trade receivables net of impairment divided by revenue during the year and multiplied by 365 days for the years ended 31 December 2015 and 2017. Turnover days of trade receivables for the year ended 31 December 2016 is calculated based on the average trade receivables net of impairment divided by the revenue for the relevant period multiplied by 366 days. Average trade receivables net of impairment is calculated as the sum of the beginning balance and ending balance for the relevant period, divided by two.

FINANCIAL INFORMATION OF THE TARGET GROUP

Trade receivables turnover days decreased from 2.6 days for the year ended 31 December 2015 to 2.5 days for the year ended 31 December 2016. Trade receivables turnover days slightly increased to 5.1 days for the year ended 31 December 2017. Due to the nature of the Target Group's business, the trade receivable turnover days remained stable throughout the Track Record Period. The decrease in the trade receivable turnover days from 2015 to 2016 was mainly due to the decrease in trade receivables from corporate customers which required longer settlement period. The increase in trade receivables turnover days for the year ended 31 December 2017 was mainly due to the increase in trade receivables resulted from the increasing use of credit cards and mobile payments consumption by the customers, the proceeds from the payment by credit cards and mobile payment will be received in approximately one day after the actual consumption at the shops.

As at 31 December 2015, 2016 and 2017, the ageing analysis of trade receivables is as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Up to 6 months	4,302,340	3,929,426	14,047,690
6 months to 1 year	138,056	38,404	800,215
1 to 2 years	315,519	106,252	42,758
2 to 3 years	409,367	162,377	7,739
Over 3 years	<u>191,905</u>	<u>208,013</u>	<u>237,402</u>
	<u><u>5,357,187</u></u>	<u><u>4,444,472</u></u>	<u><u>15,135,804</u></u>

The trade receivables that was due over 1 year or above recorded was approximately RMB0.9 million, RMB0.5 million and RMB0.3 million as at 31 December 2015, 2016 and 2017, respectively. Such balance mainly consisted of trade receivables due from certain frequent customers as they normally took longer period for checking and settlement process.

FINANCIAL INFORMATION OF THE TARGET GROUP

The ageing analysis of trade receivables that were past due but not impaired are as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Past due but not impaired			
Up to 6 months	618,808	346,353	2,817,112
6 months to 1 year	138,056	38,404	800,215
1 to 2 years	315,519	106,252	42,758
2 to 3 years	409,367	162,377	7,739
Over 3 years	<u>191,905</u>	<u>208,013</u>	<u>237,402</u>
	<u><u>1,673,655</u></u>	<u><u>861,399</u></u>	<u><u>3,905,226</u></u>

The trade receivables which were past due but not impaired were related to a range of customers for whom there was no recent history of default and long business relationship was developed. Based on past experience and customers' historical payment pattern, the Target Group believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2017, the Target Group's receivables of approximately RMB3.9 million which were past due but not impaired related to customers that had good track record with the Target Group.

As at 31 March 2018, approximately RMB11.6 million, or approximately 76.8% of trade receivables outstanding as at 31 December 2017 had been subsequently settled.

FINANCIAL INFORMATION OF THE TARGET GROUP

Trade and other payables

The following table sets forth the breakdown of trade and other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Trade payables	108,127,173	105,667,874	74,440,014
Other payables and accruals			
Staff costs and welfare accruals	53,987,619	62,450,443	64,033,697
Payable to Ningbo Tianxin for payroll related services	—	—	11,888,391
Leasehold improvements payable	18,621,018	10,325,963	15,545,135
Amounts due to related parties	509,188	1,925,555	—
Business tax, value added tax and other tax liabilities	4,335,391	381,251	392,500
Utility payable	1,433,252	1,472,415	808,268
Rental payables			
— current portion	2,691,555	5,335,121	8,575,704
Reinstatement costs			
— current portion	311,710	818,062	706,899
Professional service expense	30,346	2,101,186	3,595,745
Others	<u>1,279,209</u>	<u>4,385,235</u>	<u>2,725,309</u>
Total	<u><u>191,326,461</u></u>	<u><u>194,863,105</u></u>	<u><u>182,711,662</u></u>
	Year ended 31 December		
	2015	2016	2017
Turnover days of trade payables (days)	<u>46.4</u>	<u>55.3</u>	<u>46.9</u>

The trade payables balances as at 31 December 2015 decreased from approximately RMB108.1 million to approximately RMB105.7 million as at 31 December 2016 which was due to relatively earlier settlement of payments. The Target Group's trade payables were due according to the terms on the relevant contract. In general, the suppliers grant the Target Group a credit term ranging from 90 days to 150 days and the Target Group settle the payment by cheque or bank transfer. The trade payables balances decreased from approximately RMB105.7 million as at 31 December 2016 to approximately RMB74.4 million as at 31 December 2017 which was due to an increase in settlement for long aging payables as there is an improvement in the cash position of the Target Group during the period. There was no change in credit terms granted during the Track Record Period.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group's other payables and accruals mainly consisted of staff costs and welfare accruals, leasehold improvements payable and amounts due to related parties. The Target Group's other payables and accruals increased from RMB83.2 million as at 31 December 2015 to RMB89.2 million as at 31 December 2016, which was due to the increase in amounts due to related parties and the further increase in staff costs and welfare accrual balance as at year end as the result of the Target Group's continued growth and expansion. The other payables and accruals further increased to approximately RMB108.3 million as at 31 December 2017 which was due to the payable to wage and salary distribution service of approximately RMB11.9 million.

Turnover days of trade payables for the years ended 31 December 2015 and 2017 represent the average payables divided by revenue during the year and multiplied by 365 days. Turnover days of trade payables for the year ended 31 December 2016 is calculated based on the average trade payables divided by the revenue for the relevant year multiplied by 366 days. Average trade payables is calculated as the sum of the beginning balance and ending balance for the relevant period, divided by two. The turnover days of trade payables mainly represented the settlement period offered by the suppliers.

Trade payables turnover days increased from 46.4 days in 2015 to 55.3 days in 2016 which was because of the trade payables balance as at 31 December 2016 mainly consisted of payables due to suppliers which granted the Target Group slightly longer credit period.

Trade payables turnover days decreased from 55.3 days in 2016 to 46.9 days in 2017 which was mainly due to an increase in settlement of payables during the year.

As at 31 December 2015, 2016 and 2017, the aging analysis of trade payables is as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Less than 1 year	102,546,200	104,012,597	71,373,942
1 to 2 years	3,159,740	628,414	2,375,606
2 to 3 years	1,749,656	173,237	507,029
Over 3 years	<u>671,577</u>	<u>853,626</u>	<u>183,436</u>
	<u><u>108,127,173</u></u>	<u><u>105,667,874</u></u>	<u><u>74,440,013</u></u>

The trade payables that was due over 3 years recorded was approximately RMB0.2 million as at 31 December 2017. Such balance mainly consisted of trade payables due to suppliers which offered longer credit period.

As at 31 March 2018, approximately RMB72.1 million, representing 96.8% of trade payables balance as at 31 December 2017 had been subsequently settled.

FINANCIAL INFORMATION OF THE TARGET GROUP

Other non-current liabilities

The following table sets forth the breakdown of non-current liabilities of the Target Group:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Rental payable	29,729,950	27,104,438	19,393,655
Reinstatement costs of the stores	7,432,958	6,940,883	7,536,120
Retainer fee payable	<u>2,572,449</u>	<u>1,357,857</u>	<u>—</u>
	<u><u>39,735,357</u></u>	<u><u>35,403,178</u></u>	<u><u>26,929,775</u></u>

The non-current rental payable of the Target Group mainly represented deposits of rentals where contract expires over 12 months. Such balance decreased from approximately RMB29.7 million as at 31 December 2015 to approximately RMB27.1 million as at 31 December 2016 which was mainly due to less contracts expiring over 12 months as at 31 December 2016 as compared to 2015. It further decreased to approximately RMB19.4 million as at 31 December 2017 which was mainly due to (i) less contracts expiring over 12 months as at 31 December 2017 which has been reclassified from non-current portion to the current portion; and (ii) a decrease in the retainer fee payable as all non-current retainer fee has been settled as at 31 December 2017. According to the renovation agreement signed after 1 January 2017, all the retainer fee ranging from 5% to 10% of total contracted amount were payable within one year after the completion of leasehold improvements. Therefore no non-current retainer fee payable incurred.

The reinstatement costs of the stores mainly represented the cost accrued for the related expenses to restore the premises to its original status at the end of the lease period as stipulated in the leasing contracts entered into by the Target Group and the landlords. The Target Group accrued for the related expenses based on its past experience of estimated cost per square metre for stores. Such accrual has decreased from RMB7.4 million as at 31 December 2015 to approximately RMB6.9 million as at 31 December 2016 as a result of the adjustment of accrual base on unit reinstatement cost for each square meter according to the market practice. It increased to approximately RMB7.5 million as at 31 December 2017 which was mainly due to the increasing number of restaurants.

Retainer fee payable mainly represented the amount payable to leasehold improvements vendors. According to the decoration agreements entered into by the Target Group and the leasehold improvements vendors, the Target Group is required to pay the retainer fee ranging from 5% to 10% of total contracted amount, which is payable within two or three years after the completion of leasehold improvements, if no quality issue occurred. Such amount decreased from approximately RMB2.6 million as at 31 December 2015 to approximately RMB1.4 million as at 31 December 2016 because of the less number of restaurants were opened in 2016 than that in 2015. It decreased to nil as at 31 December 2017 as more retainer fee was expired during the period.

FINANCIAL INFORMATION OF THE TARGET GROUP

RELATED PARTY TRANSACTION

During the Track Record Period, the related party transactions of the Target Group were principally purchasing goods from Zhenwei (Shanghai) International Trading Co., Ltd. which amounted to RMB2.8 million, RMB2.7 million and nil for the years ended 31 December 2015, 2016 and 2017 respectively, interest income received from the related parties which amounted to RMB1.6 million, RMB4.3 million and RMB4.3 million for the years ended 31 December 2015, 2016 and 2017 respectively. Please refer to note 31 to the accountant's report of the Target Group in Appendix I to this circular for a discussion of related party transactions and their balances.

The proposed executive Directors believe that the related party transactions were carried out on an arm's length basis and on normal commercial terms and would not distort the Target Group's results during the Track Record Period or make such results not reflective of the Target Group's future performance. The proposed executive Directors advised that the receivables from related parties of the Target Group will be settled before Resumption.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Track Record Period, the Target Group's principal sources of liquidity and capital resources were generally cash flows from operating activities and financing activities. The Target Group's principal use of liquidity and capital resources were mainly for the daily operation. The following table summarises the Target Group's cash flows during the Track Record Period.

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Cash flows			
Net cash generated from operating activities	140,801,876	68,107,717	1,373,235
Net cash (used in) investing activities	(127,086,838)	(54,240,681)	(9,105,702)
Net cash (used in)/generated from financing activities	(10,573,002)	44,725,000	(2,010,623)
Net increase/(decrease) in cash and cash equivalents	3,142,036	58,592,036	(9,793,093)
Cash and cash equivalents at beginning of year	<u>9,982,760</u>	<u>13,124,796</u>	<u>71,716,832</u>
Cash and cash equivalents at end of year	<u><u>13,124,796</u></u>	<u><u>71,716,832</u></u>	<u><u>60,431,119</u></u>

FINANCIAL INFORMATION OF THE TARGET GROUP

Cash flow generated from operating activities

The Target Group had net cash generated from operating activities of RMB1.3 million for the year ended 31 December 2017 which was mainly because of large amount in the settlement of account payable causing the decrease in operating payable by approximately RMB22.1 million.

The cash generated from operations prior to changes in working capital and income tax paid which decreased by approximately RMB61.1 million from approximately RMB80.1 million to approximately RMB19.0 million for the years ended 31 December 2016 and 2017 respectively.

Changes in working capital contributed a net cash outflow of approximately RMB64.2 million for the year ended 31 December 2017 in comparing with cash outflow of RMB15.7 million for the year ended 31 December 2016. The increase in cash outflow was mainly due to (i) the decrease in operating payables of approximately RMB22.1 million in the year ended 31 December 2017 mainly attributed to an increase in settlement for long aging account payables as a result of improvement in the cash position; (ii) increase in operating receivables of approximately RMB42.4 million which mainly accounted for the increase in raw materials procurement prepayment of approximately RMB18.8 million such as imported beef and VAT input of approximately RMB19.1 million; and (iii) decrease in inventories of approximately RMB0.4 million.

The Target Group had net cash generated from operating activities of RMB68.1 million for the year ended 31 December 2016. Cash generated in operations prior to changes in working capital and income tax paid was RMB80.1 million. Changes in working capital contributed a net cash outflow of RMB15.7 million, comprising (i) increase in operating receivables of approximately RMB14.8 million; and (ii) decrease in operating payables of approximately RMB1.3 million, partially offset by an decrease in inventories of approximately RMB0.3 million. The net cash generated from operating activities for the year ended 31 December 2016 was in the amount of approximately RMB68.1 million which was lower than the same period in 2015 as there was a net decrease in operating payable in the amount of approximately RMB1.3 million in 2016 in comparing with the net increase of operating payable in the amount of approximately RMB53.9 million for the same period in 2015.

The Target Group had net cash generated from operating activities of approximately RMB140.8 million in the year ended 31 December 2015. Cash generated in operations prior to changes in working capital and income tax paid was approximately RMB154.6 million. Changes in working capital contributed a net cash inflow of approximately RMB59.5 million, comprising (i) decrease in inventories of approximately RMB4.9 million; (ii) decrease in operating receivables of approximately RMB0.7 million; and (iii) increase in operating payables of approximately RMB53.9 million.

FINANCIAL INFORMATION OF THE TARGET GROUP

Cash flow used in investing activities

Net cash used from investing activities for the year ended 31 December 2017 amounted to approximately RMB9.1 million. This decrease in net cash outflow was primarily attributable to a decrease in the loan granted to related parties from approximately RMB52.1 million to RMB11.7 million for the years ended 31 December 2016 and 2017 respectively.

Net cash used in investing activities in the year ended 31 December 2016 amounted to approximately RMB54.2 million. This net cash outflow was primarily attributable to payment for (i) the purchases of property and equipment of approximately RMB29.2 million in connection with the opening of new restaurants; and (ii) the loans granted to related parties of approximately RMB52.1 million.

Net cash used in investing activities in the year ended 31 December 2015 amounted to approximately RMB127.1 million. This net cash outflow primarily reflected a change in balances of the loans granted to related parties of approximately RMB76.8 million and the purchases of property and equipment of approximately RMB70.4 million in connection with the opening of new restaurants.

Cash flow used in financing activities

Net cash used in financing activities for the year ended 31 December 2017 amounted to approximately RMB2.0 million. This cash outflow was primarily due to an increased in interest paid which was mainly consist of the interest expense incurred from the borrowing which was granted on 28 December 2016.

Net cash generated from financing activities in the year ended 31 December 2016 amounted to approximately RMB44.7 million. This cash inflow was primarily due to the proceeds from other borrowings of approximately RMB44.7 million.

Net cash used in financing activities in the year ended 31 December 2015 amounted to approximately RMB10.6 million. This cash outflow was primarily due to (i) repayments of bank borrowings of approximately RMB10.3 million; and (ii) interest paid of approximately RMB0.3 million.

FINANCIAL INFORMATION OF THE TARGET GROUP

INDEBTEDNESS

The following table sets forth certain information relating to the Target Group's total borrowings.

	As at 31 December			As at
	2015	2016	2017	31 March
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				(unaudited)
Bank borrowings	—	—	—	—
Other borrowings	<u>—</u>	<u>44,725,000</u>	<u>41,795,000</u>	<u>41,795,000</u>
Total	<u>—</u>	<u>44,725,000</u>	<u>41,795,000</u>	<u>41,795,000</u>

The Target Group's bank borrowings as at 31 December 2015, 2016 and 2017 and 31 March 2018 were nil. On 28 December 2016, the Target Group and Smart Orient Investment Limited ("**Smart Orient**") (an Independent Third Party to the Target Group) entered into an unsecured loan agreement with a principal of HK\$50 million.

Smart Orient is a company incorporated in British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Sinolink Worldwide Holdings Limited which is a company listed on the Stock Exchange who principally engaged in property development, property management and property investment.

The principal terms of the borrowing agreement are as follows:

Loan amount	:	HK\$50,000,000
Term	:	24 months from the drawdown date of the borrowing
Interest rate	:	6% per annum (payable in cash on monthly basis)
Default Interest	:	If the borrower is in default in repayment of any sum payable under the borrowing agreement, the borrower shall be liable to pay interest on the outstanding sum at the rate of 12% per annum from the due date of repayment up to the actual repayment and no more than six months after the repayment day.
Repayment	:	The facility shall be repaid to Smart Orient in full with all outstanding accrued interest on or before the repayment date.
Early repayment	:	Early repayment of the Loan by the Borrower before the repayment date is allowed.

FINANCIAL INFORMATION OF THE TARGET GROUP

Any grant of early repayment of the loan shall be conditional upon there being no default in payment of the loan under the loan agreement. The borrower should apply to Smart Orient Investment Limited in writing for an early repayment at least five business days in advance.

On 20 December 2017, the Target Group entered into an extended agreement with Smart Orient, pursuant to which, the loan would be extended for 12 months and be payable on 28 December 2019. The interest rate remains the same at 6% per annum.

Save as disclosed herein, the Target Group had certain balances due to related parties. Please refer to the note 25 to the accountant's report of the Target Group in Appendix I to this circular for further details.

During the Track Record Period, the Target Group had complied with all the covenants of Target Group's bank loans, did not have any default in payment of the Target Group's bank loans, and did not experience any difficulties in obtaining bank loans. In addition, there were no material covenants which limited the Target Group's ability to undertake additional equity financing during the Track Record Period. As at the Latest Practicable Date, the Target Group had no unutilised facilities.

Apart from as disclosed above and normal trade payables in the ordinary course of business, the Target Group did not have at the close of business on 31 March 2018, any material debt securities issued and outstanding or agreed to be issued, bank overdrafts, debentures or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments, guarantees, or other material contingent liabilities. The proposed Directors confirm that (i) there has not been any material change in the indebtedness and contingent liabilities since 31 December 2017 and up to the Latest Practicable Date; (ii) there has not been any default on repayments or other obligations in any material respect under the loan agreements; (iii) the Target Group does not have material covenants relating to the outstanding debts; (iv) the Target Group has complied with all of the finance covenants during the Track Record Period; and (v) the Target Group does not have any concrete material external debt financing plans as at the Latest Practicable Date.

Except as otherwise disclosed above, the Target Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance, outstanding convertible debt securities or other similar indebtedness, any guarantees or other material contingent liabilities as at 31 March 2018.

FINANCIAL INFORMATION OF THE TARGET GROUP

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

The Target Group's capital expenditures primarily consisted of the addition of property and equipment to increase the Target Group's restaurant network and operating efficiency. During the Track Record Period, the Target Group's capital expenditures were principally funded by cash flows generated from the operation as well as the Target Group's borrowings.

The capital expenditures were approximately RMB76.1 million, RMB19.7 million and RMB29.0 million for the years ended 31 December 2015, 2016 and 2017.

For the year ended 31 December 2015, the capital expenditure was mainly attributable to the increased number of *Xiao Faigo Hotpot* (“小輝哥火鍋”) restaurant from 58 as at 31 December 2014 to 89 as at 31 December 2015.

For the year ended 31 December 2016, the capital expenditure was mainly related to increased total number of restaurants from 91 as at 1 January 2016 to 97 as at 31 December 2016.

For the year ended 31 December 2017, the capital expenditure was mainly related to the decoration of newly opened restaurants for the year ended 31 December 2017 in the leasehold improvements and purchase of machineries.

Capital commitments

As at 31 December 2015, 2016 and 2017, capital expenditure contracted for but not yet incurred was as follows:

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Property and equipment	13,582,448	798,028	2,848,813

These capital commitments were primarily in connection with the opening of new restaurants. The Target Group will continue to expand its sales network and therefore intends to open an addition 29 new restaurants by the end of 2019. Some of the planned new restaurants are expected to be opened in regions where the Target Group does not have existing restaurants such as Nanning, Fuzhou and Chengdu. As at the Latest Practicable Date, the Target Group has entered into binding leases for the sites for six of the restaurants planned. The Target Group will open these restaurants immediately upon obtaining the requisite licenses. The new restaurants to be opened will be of similar size of the existing restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”).

FINANCIAL INFORMATION OF THE TARGET GROUP

Operating lease commitments

The Target Group's leases primarily consisted of its restaurants, staff quarters, warehouses, and office premises. Leases for restaurants are negotiated for terms ranging from five to eight years, while leases for warehouses, staff quarters and office premises are negotiated for terms ranging from one to three years. The below table summarises the total future minimum lease and other payments under non-cancellable operating leases.

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
No later than 1 year	92,261,189	103,266,673	100,545,465
Later than 1 year and no later than 5 years	311,702,867	288,021,399	203,589,255
Later than 5 years	<u>31,238,020</u>	<u>8,098,224</u>	<u>927,900</u>
	<u>435,202,076</u>	<u>399,386,296</u>	<u>305,062,620</u>

WORKING CAPITAL

Taking into account the financial resources available to the Target Group, including the internally generated funds, available borrowing facility and the estimated net proceeds from the Share Placing and Open Offer, the proposed Directors are of the opinion that the Target Group has sufficient working capital for the Target Group's present requirements, that is for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, the Target Group did not have any off-balance sheet transactions and/or arrangements.

FINANCIAL RISK MANAGEMENT

The Target Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Market risk

As the Target Group has no significant interest-bearing assets except for cash and cash equivalents and certain interest bearing loans temporarily lent to related parties, the Target Group's income and operating cash flows are substantially independent of changes in market interest rate.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Target Group to fair value interest-rate risk.

Credit risk

The credit risk of the Target Group mainly arises from cash and cash equivalents, trade receivables, prepayments and other receivables. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

The Target Group trades with a large number of individual customers and trading terms are mainly on cash, prepaid coupon and credit card settlement. The management considers that the Target Group does not have a significant concentration of credit risk. For the trade receivables due from the shopping malls, the Target Group monitors the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. The Target Group also makes deposits (current and non-current) for rental of its restaurant outlets with the relevant landlords. Management does not expect any loss arising from non-performance by these counterparties.

In addition, the other receivable balances are also monitored on ongoing basis. Hence, the management of the Target Group believes that the Target Group's credit risk is significantly reduced.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Target Group and aggregated by the Target Group finance department. The Target Group finance department monitors rolling forecasts of the Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Target Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Target Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements — for example, currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Target Group treasury department. Target Group treasury department invests surplus cash in time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

As at 31 December 2015, 2016 and 2017, the Target Group held cash and cash equivalents of approximately RMB13.1 million, RMB71.7 million and RMB60.4 million respectively and trade receivables of approximately RMB5.4 million, RMB4.4 million and RMB15.1 million respectively that are expected to readily generate cash inflows for managing liquidity risk.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2015, 2016 and 2017, the Target Group had net current liabilities of RMB126.3 million, RMB19.5 million and RMB25.2 million, respectively. With the consideration of anticipated operating cash inflows, the unsecured long-term loan obtained in December 2016 and the supplemental agreement entered on 20 December 2017, with a principal amount of HKD50 million of which the term commenced from the disbursement date of 28 December 2016 and shall mature and be payable after 24 months, and the ability of adjusting the pace of its operation expansion and expenditures, the proposed Directors are of the opinion that the Target Group has sufficient cash flows in the near future to manage the liquidity risks resulted from net current liability situations.

SENSITIVITY ANALYSIS

The foods and beverage and other materials consumables used, employee benefit expenses, property rentals and related expenses and utilities expenses are accounted for the majority of the fluctuation of Target Group's net profit. For the sensitivity analyses of the impact to the results of operations of the Target Group for during the Track Record Period from the fluctuation of the foods and beverage and other materials consumables used, please refer to the section headed "Business of the Target Group — Purchase Cost Control" in this circular. In the below sensitivity analysis, the Target Group illustrates the hypothetical fluctuations impact on the Target Group's financial performance using the major external factor affecting Target Group's net profit for each of the years ended 31 December 2015, 2016 and 2017, with reference to historical fluctuation of the employee benefit expenses, property rentals and related expenses and utilities expenses, given other factors unchanged.

Employee benefit expenses

The following sensitivity analysis table illustrates the impacts of hypothetical fluctuation in Target Group's employee benefit expenses. Fluctuation in the Target Group's employee benefit expenses are hypothetically assumed to be -10%, -5%, 5% and 10%, which are determined by reference to historical fluctuation of in the Target Group's employee benefit expenses during the Track Record Period.

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<i>Increase/(decrease) in profit for the year of the Target Group</i>						
Changes in employee benefit expenses						
-10%	16,347	45%	17,695	46%	18,319	71%
-5%	8,174	22%	8,848	23%	9,160	36%
+ 5%	(8,174)	(22%)	(8,848)	(23%)	(9,160)	(36%)
+ 10%	(16,347)	(45%)	(17,695)	(46%)	(18,319)	(71%)

For the illustrative purpose of breakeven analysis only, during the Track Record Period, if the staff cost increased by 22%, 22% and 14% respectively, the Target Group's net profit would become breakeven.

FINANCIAL INFORMATION OF THE TARGET GROUP

Property rentals and related expenses

The following sensitivity analysis table illustrates the impacts of hypothetical fluctuation in the Target Group's property rentals and related expenses. Fluctuation in the Target Group's property rentals and related expenses are hypothetically assumed to be -10%, -5%, 5% and 10%, which are determined by reference to historical change in the Target Group's property rentals and related expenses during the Track Record Period.

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>Increase/(decrease) in profit for the year of the Target Group</i>					
Changes in property rentals and related expenses						
-10%	12,375	34%	13,494	35%	13,150	51%
-5%	6,187	17%	6,747	18%	6,575	26%
+ 5%	(6,187)	(17%)	(6,747)	(18%)	(6,575)	(26%)
+ 10%	(12,375)	(34%)	(13,494)	(35%)	(13,150)	(51%)

For the illustrative purpose of breakeven analysis only, during the Track Record Period, if the property rentals and related expenses increased by 30%, 29% and 20% respectively, the Target Group's net profit would become breakeven.

Utilities expenses

The following sensitivity analysis table illustrates the impacts of hypothetical fluctuation in the Target Group's utilities expenses. Fluctuation in the Target Group's utilities expenses are hypothetically assumed to be -10%, -5%, 5% and 10%, which are determined by reference to historical fluctuation in the Target Group's utilities expenses during the Track Record Period.

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>Increase/(decrease) in profit for the year of the Target Group</i>					
Changes in utilities expenses						
-10%	2,003	5%	2,234	6%	2,061	8%
-5%	1,002	3%	1,117	3%	1,031	4%
+ 5%	(1,002)	(3%)	(1,117)	(3%)	(1,031)	(4%)
+ 10%	(2,003)	(5%)	(2,234)	(6%)	(2,061)	(8%)

For the illustrative purpose of breakeven analysis only, during the Track Record Period, if the utilities expenses increased by 182%, 172% and 124% respectively, the Target Group's net profit would become breakeven.

FINANCIAL INFORMATION OF THE TARGET GROUP

KEY FINANCIAL RATIOS

The following table sets forth the Target Group's key financial ratios during the Track Record Period:

	As at/for the year ended 31 December		
	2015	2016	2017
Current ratio (<i>note 1</i>)	48.9%	92.0%	90.6%
Quick ratio (<i>note 2</i>)	37.3%	80.4%	80.2%
Gearing ratio (<i>note 3</i>)	—	75.2%	83.0%
Return on assets (<i>note 4</i>)	11.8%	9.9%	6.6%
Return on equity (<i>note 5</i>)	174.1%	64.7%	50.9%

Notes:

1. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.
2. Quick ratio is calculated as the current assets excluded inventories divided by the total current liabilities as at the respective dates.
3. Gearing ratio is calculated based on the total debts at the end of the year divided by total equity as at the respective dates. Total debt includes payables incurred not in the ordinary course of business.
4. Return on assets is calculated by dividing profit for the year by total assets and multiplying the resulting value by 100%.
5. Return on equity is calculated by dividing profit for the year by total equity and multiplying the resulting value by 100%.

Current ratio

Current ratio of the Target Group increased to 92.0% as at 31 December 2016 compared to 48.9% as at 31 December 2015, which was mainly due to the drawdown of other borrowings of approximately RMB44.7 million classified as non-current liabilities and further increase in receivables from related companies and the increase of value added tax input and decrease in receipts of customers' prepaid cards and proceeds received from online sale of prepaid coupons. Current ratio of the Target Group decreased to 90.6% as at 31 December 2017 which remained relatively stable.

Quick ratio

The Target Group's quick ratio increased from 37.3% as at 31 December 2015 to 80.4% as at 31 December 2016, which was mainly due to the similar reasons as mentioned above in current ratio, since inventories represented 23.7% and 12.6% of the current assets as at 31 December 2015 and 2016 respectively, which did not account for a very substantial component in the current asset. The quick ratio of the Target Group remained relatively stable at approximately 80.2% as at 31 December 2017.

FINANCIAL INFORMATION OF THE TARGET GROUP

Gearing ratio

Gearing ratio represents total debt as a percentage of total equity. The Target Group's gearing ratio as at 31 December 2015 was nil, which was mainly due to no outstanding borrowings of the Target Group as at respective date. The Target Group's gearing ratio increased to 75.2% as at 31 December 2016 due to an increase in borrowing amounting to HK\$50 million of which the term commenced from the disbursement date of 28 December 2016 and shall be payable after 24 months. The gearing ratio of the Target Group increased to 83.0% as at 31 December 2017 was mainly due to a decrease in the total equity as the Target Group declared a cash dividend where the dividend payables balance was RMB33.4 million as at 31 December 2017.

Return on assets

The return on total assets decreased from 11.8% for the year ended 31 December 2015 to 9.9% for the year ended 31 December 2016, which was mainly due to the decrease in revenue arisen from competition during the period. Return on assets of the Target Group decreased to 6.6% as at 31 December 2017 was mainly due to a decrease in net profit margin as a result of the increase in other expenses such as transportation expenses, promotion and marketing.

Return on equity

Return on equity is profit for the year for the year divided by shareholders' equity at the year end. As the restaurant networks of the Target Group expanded, the return on equity decreased from 174.1% for the year ended 31 December 2015 to 64.7% for the year ended 31 December 2016, which was mainly due to the decrease in operating profit arisen from competition during the period. The return on equity of the Target Group decreased to 50.9% as at 31 December 2017 was mainly due to (i) a decrease in net profit margin; and (ii) a decrease in the total equity due to the Target Group declared a cash dividend on 15 February 2017 which the dividend payable balance as 31 December 2017 was approximately RMB33.4 million.

DIVIDEND

During the years ended 31 December 2015 and 2016, the Target Group have not declared any dividend. For the year ended 31 December 2017, the Target Group declared a dividend of HK\$40 million (equivalent to RMB33.4 million) on 15 February 2017 which was funded by the retained earnings of the Target Group. The Target Group currently does not have any predetermined dividend payout ratio nor dividend policies. The Board has the discretion to determine whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Other than the dividend of HK\$40 million (equivalent to RMB33.4 million) declared on 15 February 2017, the proposed Directors has no plan to distribute any profits from its undistributed profits of the Target Group earned up to 31 December 2017 in the foreseeable future. The payment and the amount of any future dividend will be made at the discretion of the proposed Board and

FINANCIAL INFORMATION OF THE TARGET GROUP

will be based upon the Target Group's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the proposed Board deems relevant.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Target Company did not have distributable reserves available for distribution to Target Company's owners.

TRANSACTION EXPENSES

The aggregate fees, together with the Stock Exchange listing fee, legal and other professional fees, printing and other expenses relating to, among other things, the Acquisition, the Disposal, the Open Offer, the Share Placing, the Share Consolidation are estimated to be approximately HK\$31.3 million, of which HK\$5.7 million and HK\$25.6 million are payable by the Company and the Target Group respectively. The Target Group charged HK\$7.5 million and HK\$6.8 million to its combined profit or loss accounts for the years ended 31 December 2016 and 2017, respectively, and the remaining HK\$11.3 million will be charged to its combined profit or loss accounts for the year ending 31 December 2018. The Target Group has charged HK\$2.3 million and HK\$1.7 million to its combined profit or loss accounts for the years ended 31 December 2016 and 2017, respectively, and the remaining HK\$1.7 million will be charged to its combined profit or loss accounts for the year ending 31 December 2018.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER LISTING RULES

The proposed Directors confirm that as at the Latest Practicable Date, there has been no circumstance that would give rise to the disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange.

RECENT DEVELOPMENT

Set forth below are certain material developments on the business and results of operations of the Target Group after 31 December 2017, which is the end of the Track Record Period:

- The Target Group has entered into leases, the terms of which commenced after 31 December 2017 but before the Latest Practicable Date, for two new restaurants planned to commence operations in 2018.
- The Target Group has opened one restaurant from 1 January 2018 to the Latest Practicable Date.

The Target Group recorded a revenue of RMB700.4 million during the year ended 31 December 2017, which was 1.0% lower than the revenue recorded during the corresponding period in 2016. The decrease in revenue of the Target Group was mainly attributable to weakened customer traffic and seat turnover rate as a result of fierce competition in the supply of catering services in the PRC, especially in the shopping malls where the

FINANCIAL INFORMATION OF THE TARGET GROUP

restaurants under the brand *Xiao Faigo Hotpot* (“小輝哥火鍋”) were situated in. The audited net profit of the Target Group for the year ended 31 December 2017 decreased by approximately RMB12.9 million comparing to the corresponding period in 2016.

NO MATERIAL ADVERSE CHANGE

The proposed Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the Target Group’s, financial and trading position or outlook since 31 December 2017 (being the date to which the last audited financial statements of the Target Group were prepared) and up to the Latest Practicable Date, and there is no event since 31 December 2017 and up to the date of this circular, which would materially affect the information shown in section headed the accountant’s report of the Target Group in the Appendix I of this circular. So far as the proposed Directors are aware, there has been no material change in the general condition of the catering industry in which the Target Group operates which has materially and adversely affected the Target Group’s results of operations or financial condition since 31 December 2017 and up to the date of this circular. During the Track Record Period and up to the Latest Practicable Date, the proposed Directors confirm that the Target Group did not have any material litigation.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited Pro Forma Financial Information of the Enlarged Group” in the Appendix III of this circular for details.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital in our Company as at the Latest Practicable Date and immediately following (i) the Share Consolidation having become effective; (ii) the issue of the Consideration Shares and the Conversion Shares upon the conversion of the Consideration CBs in full; (iii) the Share Placing and (iv) the Open Offer will be as follows:

(i) As at the Latest Practicable Date

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>38,000,000,000</u>	Shares of HK\$0.00001 each as at the Latest Practicable Date	<u>380,000.00</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>1,010,500,000</u>	Shares of HK\$0.00001 each in issue as at the Latest Practicable Date	<u>10,105.00</u>

(ii) Immediately following the Share Consolidation:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>19,000,000,000</u>	Consolidated Shares of HK\$0.00002 each	<u>380,000.00</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>505,250,000</u>	Consolidated Shares of HK\$0.00002 each in issue upon effective of the Share Consolidation	<u>10,105.00</u>

SHARE CAPITAL

(iii) Immediately following (a) the issue of the Consideration Shares; (b) issue of Conversion Shares (assuming all Consideration CBs are fully converted); (c) the Share Placing; and (d) the Open Offer

<i>Authorised share capital:</i>	<i>HK\$</i>
19,000,000,000 Consolidated Shares of HK\$0.00002 each immediately upon effective of the Share Consolidation	380,000.00
<hr style="border-top: 3px double #000;"/>	
<i>Issued and fully paid:</i>	
505,250,000 Consolidated Shares in issue upon effective of Share Consolidation	10,105.00
3,789,375,000 Consideration Shares to be issued pursuant to the Acquisition Agreement	75,787.50
1,263,125,000 Conversion Shares to be issued upon the full conversion of the Consideration CBs issued pursuant to the Acquisition Agreement at the initial conversion price of HK\$0.1025 per Conversion Share	25,262.50
101,050,000 Offer Shares to be issued under the Open Offer	2,021.00
757,875,000 Placing Shares to be issued pursuant to the Placing Agreement	15,157.50
<hr style="border-top: 1px solid #000;"/>	
<u>6,416,675,000</u> Total	<u>128,333.50</u>

Since 31 December 2017, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company or repurchased by the Company. The Company did not buy back any Share during the 12 month period immediately preceding the Latest Practicable Date. No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

RANKING

When fully paid and allotted, the Consideration Shares, Conversion Shares and the Placing Shares will rank *pari passu* in all respects among themselves, including all dividends and distributions which may be declared, paid or made by the Company, voting and interest in capital, with the Consolidated Shares in issue as at the respective date of allotment and issue thereof.

SHARE CAPITAL

OUTSTANDING OPTIONS

As at the Latest Practicable Date, there were no outstanding options, warrants or other conversion rights over any part of the Company's share capital.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders passed on 10 October 2010, the Share Option Scheme was conditionally adopted. A summary of its principal terms is set out in Appendix V to this circular.

SPECIFIC MANDATE

A resolution will be proposed at the EGM for the Shareholders to approve the grant of the specific mandate for the issue of the Consideration Shares, the Conversion Shares and the Placing Shares.

The following is the text of a report received from the Target's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. It is prepared and addressed to the Directors of the Target and to the sole sponsor pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars, issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LONGHUI INTERNATIONAL CATERING MANAGEMENT HOLDINGS LIMITED AND SUCCESS NEW SPRING CAPITAL LIMITED

Introduction

We report on the historical financial information of Longhui International Catering Management Holdings Limited (the "Target") and its subsidiaries (together, the "Target Group") set out on pages I-4 to I-51, which comprises the combined balance sheets as at 31 December 2015, 2016 and 2017, the balance sheets of the Target as at 31 December 2016 and 31 December 2017, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Daqing Dairy Holding Limited dated 9 May 2018 (the "Circular") in connection with the proposed acquisition of the Target (the "Acquisition").

Directors' responsibility for the historical financial information

The Directors of the Target are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2(a) to the Historical Financial Information, and for such internal control as the Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target as at 31 December 2016 and 31 December 2017 and the combined financial position of the Target Group as at 31 December 2015, 2016 and 2017 and of its combined financial performance and its combined cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*Adjustments*

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

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong

9 May 2018

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of historical financial information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report. The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB. The Historical Financial Information is presented in RMB except when otherwise indicated.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2015 RMB	2016 RMB	2017 RMB
Revenue		716,199,456	707,311,006	700,432,193
Foods and beverage and other materials consumables used		(287,259,782)	(260,127,781)	(248,958,640)
Employee benefit expenses	7	(163,473,573)	(176,951,341)	(183,190,488)
Property rentals and related expenses		(123,748,874)	(134,938,599)	(131,495,872)
Utilities expenses		(20,030,380)	(22,342,838)	(20,613,190)
Depreciation, amortization and impairment	12	(43,544,166)	(45,887,320)	(49,411,750)
Other expenses	8	(33,025,934)	(28,544,668)	(37,876,067)
Other gains — net	6	6,292,662	12,007,118	4,803,080
Operating profit		51,409,409	50,525,577	33,689,266
Finance income	9	1,741,379	4,296,130	6,725,590
Finance expenses	9	(292,414)	—	(2,616,124)
Finance income — net	9	1,448,965	4,296,130	4,109,466
Profit before income tax		52,858,374	54,821,707	37,798,732
Income tax expense	10	(16,314,788)	(16,319,053)	(12,146,663)
Profit for the year		<u>36,543,586</u>	<u>38,502,654</u>	<u>25,652,069</u>
Profit/(loss) attributable to:				
Owners of the Target		36,543,586	38,502,654	25,675,497
Non-controlling interest		—	—	(23,428)
Other comprehensive income		—	—	—
Total comprehensive income		<u>36,543,586</u>	<u>38,502,654</u>	<u>25,652,069</u>
Attributable to:				
Owners of the Target		36,543,586	38,502,654	25,675,497
Non-controlling interest		—	—	(23,428)
Basic and diluted earnings per share	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED BALANCE SHEETS

	Note	As at 31 December		
		2015 RMB	2016 RMB	2017 RMB
Assets				
Non-current assets				
Property and equipment	12	149,286,567	121,736,781	99,240,093
Intangible asset	13	—	—	468,186
Prepayments and other receivables	15	31,059,064	31,658,742	32,955,358
Deferred tax assets	26	8,165,560	9,714,187	12,890,781
		<u>188,511,191</u>	<u>163,109,710</u>	<u>145,554,418</u>
Current assets				
Inventories	17	28,626,777	28,334,013	27,954,984
Trade receivables	14	5,357,187	4,444,472	15,135,804
Prepayments and other receivables	15	14,296,700	29,930,806	59,756,612
Receivables from related parties	16	59,339,105	90,025,498	80,040,430
Cash and cash equivalents	18	13,124,796	71,716,832	60,431,119
		<u>120,744,565</u>	<u>224,451,621</u>	<u>243,318,949</u>
Total assets		<u><u>309,255,756</u></u>	<u><u>387,561,331</u></u>	<u><u>388,873,367</u></u>
Equity and liabilities				
Equity attributable to owners of the Target				
Combined capital	20	14	14	14
Other reserves	21	8,022,638	10,490,818	10,490,818
Retained earnings		12,966,884	49,001,358	39,296,854
Non-controlling interest		—	—	576,572
Total equity		<u><u>20,989,536</u></u>	<u><u>59,492,190</u></u>	<u><u>50,364,258</u></u>
Liabilities				
Non-current liabilities				
Borrowings	25	—	44,725,000	41,795,000
Other non-current liabilities	27	39,735,357	35,403,178	26,929,775
Deferred tax liabilities	26	1,500,000	4,000,000	1,300,000
		<u>41,235,357</u>	<u>84,128,178</u>	<u>70,024,775</u>
Current liabilities				
Trade payables	22	108,127,173	105,667,874	74,440,014
Other payables and accruals	23	83,199,288	89,195,231	108,271,648
Deferred revenue	24	48,714,046	38,729,441	41,593,137
Current income tax liabilities		6,990,356	10,348,417	10,743,535
Dividend payables	28	—	—	33,436,000
		<u>247,030,863</u>	<u>243,940,963</u>	<u>268,484,334</u>
Total liabilities		<u><u>288,266,220</u></u>	<u><u>328,069,141</u></u>	<u><u>338,509,109</u></u>
Total equity and liabilities		<u><u>309,255,756</u></u>	<u><u>387,561,331</u></u>	<u><u>388,873,367</u></u>
Net current liabilities		<u><u>(126,286,298)</u></u>	<u><u>(19,489,342)</u></u>	<u><u>(25,165,385)</u></u>

BALANCE SHEETS

		As at 31 December 2016 <i>RMB</i>	As at 31 December 2017 <i>RMB</i>
Assets			
Total assets		—	—
Equity and liabilities			
Equity attributable to owners of the Target			
Share capital	1(b)	—	—
Total equity		—	—
Liabilities			
Total liabilities		—	—
Total equity and liabilities		—	—

Note:

The Target was incorporated on 19 August 2016 and it had no assets, liabilities or equity as at 31 December 2016 and 31 December 2017.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Target (Accumulated deficits)/				Total RMB
		Combined capital RMB	Other reserves RMB	Retained earnings RMB	Non- controlling interests RMB	
Balance at 1 January 2015		14	5,490,818	(21,044,882)	—	(15,554,050)
Comprehensive income						
Profit for the year		—	—	36,543,586	—	36,543,586
Total comprehensive income		—	—	36,543,586	—	36,543,586
Transactions with owners in their capacity as owners						
Profit appropriations to statutory reserves	21	—	2,531,820	(2,531,820)	—	—
Total transactions with owners in their capacity as owners		—	2,531,820	(2,531,820)	—	—
Balance at 31 December 2015		14	8,022,638	12,966,884	—	20,989,536
Balance at 1 January 2016		14	8,022,638	12,966,884	—	20,989,536
Comprehensive income						
Profit for the year		—	—	38,502,654	—	38,502,654
Total comprehensive income		—	—	38,502,654	—	38,502,654
Transactions with owners in their capacity as owners						
Profit appropriations to statutory reserves	21	—	2,468,180	(2,468,180)	—	—
Total transactions with owners in their capacity as owners		—	2,468,180	(2,468,180)	—	—
Balance at 31 December 2016		14	10,490,818	49,001,358	—	59,492,190

	<i>Note</i>	Attributable to owners of the Target				Total <i>RMB</i>
		Combined capital <i>RMB</i>	Other reserves <i>RMB</i>	(Accumulated deficits)/ Retained earnings <i>RMB</i>	Non- controlling interests <i>RMB</i>	
Balance at 1 January 2017		14	10,490,818	49,001,358	—	59,492,190
Comprehensive income						
Profit/(loss) for the year		—	—	25,675,497	(23,428)	25,652,069
Total comprehensive income		—	—	25,675,497	(23,428)	25,652,069
Transactions with owners in their capacity as owners						
Capital injection from non-controlling interests	1(b)(ii)	—	—	—	600,000	600,000
Dividends	28	—	—	(35,380,000)	—	(35,380,000)
Total transactions with owners in their capacity as owners		—	—	(35,380,000)	600,000	(34,780,000)
Balance at 31 December 2017		14	10,490,818	39,296,854	576,572	50,364,258

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2015 RMB	2016 RMB	2017 RMB
Cash flows from operating activities				
Cash generated from operations	29	154,604,204	80,117,336	18,951,375
Income tax paid		<u>(13,802,328)</u>	<u>(12,009,619)</u>	<u>(17,628,140)</u>
Net cash generated from operating activities		<u>140,801,876</u>	<u>68,107,717</u>	<u>1,323,235</u>
Cash flows from investing activities				
Purchases of property and equipment		(70,397,993)	(29,225,935)	(25,011,811)
Purchases of intangible asset		—	—	(241,196)
Proceeds from disposal of property and equipment	29(a)	80,000	1,635,117	2,209,940
Proceeds from disposal of an associate	6(b)	—	330,000	—
Loans granted to related parties	31(b)(iii)	(76,772,810)	(52,139,512)	(11,745,013)
Receipt of loan repayments by related parties		22,403,965	25,159,649	25,682,378
Payments for acquisition of a subsidiary in the prior year	29(b)	<u>(2,400,000)</u>	<u>—</u>	<u>—</u>
Net cash used in investing activities		<u>(127,086,838)</u>	<u>(54,240,681)</u>	<u>(9,105,702)</u>
Cash flows from financing activities				
Capital injection from non-controlling interest	1(b)(ii)	—	—	600,000
Proceeds from borrowings	25	—	44,725,000	—
Repayments of borrowings		(10,280,588)	—	—
Interest paid	9	<u>(292,414)</u>	<u>—</u>	<u>(2,610,623)</u>
Net cash (used in)/generated from financing activities		<u>(10,573,002)</u>	<u>44,725,000</u>	<u>(2,010,623)</u>
Net increase/(decrease) in cash and cash equivalents		3,142,036	58,592,036	(9,793,093)
Cash and cash equivalents at beginning of year		9,982,760	13,124,796	71,716,832
Effects of exchange rate changes on cash and cash equivalents		<u>—</u>	<u>—</u>	<u>(1,492,620)</u>
Cash and cash equivalents at end of year		<u>13,124,796</u>	<u>71,716,832</u>	<u>60,431,119</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANIZATION

(a) General information

The Target was incorporated in the Cayman Islands on 19 August 2016 as an exempted company with limited liability under the Companies Law, CAP 22. The address of the Target's registered office is Floor 4, Willow House, Cricket Square, PO Box 2804, Grand Cayman KY1-1112, Cayman Islands.

The Target Group are principally engaged in operation of restaurants providing hot pot and services in the People's Republic of China (the "PRC") (collectively referred to as the "Hot Pot Business"). The Target acts as the holding company of the Target Group upon completion of the reorganisation described in note 1 (b) (the "Reorganisation").

The ultimate controlling shareholder of the Target Group is Mr. HUNG SHUI CHAK ("Mr. Hung"), who is also the sole executive director of the Target.

The Historical Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

(b) Reorganization

Prior to the Reorganization, the Hot Pot Business were carried out by Billion Express International Limited ("Billion Express") and Billion Great International Limited ("Billion Great"), both of which were incorporated in Hong Kong on 10 December 2009 with limited liability.

Billion Express operates all restaurants under the brand of "Xiao Faigo Hotpot" in the PRC through Shanghai Longhui Catering Management Company Limited ("Shanghai Longhui"). Mr. Hung, Max Composed Global Investments Limited ("Max Composed", a wholly owned subsidiary of Ms. Hung Ying ("Ms. Hung")) and Mr. Ho Poon Kwong Roy ("Mr. Ho") were beneficially interested in the issued shares of Billion Express in the percentage of 94% (94 shares), 3% (3 shares) and 3% (3 shares), respectively immediately prior to the Reorganization.

Billion Great operates all restaurants under the brand of Faigo in the PRC through Shanghai Qiaowei Investment Consulting Company Limited ("Shanghai Qiaowei"). Mr. Hung, Grand Rock International Limited ("Grand Rock", a wholly owned subsidiary of Mr. So Kam Chuen ("Mr. So")) and Creative Corporate Development Limited ("Creative Corporate", a wholly owned subsidiary of Ms. Hung) were beneficially interested in the issued shares of Billion Great in the percentage of 92.59% (1,000 shares), 4.63% (50 shares) and 2.78% (30 shares), respectively, immediately prior to the Reorganization. Out of the 1,000 shares beneficially owned by Mr. Hung, 100 shares were held by Ms. Zhou Weiqiong ("Ms. Zhou") as a trustee for Mr. Hung.

In preparation for the proposed acquisition of the Target Group by Daqing Dairy Holding Limited (the "Acquisition"), a reorganization was undertaken pursuant to which the Target Group companies engaged in the Hot Pot Business controlled by Mr. Hung were transferred to the Target.

The following Reorganization steps took place prior to the Acquisition:

1. Incorporation of the Target

On 19 August 2016, the Target was incorporated in Cayman Islands with one nil-paid issued share owned by Mr. Hung. After the new shares allotment made in December 2016, Mr. Hung, Ms. Hung, Mr. So and Mr. Ho were beneficially interested in the issued shares of the Target in the percentage of 91%, 3%, 3% and 3%, respectively.

2. Acquisition of the Beneficial Interests in Billion Express by Fuze Developments Limited (“Fuze Developments”)

Fuze Developments was incorporated in British Virgin Islands (“BVI”) on 23 August 2012 as a limited liability company. Mr. Hung, Ms. Hung and Mr. Ho were beneficially interested in the issued shares of Fuze Developments in the percentage of 94%, 3% and 3%, respectively immediately prior to the Reorganization.

- (i) On 18 February 2016, Billion Express allotted and issued 900 new shares to Fuze Developments;
- (ii) On 21 March 2017, Fuze Developments acquired from Mr. Hung 94 shares in Billion Express by allotting and issuing 93 new shares of Fuze Developments at par value of USD1 each to him;
- (iii) On 21 March 2017, Fuze Developments acquired from Mr. Ho 3 shares in Billion Express by issuing 3 new shares of Fuze Developments at par value of USD1 each to him;
- (iv) On 21 March 2017, Fuze Developments acquired from Ms. Hung the entire shares in Max Composed by allotting and issuing 3 new shares of Fuze Developments at par value of USD1 each to her;

As a result, Fuze Developments directly and indirectly holds the entire beneficial interest of Billion Express.

3. Acquisition of the Beneficial Interests in Billion Great by Dragonfair

Dragonfair was incorporated in BVI on 17 August 2007 as a limited liability company. Mr. Hung, Mr. So and Ms. Hung were beneficially interested in the issued shares of Dragonfair in the percentage of 92.59%, 4.63% and 2.78%, respectively immediately prior to the Reorganization.

- (i) On 18 February 2016, Billion Great allotted and issued 8,920 new shares at par value of HKD1 each to Dragonfair;
- (ii) On 21 March 2017, Dragonfair acquired 1,000 shares from Mr. Hung (900 shares directly from Mr. Hung, 100 shares from Ms. Zhou as the trustee of Mr. Hung) in Billion Great by allotting and issuing 999 new shares of Dragonfair at par value of USD1 each to Mr. Hung;
- (iii) On 21 March 2017, Dragonfair acquired from Ms. Hung the entire shares in Creative Corporate by allotting and issuing 30 new shares of Dragonfair to her; and
- (iv) On 21 March 2017, Dragonfair acquired from Mr. So the entire shares in Grand Rock by allotting and issuing 50 new shares of Dragonfair to him.

As a result, Dragonfair directly and indirectly holds the entire beneficial interest of Billion Great.

4. Acquisition of Beneficial Interests in Fuze Developments and Dragonfair by the Target

- (i) On 30 April 2018, the Target acquired 100% of the beneficial interests in Fuze Developments from Mr. Hung, Ms. Hung and Mr. Ho by allotting and issuing 6,930, 220 and 220 new shares of the Target respectively; and
- (ii) On 30 April 2018, the Target acquired 100% of the beneficial interests in Dragonfair from Mr. Hung, Ms. Hung and Mr. So by allotting and issuing 2,344, 71 and 115 new shares of the Target respectively.

The share swaps as mentioned in Step 4 were conducted based on the fair value of equity interests in Billion Express and Billion Great.

Upon completion of the Reorganisation, the Target indirectly holds the entire beneficial interest of Billion Express and Billion Great.

Upon completion of the Reorganization, the Target became holding company of the companies comprising the Target Group, details of which are set out in below table:

Company Name	Place and date of incorporation	Issued and Paid-in Capital as at 31 December 2017	Attributable equity interest of the Target Group				Principal activities/place of operation
			As at 31 December 2016		As at the date of this report		
Fuze Developments	BVI/23 August 2012	USD1	N/A	100%/direct	100%/direct	100%/direct	Investment holding/BVI
Dragonfair	BVI/17 August 2007	USD1	N/A	100%/direct	100%/direct	100%/direct	Investment holding/BVI
Max Composed	BVI/18 January 2011	USD1	N/A	N/A	100%/indirect	100%/indirect	Investment holding/BVI
Creative Corporate	BVI/2 January 2013	USD1	N/A	N/A	100%/indirect	100%/indirect	Investment holding/BVI
Grand Rock	BVI/23 July 2012	USD1	N/A	N/A	100%/indirect	100%/indirect	Investment holding/BVI
Billion Express	Hong Kong/ 10 December 2009	HKD1,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Investment holding/ Hong Kong
Billion Great	Hong Kong/ 10 December 2009	HKD10,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Investment holding/ Hong Kong
Shanghai Qiaowei Investment Consulting Company Limited (上海喬威投資諮詢有限公司) ("Shanghai Qiaowei")	Shanghai, the PRC/ 19 October 2010	USD2,160,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Investment holding/ Shanghai, the PRC
Shanghai Huige Seafood Hotpot Catering Company Limited (上海輝哥海鮮火鍋餐飲有限公司) ("Shanghai Huige")	Shanghai, the PRC/ 22 November 2004	RMB3,000,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Provision of food and beverage service/ Shanghai, the PRC
Beijing Huige Catering Management Company Limited (北京輝哥餐飲管理有限公司) ("Beijing Huige")	Beijing, the PRC/ 7 April 2010	RMB1,000,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Provision of food and beverage service/ Beijing, the PRC
Wuhan Huige Catering Management Company Limited (武漢輝哥火鍋餐飲有限公司) ("Wuhan Huige")	Wuhan, the PRC/ 19 September 2011	RMB993,471	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Provision of food and beverage service/ Wuhan, the PRC
Shanghai Longhui Catering Management Company Limited (上海龍輝餐飲管理有限公司) ("Shanghai Longhui")	Shanghai, the PRC/ March 2009	RMB10,000,000	100%/indirect	100%/indirect	100%/indirect	100%/indirect	Provision of food and beverage service/ Shanghai, the PRC
Tianjin Huige Seafood Hotpot Catering Company Limited (天津輝哥海鮮火鍋餐飲有限公司) ("Tianjin Huige") (i)	Tianjin, the PRC/ 25 January 2013	RMB1,050,000	100%/indirect	100%/indirect	N/A	N/A	Provision of food and beverage service/ Tianjin, the PRC
Hefei Huige Catering Management Company Limited (合肥輝哥餐飲管理有限公司) ("Hefei Huige") (ii)	Hefei, the PRC/ 30 August 2017	RMB2,000,000	N/A	N/A	70%/indirect	70%/indirect	Provision of food and beverage service/ Hefei, the PRC

- (i) Tianjin Huige was deregistered on 16 December 2016.
- (ii) On 30 August 2017, the Target Group established a non-wholly owned subsidiary with an independent third party for a restaurant under the brand "Faigo" in Hefei. The capital contribution of the Target Group for the non-wholly owned subsidiary is RMB1.4 million, representing 70% of the total paid-in capital of the non-wholly owned subsidiary.

All companies comprising the Target Group adopt 31 December as their financial year end date.

The English names of certain companies referred herein represent management's best effort in translating the Chinese names of these companies as no English names had been registered.

The statutory financial statements of the following Target Group companies for years ended 31 December 2015, 2016 and 2017 were audited by certificated public accountants:

Company Name	Statutory Auditors		
	2015	2016	2017
Fuze Developments (i)	N/A	N/A	N/A
Dragonfair (i)	N/A	N/A	N/A
Max Composed (i)	N/A	N/A	N/A
Creative Corporate (i)	N/A	N/A	N/A
Grand Rock (i)	N/A	N/A	N/A
Billion Express (ii)	N/A	N/A	N/A
Billion Great (ii)	N/A	N/A	N/A
Shanghai Longhui (iii)	Shanghai Zhongchuang Haijia CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.
Shanghai Qiaowei (iii)	Shanghai Zhongchuang Haijia CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.
Shanghai Huige (iii)	Shanghai Dacheng CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.	Shanghai Zhongchuang Haijia CPA Co., Ltd.
Beijing Huige (iii)	Beijing Zhongshui ren Tax Ation Co., Ltd.	Beijing Zhongshui ren Tax Ation Co., Ltd.	Beijing Zhongshui ren Tax Ation Co., Ltd.
Wuhan Huige (i)	N/A	N/A	N/A
Tianjin Huige (i)	N/A	N/A	N/A
Hefei Huige (i)	N/A	N/A	N/A

- (i) No statutory audited financial statements were prepared for these companies during the Relevant Periods as there were no statutory requirements of their places of incorporation.
- (ii) As at the date of this report, the statutory financial statements for these companies for the years ended 31 December 2015, 2016 and 2017 are yet to be issued.
- (iii) As at the date of this report, the statutory financial statements for these companies for the years ended 31 December 2017 are yet to be issued.

(c) Basis of presentation

Mr. Hung managed and controlled the Hot Pot Business immediately before and after the Reorganization through Billion Express and Billion Great. The Target had not been involved in any other business prior to the Reorganization. The Hot Pot Business was transferred to the Target after the Reorganization. The Reorganization is merely a recapitalisation of the Hot Pot Business with no change in management of such business and no change in Mr. Hung as the ultimate owner of the Hot Pot Business.

The Historical Financial Information has been prepared using the financial information of the companies engaged in the Hot Pot Business, which are under the same ownership and common control of Mr. Hung and now comprising the Target Group as if the current Target Group structure had been in existence throughout and at the end of each of the Relevant Periods with the exception of companies established within the Relevant Periods which are included from their respective date of establishment.

Inter-company transactions, balances and unrealised gains/losses on transactions between the companies within the Target Group are eliminated on combination.

At 31 December 2015, 2016 and 2017, the Target Group had net current liabilities of RMB126,286,298, RMB19,489,342 and RMB25,165,385, respectively. Historically, the Target Group relied principally on both operational sources of cash and non-operational sources of financing from third parties to fund its operation and business development. The Target Group's ability to continue as a going concern is dependent on management's ability to successfully execute its business plan, which includes increasing revenue while controlling operating expenses, as well as, generating operating cash flows and continuing to obtain external sources of financing when necessary.

Taking into account the financial resources of the Target Group, including the anticipated operating cash flow and the ability of the management in adjusting the pace of its expansion of business operation, controlling the operating expenses of the Target Group and financing from third parties, the Directors is of the view that the Target Group has sufficient cash flows in the foreseeable future to enable it to continue its operation and meet its liabilities as and when they fall due for at least the next 12 months. Therefore, the Historical Financial Information has been prepared on a going concern basis.

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Historical Financial Information have been prepared in accordance with all applicable IFRSs. The Historical Financial Information have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial statements are disclosed in Note 4.

The following new standards, amendments and interpretations to existing IFRSs have been published and are mandatory for accounting periods beginning after 1 January 2017 or later periods and have not been early adopted by the Target Group:

Standards	Effective for annual periods beginning on or after
IFRS 1 (Amendment), 'First time adoption of IFRS'	1 January 2018
IFRS 2 (Amendments), 'Classification and measurement of share-based Payment Transactions'	1 January 2018
IFRS 4 (Amendments), 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	1 January 2018
IFRS 9, 'Financial Instruments'	1 January 2018
IFRS 9 (Amendment), 'Prepayment Features with Negative Compensation'	1 January 2019
IFRS 15, 'Revenue from contracts with customers'	1 January 2018

Standards	Effective for annual periods beginning on or after
IFRS 15 (Amendment), 'Clarifications to IFRS 15'	1 January 2018
IFRS 16, 'Leases'	1 January 2019
IFRS 17, 'Insurance Contracts'	1 January 2021
IFRIC 23, 'Accounting for Uncertainties in Income Taxes'	1 January 2019
IAS 19 (Amendment), 'Plan Amendment, Curtailment and Settlement'	1 February 2018
IAS 28(Amendment), 'Investments in associates and joint ventures'	1 January 2018
IAS 40(Amendments), 'Transfer of investment property'	1 January 2018
IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'	1 January 2018
IFRS 10 and IAS 28 (Amendments), 'Sale or contribution of assets between an investor and its associate or joint venture'	Effective date to be determined
Amendments to IFRS, 'Annual Improvements to IFRS 2015–2017 Cycle'	1 January 2019

(i) IFRS 9, 'Financial Instruments'

IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The Target Group's trade receivables mainly derived from sales through shopping malls or billed settled with credit cards, wechat or alipay, which are generally collectible within 1 month from the sales date. The Target Group's other receivables mainly derived from rental deposits and receivables due from related parties. Rental deposits are generally collectible upon expiration of the lease contracts. Receivables from related parties mainly represented loans made by the Target Group to related parties, which have no fixed terms of repayment. The Target Group assessed the related parties' financial position at each reporting date on their financial capabilities for repayment. Based on management's preliminary assessment of the new standard, the Directors anticipate that the adoption of IFRS 9 in the future is unlikely to have significant impact on amounts reported in respect of the Target Group's financial assets and financial liabilities.

(ii) IFRS 15, 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The Target Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Furthermore, extensive disclosures are required by

IFRS 15. The Directors anticipate that the application of IFRS 15 in the future will result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

(iii) IFRS 16, 'Leases'

The Target Group is a lessee of retail outlets, offices and warehouses under which the relevant leases are classified as operating leases. The Target Group's current accounting policy for such leases is set out in Note 2(y). As at 31 December 2017, the Target Group's total non-cancellable operating lease commitments amounted to RMB305,062,620 (Note 30).

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees, except for short-term leases of less than twelve months and leases of low-value assets. The standard replaces IAS 17 'Leases', and related interpretations. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in the Target Group's balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from the recognition of right-of-use asset and lease liability. The new standard would result in an increase in property and equipment and an increase in financial liabilities. In the statements of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the property rentals and related expenses under otherwise identical circumstances will decrease while depreciation and amortisation and the interest expense will increase. Accordingly, certain financial ratios would also be affected. In particular, (i) current ratio and quick ratio will likely be reduced as a result of the recognition of the current portion of the lease liabilities; (ii) returns on assets will likely be reduced as a result of the recognition of right-of-use assets. The new standard is not expected to apply until the financial year ending 31 December 2019.

The Directors anticipate that the application of IFRS 16 in the future will result in an increase in financial assets and liabilities, which is likely to have significant impact on the Target Group's financial position. However, the Directors anticipate that the net impact on the Target Group's financial performance is limited.

(iv) Others

The Directors have also performed an assessment on other new standards and amendments, and has concluded on a preliminary basis that other new standards and amendments would not have a significant impact on the Target's financial statements in the subsequent years.

(b) Subsidiaries

(i) Consolidation

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

(a) *Business combinations not under common control*

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(b) *Changes in Ownership Interests in Subsidiaries without Change of Control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the combined statements of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the combined statements of comprehensive income.

(ii) *Separate Financial Statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

(c) **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management committee who makes strategic decisions.

(d) Foreign currency translation***(i) Functional and Presentation Currency***

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Target and all the subsidiaries considered RMB as their functional currency, as the major operations of the Target Group for all the years presented are within the PRC. The Target Group determined to present its Financial Information in RMB (unless otherwise stated).

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statements of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the combined statements of comprehensive income within 'finance income/(expense) — net'.

(e) Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Vehicles	5 years
— Machinery	5 years
— Furniture	5 years
— Equipment and computers	3 years
— Leasehold improvements	5 years to 8 years (shorter of remaining term of the lease and the estimated useful lives of assets)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents machinery and leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalised costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property and equipment and depreciated in accordance with the policy as stated in above.

The cost of property and equipment also includes the estimated costs of dismantling and removing the asset and restoring the site on which it is located ('decommissioning costs').

Decommissioning costs such as dilapidation expenditure arising in connection with leasehold improvements are capitalised when the leases start and will be recognised in the combined statements of comprehensive income over the useful life of the asset (generally the expected lease term) as part of the depreciation charge.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(g)).

(f) Intangible asset

Intangible assets include computer software, and is measured at cost. Computer software is amortised on a straight-line basis over the period of 3 years.

(g) Impairment of property and equipment and intangible asset

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains — net' in the combined statements of comprehensive income.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

(i) Classification

The Target Group's financial assets mainly include loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise "trade receivable", "prepayments and other receivables" and "cash and cash equivalents" in the combined balance sheets (Notes 2(l) and 2(m)).

(ii) Recognition and Measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Group or the counterparty.

(j) Impairment of financial assets***Assets Carried at Amortised Cost***

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

(k) Inventories

Inventories, mainly consisting of raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(m) Cash and cash equivalents

In the combined statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and time deposits with original maturities of three months or less.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(q) Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the combined statements of comprehensive income in the period in which they are incurred.

(r) Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognised in the combined statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred Income Tax

Inside Basis Differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the combined balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside Basis Differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(s) Employee benefits***(i) Pension Obligations***

The entities within the Target Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organized by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Target Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Target Group.

(ii) Housing Funds, Medical Insurances and Other Social Insurances

Employees of the Target Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Target Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Target Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(iii) Employee Leave Entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(t) Share-based payments***Equity-settled Share-based Payment Transactions***

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. For share options that vest immediately at the date of grant, the fair value of the share options granted is charged immediately to the combined statements of comprehensive income.

(u) Provisions

Provisions are recognised when: the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for catering services provided, stated net of discounts, returns and value added taxes. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities, as described below. The Target Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Revenue is recognized when the related catering services have been rendered to customers.

Receipts of customers' prepaid cards and proceeds received from sale of prepaid coupons to online group-purchasing websites, for which the relevant services have not been rendered to end customers, are deferred and recognised as deferred revenue in the combined balance sheets.

(w) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(x) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the combined statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

(y) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

(z) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

The Target Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The Target Group currently does not use any derivative financial instruments to hedge certain risk exposures during the Relevant Periods.

(i) Market Risk*Cash Flow and Fair Value Interest Rate Risk*

The Target Group has no significant interest-bearing assets except for cash and cash equivalents and certain interest bearing loans temporarily lent to related parties. The maturity terms of these assets, together with the Target Group's current borrowings are within 12 months so that there would not be significant interest rate risk for these financial assets and liabilities.

The Target Group's interest-rate risk mainly arises from non-current borrowings. Borrowings obtained at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Target Group to fair value interest rate risk.

As at 31 December 2015, 2016 and 2017, all of the borrowings bore interests at fixed rates. The fair value of the Target Group's borrowings are disclosed in Note 26.

(ii) Credit Risk

The credit risk of the Target Group mainly arises from cash and cash equivalents, trade receivables, prepayments and other receivables. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2015, 2016 and 2017, all the bank deposits are deposited in the high quality financial institutions without significant credit risk. Management does not expect any losses from non-performance by these institutions.

The credit quality of trade receivables, prepayments and other receivables have been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The Target Group trades with a large number of individual customers and trading terms are mainly on cash and credit card settlement. The management consider the Target Group does not have a significant concentration of credit risk. No single customer accounted for more than 1% of the Target Group's total revenues during the Relevant Periods. For the trade receivables due from the shopping malls, the Target Group monitors the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. The Target

Group also makes deposits (current and non-current) for rental of its restaurant outlets with the relevant landlords. Management does not expect any loss arising from non-performance by these counterparties.

In addition, the other receivable balances are also monitored on ongoing basis. Hence, the Directors believe that the Target Group's credit risk is significantly reduced.

(iii) Liquidity Risk

Cash flow forecasting is performed in the operating entities of the Target Group and aggregated by the Target Group finance department.

The Target Group finance department monitors rolling forecasts of the Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Target Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Target Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements — for example, currency restrictions.

At 31 December 2015, 2016 and 2017, the Target Group held cash and cash equivalents of RMB13,124,796, RMB71,716,832, and RMB60,431,119 respectively (Note 18) and trade receivables of RMB5,357,187, RMB4,444,472 and RMB15,135,804 respectively (Note 14) that are expected to readily generate cash inflows for managing liquidity risk.

At 31 December 2015, 2016 and 2017, the Target Group had net current liabilities of RMB126,286,298, RMB19,489,342 and RMB25,165,385, respectively. With the consideration of anticipated operation cash inflows and the ability of adjusting the pace of its operation expansion and expenditures, the Directors are of the opinion that the Target Group has sufficient cash flows in the near future to manage the liquidity risks resulted from net current liability situations.

The table below analyses the Target Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the combined balance sheets date to the contractual maturity date.

	Less than 1 year RMB	1–2 years RMB	2–3 years RMB	More than 3 years RMB	Total RMB
At 31 December 2015					
Trade payables	108,127,173	—	—	—	108,127,173
Accruals and other payables (excluding staff costs and welfare accruals and tax liabilities)	24,876,278	—	—	—	24,876,278
Other non-current liabilities	—	<u>4,443,950</u>	<u>10,949,985</u>	<u>24,341,422</u>	<u>39,735,357</u>
	<u>133,003,451</u>	<u>4,443,950</u>	<u>10,949,985</u>	<u>24,341,422</u>	<u>172,738,808</u>

	Less than 1 year RMB	1–2 years RMB	2–3 years RMB	More than 3 years RMB	Total RMB
At 31 December 2016					
Bank borrowings (principal plus interest)	2,683,530	47,409,030	—	—	50,092,560
Trade payables	105,667,874	—	—	—	105,667,874
Accruals and other payables (excluding staff costs and welfare accruals and tax liabilities)	26,363,537	—	—	—	26,363,537
Other non-current liabilities	—	8,917,533	10,823,277	15,662,368	35,403,178
	<u>134,714,941</u>	<u>56,326,563</u>	<u>10,823,277</u>	<u>15,662,368</u>	<u>217,527,149</u>
At 31 December 2017					
Bank borrowings (principal plus interest)	2,507,700	44,302,700	—	—	46,810,400
Trade payables	74,440,014	—	—	—	74,440,014
Accruals and other payables (excluding staff costs and welfare accruals and tax liabilities)	31,957,060	—	—	—	31,957,060
Other non-current liabilities	—	6,925,141	779,605	19,225,029	26,929,775
	<u>108,904,774</u>	<u>51,227,841</u>	<u>779,605</u>	<u>19,225,029</u>	<u>180,137,249</u>

As at 31 December 2015, 2016 and 2017, the Target Group did not have derivative financial liability.

(b) Capital management

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

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

The Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the combined balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the combined balance sheet plus net debt.

As at 31 December 2015, 2016 and 2017, the balances of total borrowings were less than the balances of cash and cash equivalents. The Directors consider that the Target Group's capital risk is minimal.

(c) Fair value estimation

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

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

As of 31 December 2015, 2016 and 2017, the Target Group did not have any financial instruments that are measured at fair value on a recurring basis. The carrying amounts of the Target Group's financial assets, including cash and cash equivalents, trade receivables, prepayments and other receivables and financial liabilities, including borrowings, trade payables, other payables, accruals and other non-current liabilities, approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Income Taxes

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

Deferred tax assets are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Useful Lives of Property, Equipment and Leasehold Improvements

The Target Group's management determines the estimated useful lives and related depreciation and amortisation charges for its property, equipment and leasehold improvements. The estimates are based on the historical experience of the actual useful lives of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisable lives and therefore affect the depreciation and amortisation charges in future periods.

(c) Impairment of Property, Equipment and Leasehold Improvements

The Target Group's management evaluates the impairment risks of property, equipment and leasehold improvements based on accounting policies stated in Note 2 (f). Recoverable amounts of property, equipment and leasehold improvements is the value in use, which is higher than the asset's fair value less costs of disposal. When calculating the value in use, the Target Group is required to estimate and evaluate the future cash flow of each assets group and the discount rate to determine the current value.

5 SEGMENT INFORMATION

The management committee is the Target Group's CODM. Management has determined the operating segments based on the information reviewed by CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from both brand and geographic perspective. The Target Group has a clear and distinct focus on the market segments that it appeals to and thus it creates the two brands of Faigo and Xiao Faigo Hotpot. Faigo appeals to high-end market such as business clientele, high-end fashion conscious and young clientele. Restaurants operating under the brand Xiao Faigo Hotpot cater for the mid-end market where a wide spectrum of guests are targeted, principally families, friends and tourists. Geographically, all of the Target Group's operations are located in the PRC and the management separately considers the performance of Faigo in Shanghai and Beijing and Xiao Faigo Hotpot in Shanghai, Beijing, Wuxi, Nanjing and Hangzhou. Faigo and Xiao Faigo Hotpot in other cities have been aggregated into two separate reportable segments, respectively.

The CODM assesses the performance of the operating segments based on the revenue and operating profits. The operating expenses of headquarters of Faigo and Xiao Faigo Hotpot are common costs incurred for the Faigo and Xiao Faigo Hotpot as a whole and therefore they are not included in the measure of the segments' performance, which is used by the CODM as a basis for the purpose of resource allocation, and assessment of segment performance. Finance income and expenses, equity-settled share-based payment, share of loss of investments accounted for using the equity method, other gains/losses including government grants and gain/loss of disposal of investment are not allocated to segments, as these types of activity are driven by the central treasury function of the Target Group.

There were no material inter-segment sales during the Relevant Periods. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the combined statements of comprehensive income.

Other information, together with the segment information, provided to CODM is measured in a manner consistent with that applied in these financial statements. There were no segment assets and segment liabilities information provided to the CODM, as the CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

	Year ended 31 December 2015												Unallocated	Total
	Faigo				Xiao Faigo Hotpot				Subtotal					
	Shanghai	Beijing	Others	Subtotal	Shanghai	Beijing	Wuxi	Nanjing						
Revenue	113,492,488	15,219,397	10,770,775	139,482,660	409,959,879	40,368,679	32,520,208	21,588,553	14,856,469	57,423,008	576,716,796	—	716,199,456	
Depreciation, amortization and impairment	4,095,124	335,154	4,114,764	8,545,042	13,846,663	2,968,479	1,667,743	2,430,517	2,035,997	10,296,323	33,245,722	1,753,402	43,544,166	
Operating profit/(losses)	28,728,905	1,189,999	(1,523,993)	28,394,911	95,028,882	(28,602)	6,456,869	(1,559,730)	(2,914,338)	(25,568,364)	71,414,717	(48,400,219)	51,409,409	
Profit/(losses) before income tax	<u>28,728,905</u>	<u>1,189,999</u>	<u>(1,523,993)</u>	<u>28,394,911</u>	<u>95,028,882</u>	<u>(28,602)</u>	<u>6,456,869</u>	<u>(1,559,730)</u>	<u>(2,914,338)</u>	<u>(25,568,364)</u>	<u>71,414,717</u>	<u>(46,951,254)</u>	<u>52,858,374</u>	
	Year ended 31 December 2016												Unallocated	Total
	Faigo				Xiao Faigo Hotpot				Subtotal					
	Shanghai	Beijing	Others	Subtotal	Shanghai	Beijing	Wuxi	Nanjing						
Revenue	104,937,803	14,511,612	8,177,702	127,627,117	389,620,768	44,997,958	30,489,719	18,528,775	13,021,516	83,025,153	579,683,889	—	707,311,006	
Depreciation, amortization and impairment	8,735,359	38,870	1,055,175	9,829,404	23,132,903	2,671,658	1,810,262	1,100,107	773,125	4,929,441	34,417,496	1,640,420	45,887,320	
Operating profit/(losses)	21,749,178	1,733,046	(119,392)	23,362,832	63,479,692	3,256,494	3,582,647	(1,560,635)	(879,063)	(5,250,964)	62,628,171	(35,465,426)	50,525,577	
Profit/(losses) before income tax	<u>21,749,178</u>	<u>1,733,046</u>	<u>(119,392)</u>	<u>23,362,832</u>	<u>63,479,692</u>	<u>3,256,494</u>	<u>3,582,647</u>	<u>(1,560,635)</u>	<u>(879,063)</u>	<u>(5,250,964)</u>	<u>62,628,171</u>	<u>(31,169,296)</u>	<u>54,821,707</u>	
	Year ended 31 December 2017												Unallocated	Total
	Faigo				Xiao Faigo Hotpot				Subtotal					
	Shanghai	Beijing	Others	Subtotal	Shanghai	Beijing	Wuxi	Nanjing						
Revenue	107,765,544	13,263,385	7,328,985	128,357,914	388,378,462	47,845,440	30,175,250	17,228,713	9,916,232	78,530,182	572,074,279	—	700,432,193	
Depreciation, amortization and impairment	5,450,899	121,932	254,640	5,827,471	29,051,082	3,508,675	2,212,858	1,263,442	727,192	5,756,426	42,519,675	1,064,604	49,411,750	
Operating profit/(losses)	31,774,683	959,246	(134,304)	32,599,625	49,347,129	535,844	5,093,285	1,153,845	(756,137)	(4,290,373)	51,083,593	(49,993,952)	33,689,266	
Profit/(losses) before income tax	<u>31,774,683</u>	<u>959,246</u>	<u>(134,304)</u>	<u>32,599,625</u>	<u>49,347,129</u>	<u>535,844</u>	<u>5,093,285</u>	<u>1,153,845</u>	<u>(756,137)</u>	<u>(4,290,373)</u>	<u>51,083,593</u>	<u>(45,884,486)</u>	<u>37,798,732</u>	

Risk of Concentration

No revenue from individual external customer contributed over 10% of total revenue of the Target Group.

6 OTHER GAINS/(LOSSES) — NET

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Government grants (a)	5,906,731	10,958,408	4,391,000
Gain on disposal of an associate (b)	—	330,000	—
Gains/(losses) of disposal of property and equipment	(166,948)	242,086	(5,209)
Others	552,879	476,624	417,289
	<u>6,292,662</u>	<u>12,007,118</u>	<u>4,803,080</u>

- (a) The amounts represent the subsidies received from local governments for the Target Group's local business developments. There were no unfulfilled conditions in the year in which they were recognised.
- (b) Shanghai Longhui previously held 33% equity interest of Shanghai Xiangwen Catering Management Limited ("Xiangwen", formerly known as Shanghai Shiyouxuan Catering Management Company Limited) and accounted for the investment using equity method of accounting. The carrying amount of the investment in Xiangwen as of 1 January 2014 was RMB129,764, which decreased to nil as of 31 December 2014 after sharing the losses incurred by Xiangwen in 2014.

Under equity method of accounting, the Target Group does not recognise further losses when the Target Group's share of losses in an associate exceeds its interest in the associate. Therefore, the Target Group did not recognise the share of Xiangwen's further loss after 31 December 2014 till 25 August 2016 (the date of disposal) in the combined statements of comprehensive income.

On 25 August 2016, Shanghai Longhui disposed all its 33% equity interest of Xiangwen to a third party with a total consideration of RMB330,000, all of which was recognised as other gain in the combined statements of comprehensive income.

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Wages and salaries	133,984,772	143,751,947	149,852,488
Defined contribution plan (a)	15,107,168	13,916,755	14,194,322
Other social security costs and housing benefits	9,666,455	10,632,491	8,562,460
Other employee benefits	4,715,178	8,650,148	10,581,218
	<u>163,473,573</u>	<u>176,951,341</u>	<u>183,190,488</u>

(a) Defined contribution plan

Employees of the Target Group companies established in the PRC are required to participate in a retirement benefit scheme administered and operated by the PRC government. The Target Group is required to contribute 14.0% to 22.5% of payroll costs as determined by respective local government authorities to the designated pension fund. The only obligation of the Target Group with respect to retirement benefit scheme is to make the specific contributions under the scheme.

(b) Five highest paid individuals

The five individuals whose remunerations were the highest in the Target Group for the Relevant Periods were executives of the Target Group. Details of the remunerations of the highest paid individuals are set out as below:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Wages and salaries	1,290,972	1,401,640	1,854,984
Discretionary bonuses	107,581	116,803	84,156
Defined contribution plan and other social security costs	105,842	115,396	119,100
	<u>1,504,395</u>	<u>1,633,839</u>	<u>2,058,240</u>

The number of highest paid individuals whose remunerations for each year fell within the following band is as follows:

	Year ended 31 December		
	2015	2016	2017
Emolument band Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

8 OTHER EXPENSES

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Transportation expenses	2,380,088	3,668,769	5,970,490
Cleaning fee	6,330,168	5,779,050	5,930,315
Promotion and marketing expenses	4,497,367	1,565,081	4,921,335
Other professional service expenses	3,788,776	2,106,407	4,420,708
Professional fees in respect of the reverse takeover transaction	—	2,698,194	4,320,342
Equipment maintenance fee	2,596,172	1,955,252	3,164,968
Travelling expenses	5,612,413	2,867,885	2,924,773
Office expenses	4,182,555	2,463,174	2,746,060
Audit Remuneration			
— Audit service	45,500	3,985,140	1,764,860
— Non-audit services	—	—	—
Others	<u>3,592,895</u>	<u>1,455,716</u>	<u>1,712,216</u>
	<u>33,025,934</u>	<u>28,544,668</u>	<u>37,876,067</u>

9 FINANCE INCOME, NET

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Finance income:			
— Interest income on financing provided to related parties (Note 31 (b) (iv))	1,566,791	4,269,942	4,290,093
— Interest income on cash and cash equivalents	47,336	26,188	78,797
— Foreign exchange gain on financing cost	127,252	—	1,437,380
— Foreign exchange gain	—	—	919,320
	<u>1,741,379</u>	<u>4,296,130</u>	<u>6,725,590</u>
Finance expenses:			
— Interest expense on borrowings	(292,414)	—	(2,610,623)
— Bank charges	—	—	(5,501)
	<u>(292,414)</u>	<u>—</u>	<u>(2,616,124)</u>
Finance income, net	<u>1,448,965</u>	<u>4,296,130</u>	<u>4,109,466</u>

10 INCOME TAX EXPENSE

The income tax expense of the Target Group for the Relevant Periods are analysed as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Current income tax	12,863,195	15,367,680	14,023,258
Deferred income tax (Note 27)	<u>3,451,593</u>	<u>951,373</u>	<u>(1,876,595)</u>
Income tax expense	<u>16,314,788</u>	<u>16,319,053</u>	<u>12,146,663</u>

The tax on the Target Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Profit before tax	<u>52,858,374</u>	<u>54,821,707</u>	<u>37,798,732</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	13,214,594	13,705,427	9,449,683
Tax effects of:			
— Expenses not deductible for tax purposes	1,327,947	198,453	1,348,458
— (Utilisation of previously unrecognised deductible temporary differences)/deductible temporary differences for which no deferred income tax asset was recognised	(68,623)	(127,780)	(53,020)
— PRC withholding income tax on dividends	1,500,000	2,500,000	1,300,000
— Tax losses for which no deferred income tax asset was recognised	<u>340,870</u>	<u>42,953</u>	<u>101,542</u>
Tax charge	<u>16,314,788</u>	<u>16,319,053</u>	<u>12,146,663</u>

Note:

(a) British Virgin Islands income tax

Fuze Developments and Dragonfair were incorporated in the British Virgin Islands as an exempted company with limited liability under the Company Law of British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

(b) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to profits tax rates of 16.5% for the Relevant Periods.

(c) PRC Enterprise income tax

Entities incorporated in the PRC are generally subject to income tax rates of 25% throughout the Relevant Periods.

The income tax provision of the Target Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

(d) PRC withholding income tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower 5% withholding tax rate may be applied when the immediate holding companies established in Hong Kong satisfy the relevant conditions and requirements pursuant to the tax treaty arrangement between the PRC and Hong Kong and other applicable PRC laws.

The provisions of RMB1,500,000, RMB2,500,000 and RMB1,300,000 for withholding income tax at 10% have been provided for the planned profit distribution of Shanghai Longhui, a subsidiary of the Target Group incorporated in the PRC, for each of the years ended 31 December 2015, 2016 and 2017, respectively. No withholding income tax has been provided for the other PRC subsidiaries, as the Directors have confirmed that the Target Group does not expect the other PRC subsidiaries to distribute any retained earnings as at 31 December 2017 in the foreseeable future.

11 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the presentation of the results for the Relevant Periods on a combined basis as set out in Note 1 (c) of Section II.

12 PROPERTY AND EQUIPMENT

	Vehicles RMB	Machineries RMB	Furniture RMB	Equipment and computers RMB	Leasehold improvements RMB	Construction in progress RMB	Total RMB
At 31 December 2014							
Cost	5,966,050	19,518,055	15,560,946	14,136,973	126,012,681	311,354	181,506,059
Accumulated depreciation	(1,567,802)	(3,883,383)	(3,451,380)	(5,531,375)	(37,090,905)	—	(51,524,845)
Impairment	(196,443)	(922,331)	(829,503)	(757,049)	(10,250,761)	—	(12,956,087)
Net book amount	4,201,805	14,712,341	11,280,063	7,848,549	78,671,015	311,354	117,025,127
Year ended 31 December 2015							
Opening net book amount	4,201,805	14,712,341	11,280,063	7,848,549	78,671,015	311,354	117,025,127
Additions	729,488	11,322,550	6,295,895	11,612,085	43,727,359	2,365,177	76,052,554
Transfers	—	—	—	—	311,354	(311,354)	—
Disposals	—	(148,793)	(98,155)	—	—	—	(246,948)
Depreciation charge	(1,255,128)	(5,048,122)	(3,309,972)	(6,247,435)	(26,243,238)	—	(42,103,895)
Impairment	(16,601)	(135,045)	(92,203)	(107,435)	(1,088,987)	—	(1,440,271)
Closing net book amount	3,659,564	20,702,931	14,075,628	13,105,764	95,377,503	2,365,177	149,286,567
At 31 December 2015							
Cost	6,553,852	29,339,541	20,680,966	24,505,583	156,966,613	2,365,177	240,411,732
Accumulated depreciation	(2,744,793)	(7,966,904)	(5,910,650)	(10,923,260)	(56,424,391)	—	(83,969,998)
Impairment	(149,495)	(669,706)	(694,688)	(476,559)	(5,164,719)	—	(7,155,167)
Net book amount	3,659,564	20,702,931	14,075,628	13,105,764	95,377,503	2,365,177	149,286,567
Year ended 31 December 2016							
Opening net book amount	3,659,564	20,702,931	14,075,628	13,105,764	95,377,503	2,365,177	149,286,567
Additions	—	4,070,470	2,400,319	3,915,889	9,343,887	—	19,730,565
Transfers	—	—	—	—	2,365,177	(2,365,177)	—
Disposals	(128,226)	(250,141)	(291,506)	(499,634)	(223,524)	—	(1,393,031)
Depreciation charge	(1,203,008)	(6,414,574)	(4,643,149)	(6,132,423)	(27,494,166)	—	(45,887,320)
Closing net book amount	2,328,330	18,108,686	11,541,292	10,389,596	79,368,877	—	121,736,781
At 31 December 2016							
Cost	5,839,175	30,991,110	20,388,726	26,730,355	165,108,286	—	249,057,652
Accumulated depreciation	(3,510,845)	(12,687,617)	(8,762,183)	(16,261,746)	(85,116,817)	—	(126,339,208)
Impairment	—	(194,808)	(85,251)	(79,013)	(622,591)	—	(981,663)
Net book amount	2,328,330	18,108,685	11,541,292	10,389,596	79,368,878	—	121,736,781
Year ended 31 December 2017							
Opening net book amount	2,328,330	18,108,685	11,541,292	10,389,596	79,368,878	—	121,736,781
Additions	1,261,257	4,187,414	2,371,387	2,316,708	13,997,123	4,883,311	29,017,200
Transfers	—	—	—	—	4,724,522	(4,724,522)	—
Disposals	(180,375)	(920,193)	(583,249)	(531,332)	—	—	(2,215,149)
Depreciation charge	(831,997)	(5,591,275)	(3,462,073)	(6,002,347)	(33,411,047)	—	(49,298,739)
Closing net book amount	2,577,215	15,784,631	9,867,357	6,172,625	64,679,476	158,789	99,240,093
At 31 December 2017							
Cost	5,378,007	33,874,494	21,740,029	27,490,973	177,011,160	158,789	265,653,452
Accumulated depreciation	(2,800,792)	(17,895,055)	(11,787,421)	(21,239,335)	(111,709,093)	—	(165,431,696)
Impairment	—	(194,808)	(85,251)	(79,013)	(622,591)	—	(981,663)
Net book amount	2,577,215	15,784,631	9,867,357	6,172,625	64,679,476	158,789	99,240,093

Impairment tests for property and equipment

For the purposes of assessing impairment, assets are grouped at each store level for which there are separately identifiable cash flows (cash-generating units). An impairment loss was recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. These calculations used income approach-discounted pre-tax cash flow method based on financial budgets approved by management. The key assumptions used for impairment tests for property and equipment as at 31 December 2015, 2016 and 2017 are as follows:

	As at 31 December		
	2015	2016	2017
Revenue growth rate	3.3%	3.1%	3.2%
Raw materials and consumables growth rate	2.4%	2.0%	2.0%

The property and equipment in a few of stores were impaired in 2014 and 2015 due to the continuous loss-making situation or other specific impairment indicators. The management used "value in use" as the recoverable amount of each store.

The Target Group recognized impairment loss against recoverable amount for the amount of RMB1,440,271, nil and nil for year ended 31 December 2015, 2016 and 2017, respectively.

For the years ended 31 December 2015, 2016 and 2017, if the revenue growth rate had been 5% higher/lower than management's estimates, impairment loss charged into combined statements of comprehensive income would increase/decrease by RMB373,161, nil and nil, respectively. If the budgeted raw materials and consumables had been 5% lower/higher than management's estimates, profits before tax would increase/decrease by RMB445,793, nil and nil, respectively.

13 INTANGIBLE ASSET

	Computer software RMB
Year ended 31 December 2017	
Opening net book amount	—
Additions	581,197
Amortization charge	<u>(113,011)</u>
Closing net book amount	<u>468,186</u>
At 31 December 2017	
Cost	581,197
Accumulated amortization	<u>(113,011)</u>
Net book amount	<u><u>468,186</u></u>

14 TRADE RECEIVABLES

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Trade receivables	5,357,187	4,444,472	15,135,804
Less: allowance for impairment of trade receivables	—	—	—
Trade receivables — net	<u>5,357,187</u>	<u>4,444,472</u>	<u>15,135,804</u>

As at 31 December 2015, 2016 and 2017, the fair values of the trade receivables of the Target Group approximated their carrying amounts.

(a) The aging analysis of trade receivables based on the invoice date is as follows:

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Up to 6 months	4,302,340	3,929,426	14,047,690
6 months to 1 year	138,056	38,404	800,215
1 to 2 years	315,519	106,252	42,758
2 to 3 years	409,367	162,377	7,739
Over 3 years	<u>191,905</u>	<u>208,013</u>	<u>237,402</u>
	<u>5,357,187</u>	<u>4,444,472</u>	<u>15,135,804</u>

The Target Group's trade receivables mainly derived from sales through shopping malls or billed settled with credit cards, wechat or alipay, which are generally collectible within 1 month from the sales date. No interest is charged on the trade receivables. The long aging balances are due from certain frequent customers and the management considers that these receivables are recoverable. No trade receivables were impaired as of 31 December 2015, 2016 and 2017.

(b) The aging analysis of past due but not impaired trade receivables is as follows:

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Up to 6 months	618,808	346,353	2,817,112
6 months to 1 year	138,056	38,404	800,215
1 to 2 years	315,519	106,252	42,758
2 to 3 years	409,367	162,377	7,739
Over 3 years	<u>191,905</u>	<u>208,013</u>	<u>237,402</u>
	<u>1,673,655</u>	<u>861,399</u>	<u>3,905,226</u>

Based on the past experience and customers' historical payment pattern, the Directors are of the view that past due but not impaired trade receivables, approximately RMB1,673,655, RMB861,399 and RMB3,905,226 were not impaired as at 31 December 2015, 2016 and 2017, respectively. There has not been a significant change in their credit quality and the balances are considered fully recoverable.

(c) As at 31 December 2015, 2016 and 2017, the carrying amount of the Target Group's gross trade receivables are denominated in RMB.

- (d) The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balances. The Target Group does not hold any collateral as security.

15 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Included in non-current assets			
Rental deposits — non-current portion	<u>31,059,064</u>	<u>31,658,742</u>	<u>32,955,358</u>
Included in current assets			
Rental and utilities prepayments	10,869,537	13,470,111	14,699,764
Raw materials procurement prepayments	655,067	1,174,581	18,842,848
Rental deposits — current portion	1,589,515	1,857,781	2,746,580
Value added tax inputs	—	11,880,877	19,095,786
Staff advances	996,655	1,210,420	1,787,409
Others	<u>185,926</u>	<u>337,036</u>	<u>2,584,225</u>
	<u>14,296,700</u>	<u>29,930,806</u>	<u>59,756,612</u>

As at 31 December 2015, 2016 and 2017, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair value. The maximum exposure to credit risk at each of the reporting dates is the carrying value of each class of prepayments and other receivables mentioned above. The Target Group does not hold any collateral as security. Prepayments and other receivables were not impaired. Their recoverability was assessed with reference to the credit status of the recipients.

16 RECEIVABLES FROM RELATED PARTIES

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Loans to related parties (<i>Note 31(c)(ii)</i>)	58,244,588	89,494,393	78,049,122
Other receivables from related parties (<i>Note 31(c)(ii)</i>)	<u>1,094,517</u>	<u>531,105</u>	<u>1,991,308</u>
	<u>59,339,105</u>	<u>90,025,498</u>	<u>80,040,430</u>

17 INVENTORIES

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Foods and beverage	21,839,739	22,360,492	22,898,030
Other materials consumables	6,787,038	5,973,521	5,056,954
Less: provisions	<u>—</u>	<u>—</u>	<u>—</u>
	<u>28,626,777</u>	<u>28,334,013</u>	<u>27,954,984</u>

The cost of inventories recognised and included in “Raw materials and consumables used” in 2015, 2016 and 2017 amounted to RMB287,259,782, RMB260,127,781 and RMB248,958,640, respectively.

18 CASH AND CASH EQUIVALENTS

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Cash at bank and on hand	<u>13,124,796</u>	<u>71,716,832</u>	<u>60,431,119</u>
Maximum exposure to credit risk	<u>12,108,679</u>	<u>70,963,049</u>	<u>59,849,799</u>

As at 31 December 2015, 2016 and 2017, the carrying amount of the Target Group's cash and cash equivalents are denominated in RMB.

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Assets as per balance sheet			
Loans and receivables:			
— Trade receivables	5,357,188	4,444,472	15,135,804
— Other receivables (excluding prepayments, rental deposits and value added tax inputs)	1,182,581	1,547,456	4,371,634
— Receivables due from related parties	59,339,105	90,025,498	80,040,430
— Cash and cash equivalents	<u>13,124,796</u>	<u>71,716,832</u>	<u>61,923,739</u>
	<u>79,003,670</u>	<u>167,734,258</u>	<u>161,471,607</u>
Liabilities as per balance sheet			
Financial liabilities at amortised cost			
— Borrowings	—	44,725,000	41,785,000
— Trade payables	108,127,173	105,667,874	74,440,014
— Other payables and accruals (excluding accrued payroll and other tax liabilities)	24,876,278	26,363,537	43,845,451
— Other non-current liabilities	<u>39,735,357</u>	<u>35,403,178</u>	<u>26,929,775</u>
	<u>172,738,808</u>	<u>212,159,589</u>	<u>187,000,240</u>

20 COMBINED CAPITAL

As at 31 December 2015, 2016 and 2017, the combined capital represents the paid in capital of Fuze Developments (USD1.00) and Dragonfair (USD1.00), the holding companies, equivalent to RMB14 in total (Note 1).

21 OTHER RESERVES

	Statutory Reserves (i) <i>RMB</i>	Equity-settle share-based payments <i>RMB</i>	Total <i>RMB</i>
At 1 January 2015	1,500,150	3,990,668	5,490,818
Profit appropriation to statutory reserve:	<u>2,531,820</u>	<u>—</u>	<u>2,531,820</u>
At 31 December 2015	<u>4,031,970</u>	<u>3,990,668</u>	<u>8,022,638</u>
At 1 January 2016	4,031,970	3,990,668	8,022,638
Profit appropriation to statutory reserve:	<u>2,468,180</u>	<u>—</u>	<u>2,468,180</u>
At 31 December 2016	<u>6,500,150</u>	<u>3,990,668</u>	<u>10,490,818</u>
At 1 January 2017	6,500,150	3,990,668	10,490,818
Profit appropriation to statutory reserve:	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2017	<u>6,500,150</u>	<u>3,990,668</u>	<u>10,490,818</u>

- (i) In accordance with the respective articles of association and board resolutions, certain subsidiaries of the Target Group incorporated in the PRC appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory surplus reserve fund. The statutory surplus reserve fund can be used to offset prior year losses, if any, and may be converted into paid-in capital. For the year ended 31 December 2015, 2016 and 2017, approximately RMB2,531,820, RMB2,468,180 and nil, respectively, were appropriated from retained earnings to the statutory surplus reserve fund.

22 TRADE PAYABLES

	As at 31 December		
	2015 <i>RMB</i>	2016 <i>RMB</i>	2017 <i>RMB</i>
Raw material payables	<u>108,127,173</u>	<u>105,667,874</u>	<u>74,440,014</u>

As at 31 December 2015, 2016 and 2017, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As at 31 December		
	2015 <i>RMB</i>	2016 <i>RMB</i>	2017 <i>RMB</i>
Less than 1 year	102,546,200	104,012,597	71,373,943
1 to 2 years	3,159,740	628,414	2,375,606
2 to 3 years	1,749,656	173,237	507,029
Over 3 years	<u>671,577</u>	<u>853,626</u>	<u>183,436</u>
	<u>108,127,173</u>	<u>105,667,874</u>	<u>74,440,014</u>

As at 31 December 2015, 2016 and 2017, the carrying amount of the Target Group's trade payables were denominated in RMB.

23 OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Staff costs and welfare accruals	53,987,619	62,450,443	64,033,697
Leasehold improvements payable	18,621,018	10,325,963	15,545,135
Payable to Ningbo Tianxin for payroll related services (i)	—	—	11,888,391
Rental payables — current portion	2,691,555	5,335,121	8,575,704
Professional service expenses	30,346	2,101,186	3,595,745
Utility payable	1,433,252	1,472,415	808,268
Reinstatement costs — current portion (Note 27)	311,710	818,062	706,899
Business tax, value added tax and other tax liabilities	4,335,391	381,251	392,500
Amounts due to related parties (Note 31 (c) (iii))	509,188	1,925,555	—
Others	1,279,209	4,385,235	2,725,309
	<u>83,199,288</u>	<u>89,195,231</u>	<u>108,271,648</u>

- (i) Started from 1 September 2017, the Target Group engaged Ningbo Tianxin Catering Management Co., Ltd. (“Ningbo Tianxin”), a third party company, for salary and wages distribution services for certain junior position staffs (such as waiters/waitress, kitchen assistants, etc.). On monthly basis, Ningbo Tianxin distributes salary and wages to relevant individuals after receiving payments from the Target Group. As of December 31, 2017, the payable balance represented the unpaid salary and wages for December 2017, which has been subsequently settled in January 2018.

24 DEFERRED REVENUE

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Advance received from online group-purchasing websites (a)	42,585,750	25,035,630	149,730
Prepaid cards (b)	6,062,945	12,662,722	39,811,084
Cash coupons and others (b)	65,351	1,031,089	1,632,323
	<u>48,714,046</u>	<u>38,729,441</u>	<u>41,593,137</u>

- (a) The Target Group collaborated with online group-purchase websites in the PRC, which acted as the sales channels of the Target Group through which ultimate individual customers can purchase prepaid coupons to redeem goods and services at the Target Group's restaurants. The online group-purchasing websites make lump-sum payments to the Target Group in advance for the estimated value of electronic coupons that the websites would resell to end customers. The Target Group recognised such receipts as deferred revenue and when the relevant catering services are rendered to the customers who use the prepaid coupons in electronic form distributed online for settlement, the amount will be recognised as revenue and an equivalent amount will be deducted from the deferred revenue.
- (b) Receipts from sales of prepaid cards and cash coupons, for which the relevant services have not been rendered to the ultimate individual customers, are deferred and recognised as deferred revenue in the combined balance sheets. The prepaid cards and cash coupons have no expiry date and the deferred revenue will be recognised into combined statements of comprehensive income as revenue only when the relevant catering services were rendered to the end customers. No forfeited income from prepaid cards or coupons were recognised during the Relevant Periods.

25 BORROWINGS

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Long-term borrowing — unsecured (a)	—	44,725,000	41,795,000

(a) Long-term borrowing

On 28 December 2016, Billion Express took out an unsecured loan from Smart Orient Investment Ltd. (a third party to the Target Group) with a principal of HKD50,000,000 (the “Loan”). The term of the Loan commenced from the disbursement date of 28 December 2016 and shall mature and be payable after 24 months. The Loan bears interest at 6% per annum, which shall be payable in cash on a monthly basis. The carrying amount of long-term borrowings approximated the fair values because the interest rate approximates the market rate.

On 20 December 2017, Billion Express entered into an extended agreement with Smart Orient Investment Ltd, pursuant to which, the loan would be extended for 12 months and be payable on 28 December 2019. The interest rate remained at 6% per annum.

26 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Deferred tax assets:			
— Deferred tax assets to be recovered after 12 months	8,214,163	10,171,310	11,592,766
— Deferred tax assets to be recovered within 12 months	(48,603)	(457,123)	1,298,015
	<u>8,165,560</u>	<u>9,714,187</u>	<u>12,890,781</u>
Deferred tax liabilities:			
— Deferred tax liabilities to be settled after 12 months	(1,500,000)	—	(1,300,000)
— Deferred tax liabilities to be settled within 12 months	—	(4,000,000)	—
	<u>(1,500,000)</u>	<u>(4,000,000)</u>	<u>(1,300,000)</u>
Deferred tax assets, net	<u>6,665,560</u>	<u>5,714,187</u>	<u>11,590,781</u>

	Year ended 31 December		
	2015 RMB	2016 RMB	2017 RMB
At the beginning of the year	10,117,153	6,665,560	5,714,187
Charge/(credit) to the combined statements of comprehensive income	(3,451,593)	(951,373)	1,876,594
Transfer out to current tax due to dividend declaration	—	—	4,000,000
At the end of the year	<u>6,665,560</u>	<u>5,714,187</u>	<u>11,590,781</u>

Without taking into consideration the offsetting of balances within the same tax jurisdiction, the movements of deferred income tax assets are as follows:

The movements in deferred income tax assets are as follows:

	Accrued staff costs RMB	Rental fee accruals RMB	Tax loss RMB	Reinstatement costs RMB	Others RMB	Total RMB
At 1 January 2015	<u>4,872,787</u>	<u>5,439,229</u>	<u>1,212,368</u>	<u>1,253,992</u>	<u>248,111</u>	<u>13,026,487</u>
Charge/(credit) to the combined statements of comprehensive income	<u>3,378,830</u>	<u>1,483,634</u>	<u>(1,212,368)</u>	<u>565,836</u>	<u>(91,155)</u>	<u>4,124,777</u>
At 31 December 2015	<u>8,251,617</u>	<u>6,922,863</u>	<u>—</u>	<u>1,819,828</u>	<u>156,956</u>	<u>17,151,264</u>
Charge/(credit) to the combined statements of comprehensive income	<u>3,252,843</u>	<u>361,980</u>	<u>—</u>	<u>3,569</u>	<u>338,387</u>	<u>3,956,779</u>
At 31 December 2016	<u>11,504,460</u>	<u>7,284,843</u>	<u>—</u>	<u>1,823,397</u>	<u>495,343</u>	<u>21,108,043</u>
Charge/(credit) to the combined statements of comprehensive income	<u>3,058,563</u>	<u>(1,198,253)</u>	<u>—</u>	<u>71,707</u>	<u>71,224</u>	<u>2,003,241</u>
At 31 December 2017	<u>14,563,023</u>	<u>6,086,590</u>	<u>—</u>	<u>1,895,104</u>	<u>566,567</u>	<u>23,111,284</u>

The movements in deferred income tax liabilities are as follows:

	Accelerated tax depreciation RMB	PRC withholding income tax on dividends RMB	Total RMB
At 1 January 2015	<u>(2,909,334)</u>	<u>—</u>	<u>(2,909,334)</u>
Credit to the combined statements of comprehensive income	<u>(6,076,370)</u>	<u>(1,500,000)</u>	<u>(7,576,370)</u>
At 31 December 2015	<u>(8,985,704)</u>	<u>(1,500,000)</u>	<u>(10,485,704)</u>
Credit to the combined statements of comprehensive income	<u>(2,408,152)</u>	<u>(2,500,000)</u>	<u>(4,908,152)</u>
At 31 December 2016	<u>(11,393,856)</u>	<u>(4,000,000)</u>	<u>(15,393,856)</u>
Credit to the combined statements of comprehensive income	1,173,354	(1,300,000)	(126,646)
Transfer out due to dividend declaration	<u>—</u>	<u>4,000,000</u>	<u>4,000,000</u>
At 31 December 2017	<u>(10,220,502)</u>	<u>(1,300,000)</u>	<u>(11,520,502)</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Target Group did not recognise deferred income tax assets of RMB340,870, RMB42,953 and RMB101,542 in respect of losses amounting to RMB1,363,480, RMB171,812 and RMB406,168 for each of the years ended 31 December 2015, 2016 and 2017, respectively.

As at 31 December 2015, 2016 and 2017, deferred tax liabilities of RMB1,500,000, RMB4,000,000 and RMB1,300,000 have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding tax of one PRC subsidiary Shanghai Longhui. In the opinion of the Directors, except for Shanghai Longhui, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in PRC for which deferred tax liabilities have not been recognised totalled RMB13,182,677, RMB12,166,556 and RMB18,375,932 at 31 December 2015, 2016 and 2017, respectively.

27 OTHER NON-CURRENT LIABILITIES

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Rental payable	29,729,950	27,104,438	19,393,655
Reinstatement costs of the stores (i)	7,432,958	6,940,883	7,536,120
Quality guarantee deposits (ii)	<u>2,572,449</u>	<u>1,357,857</u>	<u>—</u>
	<u>39,735,357</u>	<u>35,403,178</u>	<u>26,929,775</u>

- (i) According to the leasing contracts entered into by the Target Group and the landlords, the Target Group is required to restore the leased premises to its original status at the end of the lease period. The Target Group accrued for the related expenses based on its past experience of estimated reinstatement cost per square metre for stores.

The movements in reinstatement costs of the stores are as follows:

	As at 31 December		
	2015 <i>RMB</i>	2016 <i>RMB</i>	2017 <i>RMB</i>
Opening net book amount	5,670,963	7,744,668	7,758,945
Additions	2,332,045	259,247	659,174
Payments	<u>(258,340)</u>	<u>(244,970)</u>	<u>(175,100)</u>
Closing net book amount	<u>7,744,668</u>	<u>7,758,945</u>	<u>8,243,019</u>
Including:			
Reinstatement costs of the stores — current portion	<u>311,710</u>	<u>818,062</u>	<u>706,899</u>
Reinstatement costs of the stores — non-current portion	<u>7,432,958</u>	<u>6,940,883</u>	<u>7,536,120</u>

- (ii) According to the decoration agreements entered into by the Target Group and the leasehold improvements vendors prior to 2017, the Target Group is required to pay the retainer fee ranging from 5% to 10% of total contracted amount, which is payable within two or three years after the completion of leasehold improvements, if no quality issue occurred. For the decoration agreements entered into after 2017, the Target Group is required to pay the retainer fee within one year.

28 DIVIDEND PAYABLES

No dividend or distribution has been declared or made by the Target or any of the companies now comprising the Target Group for the years ended 31 December 2015 and 2016.

On 15 February 2017, Shanghai Longhui declared a dividend of RMB40,000,000 to Billion Express. On the same day, Billion Express declared dividends of HKD40,000,000 to its shareholders, Fuze Developments, Mr. Hung, Max Composed and Mr. Ho in the percentage of 90%, 9.4%, 0.3% and 0.3%, respectively. On 15 February 2017, Fuze Developments and Max Composed declared a dividend of HKD36,000,000 and HKD120,000 to their shareholders, Mr. Hung and Ms. Hung (Mr. Hung's elder sister), respectively.

As at 31 December 2017, the dividend payables balance was HKD40,000,000 (equivalent to RMB33,436,000).

29 CASH GENERATED FROM OPERATIONS

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Profit before income tax	52,858,374	54,821,707	37,798,732
Adjustments for:			
— Depreciation of property and equipment (Note 12)	42,103,895	45,887,320	49,298,739
— Amortization of intangible asset (Note 13)	—	—	113,011
— Impairment of property and equipment (Note 12)	1,440,271	—	—
— Losses/(gains) on disposal of property and equipment (Note 6)	166,948	(242,086)	5,209
— Finance expenses/(income) — net (Note 9)	(1,448,965)	(4,296,130)	(4,109,466)
— Gain on disposal of an associate (Note 6)	—	(330,000)	—
— Decrease/(increase) in inventories	4,869,154	292,764	379,029
— Decrease/(increase) in operating receivables	735,101	(14,757,656)	(42,427,341)
— Increase/(decrease) in operating payables	53,879,426	(1,258,583)	(22,106,538)
Cash generated from/(used in) operations	154,604,204	80,117,336	18,951,375

(a) In the combined statements of cash flows, proceeds from sale of property and equipment comprise:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Net book amount (Note 12)	246,948	1,393,031	2,215,149
Gains/(losses) on disposal of property and leasehold improvements (Note 6)	(166,948)	242,086	(5,209)
Proceeds from disposal of property and equipment	<u>80,000</u>	<u>1,635,117</u>	<u>2,209,940</u>

(b) **Payments for the acquisition of a subsidiary in the prior year**

In 2012, Shanghai Qiaowei acquired entire equity interest in Shanghai Huige from Ms. Zhou Weiqiong, Shanghai Shengdisi Corporate Development Company Limited, Mr. Xu Wei and Ms. Pan Liqun.

The total consideration of the acquisition was RMB3,000,000, approximated the fair value of assets acquired and liabilities assumed at the acquisition date, of which, RMB600,000 was paid by Shanghai Qiaowei and the remaining consideration of RMB2,400,000 was paid by Mr. Hung on behalf of Shanghai Qiaowei in 2014. The Target Group repaid the amount of RMB2,400,000 to Mr. Hung in 2015.

(c) Net debt reconciliation

Set out below is an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December			
	2015 RMB	2016 RMB	2017 RMB	
Cash and cash equivalents	13,124,796	71,716,832	61,923,739	
Borrowings — repayable within one year	—	—	—	
Borrowings — repayable after one year	—	(44,725,000)	(41,795,000)	
Net debt	<u>13,124,796</u>	<u>26,991,832</u>	<u>20,128,739</u>	
Cash and cash equivalents	13,124,796	71,716,832	61,923,739	
Gross debt — fixed interest rates	—	(44,725,000)	(41,795,000)	
Net debt	<u>13,124,796</u>	<u>26,991,832</u>	<u>20,128,739</u>	
	Borrowings (current) RMB	Borrowings (non-current) RMB	Interest payable RMB	Total RMB
Balance at 1 January 2015	10,280,588	—	—	10,280,588
Cash flows	(10,280,588)	—	(292,414)	(10,573,002)
Other non-cash movements	—	—	292,414	292,414
Balance at 31 December 2015	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 1 January 2016	—	—	—	—
Cash flows	—	44,725,000	—	44,725,000
Balance at 31 December 2016	<u>—</u>	<u>44,725,000</u>	<u>—</u>	<u>44,725,000</u>
Balance at 1 January 2017	—	44,725,000	—	44,725,000
Cash flows	—	—	(2,610,624)	(2,610,624)
Other non-cash movements	—	(2,930,000)	2,610,624	(319,376)
Balance at 31 December 2017	<u>—</u>	<u>41,795,000</u>	<u>—</u>	<u>41,795,000</u>

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Property and equipment	<u>13,582,448</u>	<u>798,028</u>	<u>2,848,813</u>

(b) Operating lease commitments

The Target Group leases certain of its restaurants, staff quarters, warehouses, and office premises under operating lease arrangements. Leases for restaurants are negotiated for terms ranging from five to eight years, while leases for warehouses, staff quarters and office premises are negotiated for terms ranging from one to three years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
No later than 1 year	92,261,189	103,266,673	100,545,465
Later than 1 year and no later than 5 years	311,702,867	288,021,399	203,589,255
Later than 5 years	<u>31,238,020</u>	<u>8,098,224</u>	<u>927,900</u>
	<u>435,202,076</u>	<u>399,386,296</u>	<u>305,062,620</u>

The operating lease rentals of certain restaurants are determined at the higher of a fixed rental and contingent rental based on the sales revenue of those restaurants. In opinion of the Directors, as the future sales revenue of those restaurants could not be accurately estimated, the relevant contingent component of the rental commitments have not been included above.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, common significant influence or joint control.

Mr. Hung, members of key management and their close family members of the Target Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Target Group and respective related parties.

The following companies are related parties of the Target Group that had balances and/or transactions with the Target Group.

(a) Names and relationships with related parties

Name	Relationship	Period of related party relationship
Mr. Hung	Controlling Shareholder	Since 1 January 2004
Faigo F&B Management Pte., Ltd. ("Faigo Singapore")	Controlled by the Controlling Shareholder	Since 15 July 2010
Shanghai Xiao Ducheng Food & Beverage Management Co., Ltd. ("Xiao Ducheng")	Controlled by the Controlling Shareholder	Since 6 November 2014
Shanghai Zhaorong Investment Consulting Co., Ltd. ("Zhaorong")	Controlled by the Controlling Shareholder	Since 9 June 2014
Shanghai Zhipeng Food & Beverage Management Co., Ltd. ("Shanghai Zhipeng")	Controlled by the Controlling Shareholder	Since 16 May 2017
Shanghai Tao Huayuan Food & Beverage Management Co., Ltd. ("Tao Huayuan")	Controlled by Ms. Hung (Mr. Hung's elder sister)	Since 15 June 2011
Shanghai Xiao Yingjie Food & Beverage Management Co., Ltd. ("Xiao Yingjie")	Controlled by Ms. Hung (Mr. Hung's elder sister)	Since 13 April 2015
Zhenwei (Shanghai) International Trading Co., Ltd. ("Zhenwei")	Controlled by Ms. Hung (Mr. Hung's elder sister)	Since 15 May 2014
Xiangwen	Associate	Since 1 January 2009 to 25 August 2016

(b) Significant transactions with related parties

(i) Purchases of Goods

	Year ended 31 December		
	2015 RMB	2016 RMB	2017 RMB
Zhenwei	2,796,614	2,714,205	—

(ii) Key Management Compensation

Key management includes the executive director, Mr. Hung, and certain executives of the Target Group who have important role in making operational and financial decisions. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2015 RMB	2016 RMB	2017 RMB
Wages and salaries	1,483,164	1,885,345	1,563,022
Discretionary bonuses	121,231	154,912	90,689
Defined contribution plan and other social security costs	121,592	163,329	114,587
	<u>1,725,987</u>	<u>2,203,586</u>	<u>1,768,298</u>

(iii) Loans Granted to Related Parties during the Year

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Mr. Hung	63,911,070	41,610,981	7,540,162
Xiao Ducheng	12,861,740	10,528,531	2,356,851
Zhaorong	—	—	1,048,000
Shanghai Zhipeng	—	—	800,000
	<u>76,772,810</u>	<u>52,139,512</u>	<u>11,745,013</u>

(iv) Interest Income

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Mr. Hung	1,154,841	3,396,210	4,033,608
Xiao Ducheng	411,950	873,732	256,485
	<u>1,566,791</u>	<u>4,269,942</u>	<u>4,290,093</u>

(c) Balances with related parties*(i) Included in Account Payables — (Trade Related)*

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Zhenwei	<u>2,956,553</u>	<u>147,038</u>	<u>—</u>

*(ii) Included in Receivables from Related Parties**Loans to Related Parties – (Non-trade Related)*

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Mr. Hung	43,426,598	67,396,002	74,418,721
Xiao Ducheng	14,817,990	22,098,391	3,580,401
	<u>58,244,588</u>	<u>89,494,393</u>	<u>78,049,122</u>

The balances of Mr. Hung and Xiao Ducheng represented the loans made by the Target Group to them. The loans have no fixed terms of repayment and are repayable on demand. The loans bear interest at 6% per annum for the Relevant Periods.

Other receivables from related parties – (non-trade related)

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Xiangwen	50,000	50,000	—
Faigo Singapore	163,784	238,239	—
Tao Huayuan	122,891	173,537	73,979
Zhenwei	69,329	69,329	69,329
Xiao Yingjie	15,953	—	—
Zhaorong	672,560	—	1,048,000
Shanghai Zhipeng	—	—	800,000
	<u>1,094,517</u>	<u>531,105</u>	<u>1,991,308</u>

Other receivables from related parties are unsecured, interest-free and have no fixed terms of repayment. No provisions were made against receivables from related parties.

(iii) Included in other payables – (non trade related)

	As at 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Mr. Hung	—	—	—
Tao Huayuan	509,188	—	—
Xiao Yingjie	—	11,115	—
Zhaorong	—	1,914,440	—
	<u>509,188</u>	<u>1,925,555</u>	<u>—</u>

The payables due to related parties are unsecured, interest-free and are repayable on demand.

32 BENEFITS AND INTERESTS OF DIRECTORS

During the Relevant Periods, Mr. Hung, the executive director did not receive director's remuneration in the capacity of Directors.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of the companies now comprising the Target Group in respect of any period subsequent to 31 December 2017 and up to the date of this report. Except as disclosed in Note 30 of Section II, no dividend or distribution has been declared or made by the Target Group or any of the companies now comprising the Target Group in respect of any period subsequent to 31 December 2017.

1. SUMMARY FINANCIAL INFORMATION OF THE GROUP

A summary of the results and the assets and liabilities of the Group as extracted from the Company's annual reports for the years ended 31 December 2017, 2016 and 2015 is set out below:

RESULTS

	For the years ended 31 December		
	2017 HK\$'000 audited	2016 HK\$'000 audited	2015 HK\$'000 audited
Turnover	—	—	—
Loss before tax	(5,099)	(8,835)	(3,411)
Income tax expense	—	—	—
Loss for the year	(5,099)	(8,835)	(3,411)
Other comprehensive income for the year, net of income tax	—	—	—
Total comprehensive loss for the year	(5,099)	(8,835)	(3,411)
Loss for the year attributable to owners of the Company	(5,099)	(8,835)	(3,411)
Loss per share attributable to owners of the Company			
Basic and diluted	HK\$(0.005)	HK\$(0.009)	HK\$(0.003)
	As at 31 December		
	2017 HK\$'000 audited	2016 HK\$'000 audited	2015 HK\$'000 audited
ASSETS AND LIABILITIES			
Non-current assets	—	—	—
Current assets	266	89	329
Current liabilities	(43,573)	(38,297)	(29,702)
Net liabilities	(43,307)	(38,208)	(29,373)
EQUITY			
Total equity	(43,307)	(38,208)	(29,373)

Notes:

- (i) The Group has not declared any dividends during the three years ended 31 December 2015, 2016 and 2017.
- (ii) For each of the year ended 31 December 2015, 2016 and 2017, a disclaimer of opinion was issued by HLB Hodgson Impey Cheng Limited, the auditors of the Company, on the financial statements of the Company. Details of the disclaimer of opinion were set out in the Company's annual reports for each of the year ended 31 December 2015, 2016 and 2017 which were extracted in this Appendix II.

I. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31 December 2017.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

香港
中環
畢打街11號
置地廣場
告羅士打大廈31樓

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF DAQING DAIRY HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the financial statements of Daqing Dairy Holdings Limited ("the Company") set out on pages 60 to 119, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements and as to whether the financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION**a) Opening balances and the comparative information**

The opening balances and the comparative figures disclosed in the financial statements are based on the audited financial statements of the Company for the year ended 31 December 2016 of which our auditors' report dated 31 March 2017 expressed a disclaimer opinion. The matters which resulted in that disclaimer opinion included (a) opening balances and the comparative information; (b) departure from International Financial Reporting Standard ("IFRS") 10 "Consolidated Financial Statements"; (c) amount due to a deconsolidated subsidiary; (d) accrued expenses and other payables; (e) contingent liabilities and commitments; and (f) going concern basis of accounting. Due to lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the opening balances as at 1 January 2017 and the comparative figures for the year ended 31 December 2016 were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including International Accounting Standard ("IAS") 1 "Presentation of Financial Statements".

There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the opening balances and the comparative figures were free from material misstatement. Any adjustments to the opening balances as at 1 January 2017 that would be required may have a consequential significant effect on the Company's assets and liabilities as at 1 January 2017 and 31 December 2017 and its results for the years ended 31 December 2016 and 2017, and the presentation and disclosure thereof in the financial statements.

b) Departure from international financial reporting standard 10 “consolidated financial statements”

As disclosed in note 2.1 to the financial statements, the predecessor auditors of the Company (the “Predecessor Auditors”) identified certain potential irregularities in respect of certain accounting records and transactions recorded in the books of the Company's indirectly wholly-owned subsidiaries incorporated in the People's Republic of China (the “PRC”) namely, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司), Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) and Wuchang Benniu Muye Co., Ltd (五常犄牛牧業有限責任公司) (collectively referred as to the “PRC Subsidiaries”). The Predecessor Auditors subsequently resigned on 21 March 2012. As disclosed in note 2.1 to the financial statements of the Company, certain new directors were appointed following the change in controlling shareholder and it was announced on 6 November 2013 that a firm of forensic accounting specialists (the “Forensic Accountants”) was appointed to investigate these potential irregularities (the “Forensic Investigation”). Both the Forensic Accountants and the directors of the Company have been unable to get access to the books and records of the PRC Subsidiaries. The directors of the Company have also been unable to locate the complete books and records of the Company and Global Milk Products Pte. Ltd. which is the Company's directly wholly-owned subsidiary incorporated in the Republic of Singapore (“Global Milk”). The directors of the Company have further confirmed to us that the previous management of the Company and its subsidiaries (the “Group”) did not response to their request for any information of the Group. Furthermore, the Company resolved to put Global Milk into winding up in a shareholder's meeting held on 3 December 2015.

Given these circumstances, the directors of the Company have not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the “Deconsolidated Subsidiaries”) and no consolidated financial statements of the Company were prepared for the years ended 31 December 2016 and 2017.

The directors of the Company have determined to exclude the De-consolidated Subsidiaries in presenting the financial position, results of operations and cash flows and did not prepare consolidated financial statements for the Group under the above mentioned circumstances. The exclusion of the financial position, results and cash flows of the Deconsolidated Subsidiaries and no consolidated financial statements have been prepared for the Group is a departure from the requirements of IFRS 10 “Consolidated Financial Statements”.

Due to the lack of complete books and records of the Deconsolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanation to assess the accounting treatment on de-consolidation of the Deconsolidated Subsidiaries and the resulting movement in the statutory surplus reserve. We are also unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Group, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements of the Company. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2017 and the loss attributable to owners of the Company for the year then ended.

c) Amount due to a deconsolidated subsidiary

As disclosed in note 13 to these financial statements, the Company recorded an amount due to a deconsolidated subsidiary of approximately HK\$1,028,000. As further disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate the complete books and records of the Company and Global Milk and have been unable to get access to the books and records of the PRC Subsidiaries. Due to the lack of complete books and records of the Company, Global Milk and the PRC Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence to determine whether the amount due to a deconsolidated subsidiary was properly recorded and accounted for and in compliance with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amount due to a deconsolidated subsidiary were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2017 and loss attributable to the owners of the Company for the year then end.

d) Accrued expenses and other payables

As disclosed in notes 2.1 and 13 to the financial statements, included in the accrued expenses and other payables in the statement of financial position of the Company as at 31 December 2017 were other payables of approximately HK\$17,694,000 among which (i) HK\$13,142,000 were liabilities recognised in respect of the aggregate amounts of the debit balances of bank transactions as the directors of the Company were unable to locate complete books and records of bank accounts and whereabouts of these bank balances and cash as of the date of approval of the financial statements; and (ii) HK\$4,552,000 were other payables that the directors of the Company have been unable to locate the relevant books and records. Due to the lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the accrued expenses and other payables were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the accrued expenses and other payables were free from material misstatements. Any adjustments that would be required may have a consequential significant effect on the balances of the Company's accrued expenses and other payables, the Company's net liabilities as at 31 December 2017 and consequently net loss and cash flows of the Company for the year ended 31 December 2017, and the related disclosures thereof in the financial statements.

e) Contingent liabilities and commitments

As disclosed in note 2.1 to the financial statements, due to the lack of complete books and records of the Company and the De-consolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanations as to whether the contingent liabilities and commitments committed by the Company were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and IAS 39 “Financial Instruments: Recognition and Measurement”. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2017 and the loss attributable to the owners for the year then ended and the related disclosures thereof in the financial statements.

f) Going concern basis of accounting

As explained in note 2.1 to the financial statements, in making their assessment of the Company’s ability to continue as a going concern, the directors of the Company have considered (i) the Company incurred a loss attributable to the owners of the Company of approximately HK\$5,099,000 for the year ended 31 December 2017 and as of that date, the Company’s total liabilities exceeded its total assets by approximately HK\$43,307,000; (ii) following de-consolidation of the Deconsolidated Subsidiaries, the Company becomes an investment holding company without conducting other business; and (iii) the Company has been placed in the third delisting stage as of the date of the financial statements. Given these circumstances, which are more fully described in note 2.1, there were no practicable audit procedures that we could perform to form an opinion on whether management has considered all relevant events and conditions when making assessment on the Company’s ability to continue as a going concern.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Company’s financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Company's financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditors' report. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Yu Chi Fat

Practising Certificate Number: P05467

Hong Kong, 15 March 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	5	—	—
Cost of sales		<u>—</u>	<u>—</u>
Gross profit		—	—
Administration expenses		<u>(5,099)</u>	<u>(8,835)</u>
Loss before taxation	6	(5,099)	(8,835)
Income tax expense	8	<u>—</u>	<u>—</u>
LOSS FOR THE YEAR		<u><u>(5,099)</u></u>	<u><u>(8,835)</u></u>
Total comprehensive expense for the year		<u><u>(5,099)</u></u>	<u><u>(8,835)</u></u>
Loss for the year attributable to owners of the Company		<u><u>(5,099)</u></u>	<u><u>(8,835)</u></u>
Total comprehensive expense for the year attributable to owners of the Company		<u><u>(5,099)</u></u>	<u><u>(8,835)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	10	<u><u>HK\$(0.005)</u></u>	<u><u>HK\$(0.009)</u></u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Current assets			
Prepayments	11	186	14
Bank balances and cash	12	<u>80</u>	<u>75</u>
		<u>266</u>	<u>89</u>
Current liabilities			
Accrued expenses and other payables	13	<u>43,573</u>	<u>38,297</u>
		<u>43,573</u>	<u>38,297</u>
Net current liabilities		<u>(43,307)</u>	<u>(38,208)</u>
Total assets less current liabilities		<u><u>(43,307)</u></u>	<u><u>(38,208)</u></u>
Capital and reserves			
Share capital	14	10	10
Reserves		<u>(43,317)</u>	<u>(38,218)</u>
		<u><u>(43,307)</u></u>	<u><u>(38,208)</u></u>

The financial statements on pages 60 to 119 were approved and authorised for issue by the board of directors on 15 March 2018 and are signed on its behalf by:

Choi Chiu Fai Stanley
Director

Choi Ka Wai
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	10	1,340,093	(1,369,476)	(29,373)
Loss for the year	<u>—</u>	<u>—</u>	<u>(8,835)</u>	<u>(8,835)</u>
Total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>(8,835)</u>	<u>(8,835)</u>
At 31 December 2016 and 1 January 2017	10	1,340,093	(1,378,311)	(38,208)
Loss for the year	<u>—</u>	<u>—</u>	<u>(5,099)</u>	<u>(5,099)</u>
Total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>(5,099)</u>	<u>(5,099)</u>
At 31 December 2017	<u>10</u>	<u>1,340,093</u>	<u>(1,383,410)</u>	<u>(43,307)</u>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Loss before taxation	<u>(5,099)</u>	<u>(8,835)</u>
Operating cash flows before movements in working capital	(5,099)	(8,835)
(Increase)/decrease in prepayments	(172)	236
Increase in accrued expenses and other payables	<u>5,276</u>	<u>8,595</u>
Cash generated from/(used in) operations	5	(4)
Income tax paid	<u>—</u>	<u>—</u>
Net cash generated from/(used in) operating activities	<u>5</u>	<u>(4)</u>
Net increase/(decrease) in cash and cash equivalents	5	(4)
Cash and cash equivalents at beginning of the year	<u>75</u>	<u>79</u>
Cash and cash equivalents at ending of the year	<u><u>80</u></u>	<u><u>75</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Daqing Dairy Holdings Limited (the “Company”) is a limited company incorporated in the Cayman Islands on 15 October 2009.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 2512, 25/F, Cosco Tower, 183 Queen’s Road Central, Hong Kong.

The financial statements of the Company are presented in HK\$ and all values are rounded to the nearest thousand (HK\$’000) except otherwise indicated.

The Company acts as an investment holding company.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 October 2010 (the “Listing”). Trading in the shares of the Company has been suspended since 22 March 2012.

2.1 BASIS OF PREPARATION

The financial statements as at and for the year ended 31 December 2017 comprise the Company.

As disclosed in the Company’s announcement dated 29 March 2012, during the audit process in respect of the financial year ended 31 December 2011, irregularities were identified by Deloitte Touche Tohmatsu, the predecessor auditors of the Company (the “Predecessor Auditors”) that (i) certain milk procurement transactions brought to the attention of management and acknowledged by them to be fraudulent; (ii) unexplained differences between sales receipt notes sighted during the Predecessor Auditors’ works in February 2012 and documents purporting to be the same sales receipt notes returned to the Company in March 2012 ostensibly following a Tax Bureau investigation; (iii) the explanation provided by management — The Tax Bureau investigation — for removing accounting records which were then not available to the Predecessor Auditors continuously during the audit; (iv) the validity and commercial substance of acquisitions of milk stations, farm houses and Holstein cattle; and (v) difficulties the Predecessor Auditors encountered during their visits to the local branch of one of the banks of the Company and its subsidiaries (the “Group”) (collectively referred as to the “Potential Irregularities”). The Predecessor Auditors tendered its resignation as auditors of the Company with effect from 21 March 2012 and the Company applied for suspension of trading in the shares on the Main Board of the Stock Exchange on 22 March 2012.

It was further disclosed in the Company’s announcement dated 29 March 2012 that an independent review committee comprised of the independent non-executive directors at that material time and other qualified independent individuals has been established to conduct a review on the Potential Irregularities raised by the Predecessor Auditors.

As disclosed in the Company’s announcements dated 18 May 2012 and 20 June 2012, during May and June 2012, those independent non-executive directors at that material time forming the independent review committee tendered their resignation as the independent non-executive directors of the Company.

As disclosed in the Company's announcement dated 9 January 2013, on 2 January 2013, it was discovered that the heating pipes of the offices of a subsidiary, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司) ("Da Qing Dairy"), located in Daqing City, Heilongjiang Province of the People's Republic of China (the "PRC"), were cracked as result of severe coldness in the northern area of the PRC and pipeline aging. Due to cracking of the heating pipes, the first and the second floors of the offices had been soaked, and extensive damages were caused to the office facilities, computers and documents in the office of finance, logistics, administration and engineering departments of the Group (collectively referred to as the "Incident").

As disclosed in the Company's announcement dated 18 April 2013, on 8 February 2013, Mr. Zhao Yu, then controlling shareholder of the Company at that material time, entered into a sale and purchase agreement pursuant to which Mr. Zhao agreed to sell and Radiant State Limited (the "New Controlling Shareholder") agreed to purchase the sale shares, representing 52.16% of the entire share capital of the Company at a consideration of HK\$52,704,000 in cash, representing HK\$0.1 per sale share (collectively referred to as the "Purchase").

As disclosed in the Company's announcement dated 5 July 2013, the New Controlling Shareholder received valid acceptances in respect of a total 83,153,622 shares in the Company under the unconditional mandatory cash offer (the "Share Acceptance"), representing 8.23% of the entire issued share capital of the Company. Following completion of the Purchase and the Share Acceptance, the New Controlling Shareholder held 60.39% equity interest in the Company. As disclosed in the Company announcement dated 5 September 2013, Mr. Ng Kwong Chue Paul was appointed as executive director of the Company, Ms. Kou Mei In was appointed as non-executive director of the Company and Mr. Sze Lin Tang was appointed as an independent non-executive director of the Company (the "New Management").

As disclosed in the Company's announcement dated 6 November 2013, the Company engaged RSM Corporate Advisory (Hong Kong) Limited (the "Forensic Accountants") to carry out forensic investigation in respect of the Potential Irregularities (the "Forensic Investigation"). It was further disclosed in the Company's announcements dated 29 January 2014, 4 April 2014, 13 June 2014, 5 September 2014, 28 November 2014 and 30 April 2015 that (1) the Forensic Accountants were yet to commence their field work as the Company and the Forensic Accountants have encountered difficulties in procuring relevant parties including the previous management of the Group to cooperate in the field work of the Forensic Investigation; (2) two PRC law firms were engaged with the objectives to (i) effect the change of legal representatives and board of directors of Da Qing Dairy, Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) ("Chang Qing Dairy") and Wuchang Benniu Muye Co., Limited (五常犇牛牧業有限責任公司) ("Benniu Muye") (collectively referred as to the "PRC Subsidiaries") through legal means; and (ii) obtain information requested by the Forensic Accountants; and (3) the contemplate change of respective legal representatives of the PRC Subsidiaries could not be effected and due to insufficient financial resources of the Company, the Forensic Investigation has been temporarily halted.

In addition, the New Controlling Shareholder appointed two individuals into the board of directors of its wholly-owned subsidiary, Global Milk Products Pte. Ltd., which is incorporated in the Republic of Singapore ("Global Milk"). However, the directors of the Company could not locate complete books and records of the Company and Global Milk and the previous managements of the Company and Global Milk have continued ignoring the request for any information. Subsequently in the shareholders meeting of Global Milk held on 3 December 2015, the Company resolved to put Global Milk into winding up, subject to further advice from legal advisers.

Given the circumstances that the directors of the Company have been unable to locate complete books and records of the Company and Global Milk and to get access to the books and records of the PRC Subsidiaries and in the absence of the Group's previous management to explain and validate the true state of the affairs of the Company for the current and previous years, it would be extremely difficult and time consuming to ascertain the true and correct financial position and profit or loss of the current and previous years for the Company or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the years and various balances of the Company, Global Milk and the PRC Subsidiaries for the current and previous years. In the Company's board of directors (the "Board")' opinion, any reconstruction of the correct accounting records would also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with the Group's previous management or those responsible for the financial information which the Predecessor Auditors identified the Potential Irregularities within and outside of the Group.

As of the date of the financial statements of the Company, the directors of the Company have used its best effort, to the extent commercially practicable, to reconstruct the accounting records of the Company, Global Milk and the PRC Subsidiaries for the current and previous years applying the best estimates and judgement based on the information of the Group that are available to the directors of the Company. However, given substantial portion of the books and records could not be located or accessed and the previous management of the Group did not response to the New Management's request, the Board believes that as at the date of approval of the financial statements, it is impossible and impractical to ascertain the transactions and balances of the Company, Global Milk and the PRC Subsidiaries for inclusion in the financial statements of the Company since the year ended 31 December 2011. Also, due to substantial portion of the books and records of the Group for the current and the previous years could not either be located or accessed, the Board believes that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group or financial statements of the Company for the current and the previous years. Accordingly, the comparative financial information disclosed in the financial statements only represents such information as reported in the financial statements of the Company for the year ended 31 December 2016 and therefore may not be comparable with the figures for the current year.

Given these circumstances, the Board has not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the "De-consolidated Subsidiaries") and no consolidated financial statements of the Company were prepared since the year ended 31 December 2011. As such, the results, assets and liabilities of the De-consolidated Subsidiaries have not been included into the financial statements of the Company since 1 January 2011. The resulting loss on de-consolidation of approximately RMB1,583,093,000, which is determined based on the net asset value of the De-consolidated Subsidiaries as at 1 January 2011 has been recognised in the statement of profit or loss and other comprehensive income during the year ended 31 December 2011 and the resulting movement of approximately RMB55,946,000 has been recorded in the statutory surplus reserve in the statement of change in equity for the year ended 31 December 2011.

In the opinion of the directors of the Company, the financial statements as at and for the year ended 31 December 2017 prepared on the aforementioned basis is the most appropriate way of presenting the results and state of affairs of the Company as the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the transactions and balances related to the Deconsolidated Subsidiaries. However, the de-consolidation of the De-consolidated Subsidiaries is not in compliance with the requirements of International Financial Reporting Standard ("IFRS") 10 "Consolidated Financial Statements". Given the abovementioned circumstances, the directors of the Company are unable to ascertain the impact of the Potential Irregularities with respect to the accounting records and transactions of the De-consolidated Subsidiaries, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements.

As per assessment by the Board, based on the investigations carried out by the Forensic Accountants and the information available at this stage, all identified, required adjustments have been put through in the financial statements for the year ended 31 December 2017. Since the investigations may be ongoing, any further adjustments and disclosures, if required, would be made in the financial statements of the Company as and when

the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified, and would have a consequential effect on the net loss of the Company for the year ended 31 December 2017 and net liabilities of the Company as at 31 December 2017.

During the year ended 31 December 2017, the Company incurred loss of approximately HK\$5,099,000. In addition, following de-consolidation of the De-consolidated Subsidiaries, the Company become an investment holding company without conducting other business. It was further disclosed in the Company's announcements dated 19 May 2015, 23 November 2015 and 7 June 2016 respectively that the Stock Exchange has placed the Company in the first delisting stage on 14 May 2015 and subsequently placed in the second and the third delisting stage on 19 November 2015 and 7 June 2016 respectively pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). These conditions indicate the existence of a material uncertainty which may cast significant effect on the Company's ability to continue as a going concern.

As disclosed in the Company's announcement dated 23 June 2015, on 4 May 2015, the New Controlling Shareholder entered into a sale and purchase agreement with Global Courage Limited ("Global Courage") pursuant to which the New Controlling Shareholder agreed to sell and Global Courage agreed to purchase the sale shares, representing of approximately 60.39% of the entire share capital of the Company at a consideration of approximately HK\$61,019,000, representing HK\$0.1 per sale share.

As disclosed in the Company's announcement dated 21 December 2016, the Company has submitted a resumption proposal to the Stock Exchange which contains, among other things: (i) a share consolidation; (ii) proposed acquisition (the "Acquisition") of a target group which is primarily engaged in the operation of a hotpot restaurant chain in the PRC from the independent investors; (iii) proposed disposal (the "Disposal") of the Company's subsidiaries; (iv) a share placing; (v) an open offer; and (vi) a whitewash waiver. As the Acquisition constitutes a very substantial acquisition and reverse takeover and the Disposal constitutes a very substantial disposal under Chapter 14 of the Listing Rules and the Acquisition is also subject to approval of the new listing application of the Company by the Stock Exchange (the "New Listing Application"). The Company has re-filed the New Listing Application to the Stock Exchange on 20 September 2017.

Given the circumstance that there exists potential new shareholder to invest in the Company and the New Listing Application, the directors of the Company have adopted the going concern basis in the preparation of the financial statements.

Should the Company be unable to achieve a successful restructuring include but not limit to the New Listing Application and to continue to operate as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

2.2 APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) New and revised standards and interpretations in issue and effective

The Company has adopted the following new and revised IFRSs in respect of the following years:

IFRSs (Amendments)	Annual Improvements IFRSs 2014–2016 Cycle
IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

(b) New and revised standards and interpretations in issue but not yet effective

IFRS 1 (Amendments)	First Time Adoption of IFRS ¹
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ¹
IFRS 4 (Amendments)	Insurance Contracts ¹
IFRS 9	Financial Instruments ¹
IFRS 9 (Amendments)	Clarifications to IFRS 9 Financial Instruments ²
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁴
IFRIC — Int 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC — Int 23	Uncertainty over Income Tax Treatments ²
IAS 28 (Amendments)	Investments in Associates and Joint Ventures ¹
IAS 40 (Amendments)	Transfers of Investment Property ¹

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021 or when apply IFRS 15 and IFRS 9.

IFRS 9 Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to adopt IFRS 9 initially on 1 January 2018.

Expected impacts of the new requirements on the Company's financial statements are as follows:

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Company has assessed the effects of applying IFRS 9 on the Company's financial statements and does not expect a significant impact on the recognition of financial instruments.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services.

The Company has assessed the effects of applying IFRS 15 on the Company's financial statements and does not expect a significant impact on the recognition of revenue.

Save as described above, the Directors are in the process of assessing the potential impact of the new and amended IFRSs but are not yet in a position to determine whether the new and amended IFRSs will have a significant impact on how the Company's results of operations and financial position are prepared and presented. The new and amend IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"). In addition, the financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance ("CO").

(b) Basis of consolidation

The financial statements include the financial statements of the Company made up to 31 December 2017.

(c) Business combinations***Business combinations that took place on or after 1 January 2010***

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments

against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) Revenue recognition

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

Revenue from sale of goods is recognised when goods are delivered and legal title is passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(f) Foreign currencies***(i) Functional and presentation currency***

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in HK\$, which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'.

(g) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at costs less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(k) Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

(l) Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

*Intangible assets acquired in a business combination**Trademarks*

Trademarks acquired in a business combination are identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The costs of trademarks are their fair value at the acquisition date. Subsequent to initial recognition, intangible asset with finite useful life are carried at cost less accumulated amortisation and any accumulated impairment loss. The intangible asset will be amortised on a straight-line basis over its useful lives.

Gains and losses arising from derecognition of an intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognised in profit or loss when the asset is derecognised.

(m) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit

to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverse, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(o) Related parties transactions

A party is considered to be related to the Company if:

- (a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employees are also related to the Company.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

(p) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including prepayments and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

The financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as prepayments, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of prepayments, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis and is included in finance costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCE OF ESTIMATION

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment loss in respect of prepayments

As explained in note 3, prepayments are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of prepayments and recognised as doubtful debts expenses in the year in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the year ended 31 December 2017 (2016: HK\$Nil). The carrying amount of prepayments as at 31 December 2017 was approximately HK\$186,000 (2016: HK\$14,000).

(b) Useful life and residual value property, plant and equipment

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated. The carrying amount of property, plant and equipment as at 31 December 2017 was approximately HK\$Nil (2016: HK\$Nil).

(c) Income tax

The Company is subject to income tax. As a result of the fact that certain matters relating to the income tax have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the corporate income tax, where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the difference arise.

5. REVENUE AND SEGMENT INFORMATION

No revenue and segment information were presented as the Company did not conduct business during the year.

6. LOSS BEFORE TAXATION

The Company's loss before taxation is arrived at after charging the amounts as set out below.

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:			
Staff costs (including directors' emoluments):			
— Salaries and wages		600	600
— Retirement benefit scheme contributions		<u>12</u>	<u>12</u>
		<u>612</u>	<u>612</u>
Auditors' remuneration		<u>530</u>	<u>550</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Directors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	600	600
— Contributions to retirement plans	<u>12</u>	<u>12</u>
	<u>612</u>	<u>612</u>

Details of the emoluments paid or payable to the individual directors of the Company are as follows:

	Year ended 31 December 2017			Total <i>HK\$'000</i>
	Directors'	Retirement	Other	
	Fees <i>HK\$'000</i>	benefit scheme contributions <i>HK\$'000</i>	emoluments <i>HK\$'000</i>	
Executive directors:				
— Dr. Choi Chiu Fai, Stanley, (“Dr. Choi”) <i>(note i)</i>	120	6	—	126
— Mr. Choi Ka Wai, (“Mr. Choi”) <i>(note ii)</i>	120	6	—	126
Independent non-executive directors:				
— Mr. Ha Kee Choy Eugene, (“Mr. Ha”) <i>(note vi)</i>	120	—	—	120
— Mr. Szeto Tat Kwan (“Mr. Szeto”) <i>(note vii)</i>	120	—	—	120
— Mr. Fok Wai Ming Eddie (“Mr. Fok”) <i>(note viii)</i>	120	—	—	120
	<u>600</u>	<u>12</u>	<u>—</u>	<u>612</u>

Details of the emoluments paid or payable to directors of the Company are as follows:

	Year ended 31 December 2016			Total HK\$'000
	Directors' Fees HK\$'000	Retirement benefit scheme contributions	Other emoluments	
		HK\$'000	HK\$'000	
Executive directors:				
— Dr. Choi (<i>note i</i>)	120	6	—	126
— Mr. Choi (<i>note ii</i>)	120	6	—	126
— Mr. Wang Delin, ("Mr. Wang") (<i>note iii</i>)	—	—	—	—
— Mr. Ng Kwong Chue Paul, ("Mr. Ng") (<i>note iv</i>)	—	—	—	—
Non-executive director:				
— Ms. Kou Mei In, ("Ms. Kou") (<i>note v</i>)	—	—	—	—
Independent non-executive directors:				
— Mr. Ha (<i>note vi</i>)	120	—	—	120
— Mr. Szeto (<i>note vii</i>)	120	—	—	120
— Mr. Fok (<i>note viii</i>)	120	—	—	120
— Mr. Sze Lin Tang, ("Mr. Sze") (<i>note ix</i>)	—	—	—	—
— Mr. Qiu Xiaohua, ("Mr. Qiu") (<i>note x</i>)	—	—	—	—
	600	12	—	612

During the year ended 31 December 2017, no remuneration was paid by the Company to the directors of the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2016: Nil).

Notes:

- i) Dr. Choi was appointed as executive director and chairman of the Company with effect from 29 January 2016 and 19 February 2016 respectively.
- ii) Mr. Choi was appointed as executive directors of the Company with effect from 29 January 2016.
- iii) Mr. Wang was appointed as executive director and chief executive officer of the Company with effect from 18 August 2011 and resigned as executive director and chief executive officer of the Company on 19 February 2016.
- iv) Mr. Ng was appointed as executive director of the Company with effect from 5 September 2013 and resigned as executive director of the Company with effect from 19 February 2016.

- v) Ms. Kou was appointed as non-executive director of the Company with effect from 5 September 2013 and resigned as non-executive director of the Company with effect from 19 February 2016.
- vi) Mr. Ha was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- vii) Mr. Szeto was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- viii) Mr. Fok was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- ix) Mr. Sze was appointed as independent non-executive director of the Company with effect from 5 September 2013 and resigned as independent non-executive director of the Company with effect from 19 February 2016.
- x) Mr. Qiu was appointed as independent non-executive director of the Company with effect from 1 January 2014 and resigned as independent non-executive director of the Company with effect from 19 February 2016.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, Five were directors of the Company for the year ended 31 December 2017 (2016: Five were directors of the Company), details of whose emoluments are included in the disclosures above.

The emoluments of the remaining individual during the year ended 31 December 2017 (2016: None) were as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and allowances	—	—
Retirement benefit scheme contributions	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

During the years ended 31 December 2016 and 2017, the emoluments of each of the five highest paid individuals were within the band of nil to HK\$1,000,000.

During the year ended 31 December 2017, no remuneration was paid by the Company to any of the five individuals with the highest emoluments in the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2016: HK\$Nil).

8. INCOME TAX EXPENSE

Hong Kong Profits Tax rate was 16.5% (2016: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company did not have any assessable profit arising in Hong Kong for the year.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss before taxation	<u>(5,099)</u>	<u>(8,835)</u>
Tax at the Hong Kong tax rates	(841)	(1,458)
Effect of unrecognised deductible losses and deductible temporary differences	<u>841</u>	<u>1,458</u>
	<u>—</u>	<u>—</u>

9. DIVIDEND

No dividend has been paid or proposed by the Company during the year ended 31 December 2017 (2016: HK\$Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(5,099)</u>	<u>(8,835)</u>
	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,010,500,000</u>	<u>1,010,500,000</u>

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares in both years.

11. PREPAYMENTS

	As at 31 December 2017 <i>HK\$'000</i>	As at 31 December 2016 <i>HK\$'000</i>
Prepayments	<u>186</u>	<u>14</u>
	<u><u>186</u></u>	<u><u>14</u></u>

12. BANK BALANCES AND CASH

As at 31 December 2017, the Company's bank balances carry market interest rate of 0.01% per annum (2016: 0.01% per annum).

The Company's bank balances and cash denominated in the following currencies:

	As at 31 December 2017 <i>HK\$'000</i>	As at 31 December 2016 <i>HK\$'000</i>
Currency:		
United States dollars	<u>44</u>	<u>44</u>
HK\$	<u>36</u>	<u>31</u>

As disclosed in note 32 of the Group's consolidated financial statements for the year ended 31 December 2010 (the "2010 Financial Statements"), a bank balances and cash amounted to approximately RMB11,523,000 was recorded on the statement of financial position of the Company at 31 December 2010. Except for bank balances of approximately RMB3,000, the directors of the Company have been unable to locate the bank accounts and whereabouts of the bank balances and cash. The Company engaged the Forensic Accountants to conduct investigations, including (i) send letters to the Predecessor Auditors to request them provide the relevant bank information; and (ii) send letters to banks in Hong Kong (including licensed banks, restricted licensed banks and deposit-taking companies) (collectively referred as to the "Banks") to make enquiry on whether the Company maintained any bank accounts in the Banks. However, as of the date of approval of the financial statements in the previous years, the Predecessor Auditors only replied that the relevant information was not available as it was located in their PRC office. In addition, no Banks has indicated the existence of any bank accounts of the Company up to the date of these financial statements in the previous years. Given these circumstances, the directors of the Company recognised a loss of approximately RMB11,520,000 as other suspense accounts in the statements of profit or loss and other comprehensive income for the year ended 31 December 2011.

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to books and records of the Company, including books and records of certain bank transactions of the Company took place for the current and the previous years. Given incomplete books and records of the Company and the Company's previous management did not response to the request for information, it would be impossible and impracticable to ascertain these bank transactions which took place for the current and the previous years and to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of the bank transactions. Given these circumstances, the directors of the Company have recognised (i) losses of approximately HK\$10,543,000 and HK\$2,538,000 in respect of the aggregate amounts of the credit balances of bank transactions took place during the years ended 31 December 2012 and 2013 respectively as other suspense accounts in the statements of profit or loss and other comprehensive income for the years ended 31 December 2012 and 2013 respectively; and (ii) liabilities of

approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place during the year ended 31 December 2012 and 2013 as other payables in the statements of financial position.

13. ACCRUED EXPENSES AND OTHER PAYABLES

	As at 31 December 2017 <i>HK\$'000</i>	As at 31 December 2016 <i>HK\$'000</i>
Accrued expenses	3,004	4,254
Amount due to a deconsolidated subsidiary	1,028	1,028
Amount due to related parties	21,847	15,321
Other payables	<u>17,694</u>	<u>17,694</u>
	<u>43,573</u>	<u>38,297</u>

As disclosed in notes 2.1 and 12 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries. In addition, the directors of the Company have been unable to locate books and records of certain bank transactions took place for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it would be impossible and impracticable to ascertain these bank transactions took place for the years ended 2011, 2012 and 2013. It would also be extremely difficult and time consuming to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of these bank transactions. Given these circumstances, the directors of the Company have recognised (i) liabilities of approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place for the years ended 31 December 2012 and 2013; and (ii) liabilities of approximately HK\$4,552,000 in respect of the directors of the Company have been unable to locate relevant books and records in the statements of financial position.

Amounts due to related parties were interest-free and repayable on demand.

14. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares		
Authorised:		
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 (HK\$0.00001 each)	<u>38,000,000,000</u>	<u>380</u>
	Number of shares	Share capital <i>HK\$'000</i>
Issued:		
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	<u>1,010,500,000</u>	<u>10</u>

15. SHARE-BASED PAYMENTS

As set out in note 15 to the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 which were authorised for issue on 18 August 2011 (the “2011 Interim Report”), the Company’s share option scheme (the “Scheme”) was adopted pursuant to a resolution passed on 10 October 2010 for the purpose to reward the directors and employees who have contributed to the Group and to encourage the directors and employees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on 9 October 2020. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme of the Company shall not, in the absence of shareholders’ approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the listing date.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Scheme in any 12-month period shall not exceed 1% of the shares in issue for the time being.

Where any further grant of options to a director or employee would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders in general meeting with such director or employee and his associates abstaining from voting. The Company must send a circular to the shareholders disclosing the identity of the director or employee in question, the number and terms of the options to be granted (and options previously granted to such director or employee) and such other information required under the Listing Rules.

At any time, the maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time.

No share options have been granted pursuant to the Scheme during the years ended 31 December 2016 and 2017.

16. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

	2017 <i>HK\$’000</i>	2016 <i>HK\$’000</i>
Financial assets		
Loan and receivables (including bank balances and cash)	<u>80</u>	<u>75</u>
Financial liabilities		
Amortised cost	<u>43,573</u>	<u>38,297</u>

(b) Financial risk management objective and policies

The Company’s major financial instruments include bank balances and cash and accrued expenses and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Market risk

Foreign currency risk

The Company operates in Hong Kong. There is no material foreign exchange risk noted for the Company as the operations and customers of the Company are located in Hong Kong with most of the assets and transactions denominated and settled in Hong Kong Dollars, which is the functional currency of the Company.

Liquidity risk management

The Company manages liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended credit lines of funding from major financial institutions to meet the Company's liquidity requirements in the short and long term. The liquidity risk is under continuous monitoring by management. The Company will raise or refinance bank borrowings whenever necessary.

At the end of the reporting period, the Company did not have significant exposure to liquidity risk.

The contractual maturities at the end of the reporting period of the Company's financial liabilities which are required to be repaid on demand or within one year amounted to approximately HK\$43,573,000 (2016: HK\$38,297,000).

	Weighted average effective interest rate %	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2017						
Non-derivative instruments						
Accrued expenses	—	3,004	—	—	3,004	3,004
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	21,847	—	—	21,847	21,847
Other payables	—	17,694	—	—	17,694	17,694
		<u>43,573</u>	<u>—</u>	<u>—</u>	<u>43,573</u>	<u>43,573</u>

	Weighted average effective interest rate %	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2016						
Non-derivative instruments						
Accrued expenses	—	4,254	—	—	4,254	4,254
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	15,321	—	—	15,321	15,321
Other payables	—	17,694	—	—	17,694	17,694
		<u>38,297</u>	<u>—</u>	<u>—</u>	<u>38,297</u>	<u>38,297</u>

(c) Fair value of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate to their fair values.

17. CAPITAL RISK MANAGEMENT

The Company's primary objectives when managing capital are to safeguard the abilities of the entities in the Company to continue as a going concern, so that it can continue to provide returns for shareholder of the Company and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The directors of the Company actively and regularly review and manage the Company's capital structure to maximise the returns to shareholder through the optimisation of the debt afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. The Company's overall strategy remains unchanged from 2016.

Consistent with others in the industry, the Company monitors its capital structure on the basis of the gearing ratio. At 31 December 2017, the Company's gearing ratio was undefined because the Company did not have any borrowings at the end of each reporting period.

18. RETIREMENT BENEFIT PLANS

The employees of the Company in the PRC are members of a state-managed retirement benefits plans operated by the PRC Government. The Company is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits plans is to make the specified contributions under the scheme.

The amounts of contributions made by the Company in respect of the retirement benefit plans during the year ended 31 December 2017 are disclosed in note 6.

19. RELATED PARTY TRANSACTIONS**(a) Balances with related parties**

Save as disclosed in notes elsewhere to the financial statements, the Company did not have any significant material related party transactions during the year.

(b) Key management personnel emoluments

The remuneration for key management is disclosed in note 7.

20. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, the Company had the following events after the end of the reporting period:

(a) The 29 January 2018 announcement

The Company is providing further information to the regulators in relation to the second new listing application and the circular (including, among other things, the financial information of the Group and the target group) to be despatched to the shareholders of the Company.

(b) The 28 February 2018 announcement

The Company is preparing further information, including but not limited to the financial information of the Company and the target group, to the regulators and addressing any comments they raised in relation to the new listing application and the resumption.

21. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position and the statement of changes in equity of the Company are set out in page 60, page 61 and page 62 respectively.

22. INVESTMENT IN THE DE-CONSOLIDATED SUBSIDIARIES

As explained in note 2.1, the directors of the Company were unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years and the previous management of the Group did not response to any request for information. The financial results, assets and liabilities of the De-consolidated Subsidiaries have not been included in financial statements of the Company and no consolidated financial statements were prepared since 1 January 2011. Details of the De-consolidated Subsidiaries at the end of the reporting period are set out as below:

Name	Place and date of incorporation/establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held	Principal activities
Global Milk	The Republic of Singapore 15 September 2006	SS1	100%	Investment holding Global Milk
Da Qing Dairy	The PRC 29 October 1997	RMB638,000,000	100%	Manufacture marketing and sales of dairy products
Chang Qing Dairy	The PRC 7 August 2008	RMB260,738,890	100%	Manufacture marketing and sales of dairy products
Benniu Muye	The PRC 25 November 2010	RMB5,000,000	100%	Dairy farming

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31 December 2016.

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

香港
中環
畢打街11號
置地廣場
告羅士打大廈31樓

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF DAQING DAIRY HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the financial statements of Daqing Dairy Holdings Limited (“the Company”) set out on pages 58 to 135, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements and as to whether the financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION**a) Opening balances and the comparative information**

The opening balances and the comparative figures disclosed in the financial statements are based on the audited financial statements of the Company for the year ended 31 December 2015 of which our auditors' report dated 31 March 2016 expressed a disclaimer opinion. The matters which resulted in that disclaimer opinion included (a) opening balances and the comparative information; (b) departure from International Financial Reporting Standard (“IFRS”) 10 “Consolidated Financial Statements”; (c) bank balances and cash; (d) amount due to a deconsolidated subsidiary; (e) accrued expenses and other payables; (f) contingent liabilities and commitments; and (g) going concern basis of accounting. Due to lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the opening balances as at 1 January 2016 and the comparative figures for the year ended 31 December 2015 were

properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including International Accounting Standard (“IAS”) 1 “Presentation of Financial Statements”. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the opening balances and the comparative figures were free from material misstatement. Any adjustments to the opening balances as at 1 January 2016 that would be required may have a consequential significant effect on the Company’s assets and liabilities as at 1 January 2016 and 31 December 2016 and its results for the years ended 31 December 2015 and 2016, and the presentation and disclosure thereof in the financial statements.

b) Departure from International Financial Reporting Standard 10 “Consolidated Financial Statements”

As disclosed in note 2.1 to the financial statements, the predecessor auditors of the Company (the “Predecessor Auditors”) identified certain potential irregularities in respect of certain accounting records and transactions recorded in the books of the Company’s indirectly wholly-owned subsidiaries incorporated in the People’s Republic of China (the “PRC”) namely, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司), Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) and Wuchang Benniu Muye Co., Ltd (五常犏牛牧業有限責任公司) (collectively referred as to the “PRC Subsidiaries”). The Predecessor Auditors subsequently resigned on 21 March 2012. As disclosed in note 2.1 to the financial statements of the Company, certain new directors were appointed following the change in controlling shareholder and it was announced on 6 November 2013 that a firm of forensic accounting specialists (the “Forensic Accountants”) was appointed to investigate these potential irregularities (the “Forensic Investigation”). Both the Forensic Accountants and the directors of the Company have been unable to get access to the books and records of the PRC Subsidiaries. The directors of the Company have also been unable to locate the complete books and records of the Company and Global Milk Products Pte. Ltd. which is the Company’s directly wholly-owned subsidiary incorporated in the Republic of Singapore (“Global Milk”). The directors of the Company have further confirmed to us that the previous management of the Company and its subsidiaries (the “Group”) did not respond to their request for any information of the Group. Furthermore, the Company resolved to put Global Milk into winding up in a shareholder’s meeting held on 3 December 2015.

Given these circumstances, the directors of the Company have not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the “Deconsolidated Subsidiaries”) and no consolidated financial statements of the Company were prepared for the years ended 31 December 2015 and 2016.

The directors of the Company have determined to exclude the De-consolidated Subsidiaries in presenting the financial position, results of operations and cash flows and did not prepare consolidated financial statements for the Group under the above mentioned circumstances. The exclusion of the financial position, results and cash flows of the Deconsolidated Subsidiaries and no consolidated financial statements have been prepared for the Group is a departure from the requirements of IFRS 10 “Consolidated Financial Statements”.

Due to the lack of complete books and records of the Deconsolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanation to assess the accounting treatment on de-consolidation of the Deconsolidated Subsidiaries and the resulting movement in the statutory surplus reserve. We are also unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Group, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements of the Company. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2016 and the loss attributable to owners of the Company for the year then ended.

c) Amount due to a deconsolidated subsidiary

As disclosed in note 18 to these financial statements, the Company recorded an amount due to a deconsolidated subsidiary of approximately HK\$1,028,000. As further disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate the complete books and records of the Company and Global Milk and have been unable to get access to the books and records of the PRC Subsidiaries. Due to the lack of complete books and records of the Company, Global Milk and the PRC Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence to determine whether the amount due to a deconsolidated subsidiary was properly recorded and accounted for and in compliance with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amount due to a deconsolidated subsidiary were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2016 and loss attributable to the owners of the Company for the year then end.

d) Accrued expenses and other payables

As disclosed in notes 2.1 and 18 to the financial statements, included in the accrued expenses and other payables in the statement of financial position of the Company as at 31 December 2016 were other payables of approximately HK\$17,694,000 among which (i) HK\$13,142,000 were liabilities recognised in respect of the aggregate amounts of the debit balances of bank transactions as the directors of the Company were unable to locate complete books and records of bank accounts and whereabouts of these bank balances and cash as of the date of approval of the financial statements; and (ii) HK\$4,552,000 were other payables that the directors of the Company have been unable to locate the relevant books and records. Due to the lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the accrued expenses and other payables were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the accrued expenses and other payables were free from material misstatements. Any adjustments that would be required may have a consequential significant effect on the balances of the Company's accrued expenses and other payables, the Company's net liabilities as at 31 December 2016 and consequently net loss and cash flows of the Company for the year ended 31 December 2016, and the related disclosures thereof in the financial statements.

e) Contingent liabilities and commitments

As disclosed in note 2.1 to the financial statements, due to the lack of complete books and records of the Company and the De-consolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanations as to whether the contingent liabilities and commitments committed by the Company were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and IAS 39 “Financial Instruments: Recognition and Measurement”. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2016 and the loss attributable to the owners for the year then ended and the related disclosures thereof in the financial statements.

f) Going concern basis of accounting

As explained in note 2.1 to the financial statements, in making their assessment of the Company’s ability to continue as a going concern, the directors of the Company have considered (i) the Company incurred a loss attributable to the owners of the Company of approximately HK\$8,835,000 for the year ended 31 December 2016 and as of that date, the Company’s total liabilities exceeded its total assets by approximately HK\$38,208,000; (ii) following de-consolidation of the Deconsolidated Subsidiaries, the Company becomes an investment holding company without conducting other business; (iii) the Company has been placed in the third delisting stage as of the date of the financial statements; and (iv) as disclosed in note 2.1, the directors of the Company are unable to represent that all present and contingent liabilities or assets of the Company have been completely identified. Given these circumstances, which are more fully described in note 2.1, there were no practicable audit procedures that we could perform to form an opinion on whether management has considered all relevant events and conditions when making assessment on the Company’s ability to continue as a going concern.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Company's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Company's financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditors' report. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Yu Chi Fat

Practising Certificate Number: P05467

Hong Kong, 31 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	5	—	—
Cost of sales		<u>—</u>	<u>—</u>
Gross profit		—	—
Administration expenses		<u>(8,835)</u>	<u>(3,411)</u>
Loss before taxation	6	(8,835)	(3,411)
Income tax expenses	8	<u>—</u>	<u>—</u>
LOSS FOR THE YEAR		<u><u>(8,835)</u></u>	<u><u>(3,411)</u></u>
Total comprehensive loss for the year		<u><u>(8,835)</u></u>	<u><u>(3,411)</u></u>
Loss for the year attributable to the owners of the Company		<u><u>(8,835)</u></u>	<u><u>(3,411)</u></u>
Total comprehensive loss for the year attributable to owners of the Company		<u><u>(8,835)</u></u>	<u><u>(3,411)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	10	<u><u>HK\$(0.009)</u></u>	<u><u>HK\$(0.003)</u></u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Non-current assets			
Property, plant and equipment	11	—	—
Prepaid lease payments	12	—	—
Intangible assets	13	—	—
Deferred tax assets	14	—	—
		<u>—</u>	<u>—</u>
Current assets			
Inventories	15	—	—
Prepayments and deposits paid	16	14	250
Prepaid lease payments	12	—	—
Bank balances and cash	17	75	79
		<u>89</u>	<u>329</u>
Current liabilities			
Accrued expenses and other payables	18	38,297	29,702
		<u>38,297</u>	<u>29,702</u>
Net current liabilities		<u>(38,208)</u>	<u>(29,373)</u>
Total assets less current liabilities		<u><u>(38,208)</u></u>	<u><u>(29,373)</u></u>
Capital and reserves			
Share capital	20	10	10
Reserves		<u>(38,218)</u>	<u>(29,383)</u>
		<u>(38,208)</u>	<u>(29,373)</u>
Non-current liabilities			
Deferred tax liabilities	14	—	—
Borrowings	19	—	—
		<u>—</u>	<u>—</u>
		<u>(38,208)</u>	<u>(29,373)</u>

The financial statements on pages 58 to 135 were approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Choi Chiu Fai Stanley
Director

Choi Ka Wai
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	10	1,340,093	(1,366,065)	(25,962)
Loss for the year	<u>—</u>	<u>—</u>	<u>(3,411)</u>	<u>(3,411)</u>
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(3,411)</u>	<u>(3,411)</u>
At 31 December 2015 and 1 January 2016	10	1,340,093	(1,369,476)	(29,373)
Loss for the year	<u>—</u>	<u>—</u>	<u>(8,835)</u>	<u>(8,835)</u>
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(8,835)</u>	<u>(8,835)</u>
At 31 December 2016	<u>10</u>	<u>1,340,093</u>	<u>(1,378,311)</u>	<u>(38,208)</u>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Operating activities		
Loss before taxation	(8,835)	(3,411)
Adjustments for:		
Depreciation	—	47
Loss on disposal/written off of property, plant and equipment	—	495
	<u>—</u>	<u>495</u>
Operating cash flows before movements in working capital	(8,835)	(2,869)
Increase in amount due to a related company	—	882
Decrease in prepayments and deposits paid	236	381
Increase in accrued expenses and other payables	8,595	1,612
	<u>8,595</u>	<u>1,612</u>
Cash (used in)/generated from operations	(4)	6
Income tax paid	—	—
	<u>—</u>	<u>—</u>
Net cash (used in)/generated from operating activities	<u>(4)</u>	<u>6</u>
Investing activity		
Purchase of property, plant and equipment	—	—
	<u>—</u>	<u>—</u>
Net cash used in investing activity	<u>—</u>	<u>—</u>
Net (decrease)/increase in cash and cash equivalents	(4)	6
Cash and cash equivalents at beginning of the year	79	73
	<u>79</u>	<u>73</u>
Cash and cash equivalents at ending of the year	<u>75</u>	<u>79</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

Daqing Dairy Holdings Limited (the “Company”) is a limited company incorporated in the Cayman Islands on 15 October 2009.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 2512, 25/F, Cosco Tower, 183 Queen’s Road Central, Hong Kong.

The financial statements of the Company are presented in HK\$ and all values are rounded to the nearest thousand (HK\$’000) except otherwise indicated.

The Company acts as an investment holding company.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 October 2010 (the “Listing”). Trading in the shares of the Company has been suspended since 22 March 2012.

2.1 BASIS OF PREPARATION

The financial statements as at and for the year ended 31 December 2016 comprise the Company.

As disclosed in the Company’s announcement dated 29 March 2012, during the audit process in respect of the financial year ended 31 December 2011, irregularities were identified by Deloitte Touche Tohmatsu, the predecessor auditors of the Company (the “Predecessor Auditors”) that (i) certain milk procurement transactions brought to the attention of management and acknowledged by them to be fraudulent; (ii) unexplained differences between sales receipt notes sighted during the Predecessor Auditors’ works in February 2012 and documents purporting to be the same sales receipt notes returned to the Company in March 2012 ostensibly following a Tax Bureau investigation; (iii) the explanation provided by management — The Tax Bureau investigation — for removing accounting records which were then not available to the Predecessor Auditors continuously during the audit; (iv) the validity and commercial substance of acquisitions of milk stations, farm houses and Holstein cattle; and (v) difficulties the Predecessor Auditors encountered during their visits to the local branch of one of the banks of the Company and its subsidiaries (the “Group”) (collectively referred as to the “Potential Irregularities”). The Predecessor Auditors tendered its resignation as auditors of the Company with effect from 21 March 2012 and the Company applied for suspension of trading in the shares on the Main Board of the Stock Exchange on 22 March 2012.

It was further disclosed in the Company’s announcement dated 29 March 2012 that an independent review committee comprised of the independent non-executive directors at that material time and other qualified independent individuals has been established to conduct a review on the Potential Irregularities raised by the Predecessor Auditors.

As disclosed in the Company’s announcements dated 18 May 2012 and 20 June 2012, during May and June 2012, those independent non-executive directors at that material time forming the independent review committee tendered their resignation as the independent non-executive directors of the Company.

As disclosed in the Company’s announcement dated 9 January 2013, on 2 January 2013, it was discovered that the heating pipes of the offices of a subsidiary, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司) (“Da Qing Dairy”), located in Daqing City, Heilongjiang Province of the People’s Republic of China (the “PRC”), were cracked as result of severe coldness in the northern area of the PRC and pipeline aging. Due to cracking of the

heating pipes, the first and the second floors of the offices had been soaked, and extensive damages were caused to the office facilities, computers and documents in the office of finance, logistics, administration and engineering departments of the Group (collectively referred to as the “Incident”).

As disclosed in the Company’s announcement dated 18 April 2013, on 8 February 2013, Mr. Zhao Yu, then controlling shareholder of the Company at that material time, entered into a sale and purchase agreement pursuant to which Mr. Zhao agreed to sell and Radiant State Limited (the “New Controlling Shareholder”) agreed to purchase the sale shares, representing 52.16% of the entire share capital of the Company at a consideration of HK\$52,704,000 in cash, representing HK\$0.1 per sale share (collectively referred to as the “Purchase”).

As disclosed in the Company’s announcement dated 5 July 2013, the New Controlling Shareholder received valid acceptances in respect of a total 83,153,622 shares in the Company under the unconditional mandatory cash offer (the “Share Acceptance”), representing 8.23% of the entire issued share capital of the Company. Following completion of the Purchase and the Share Acceptance, the New Controlling Shareholder held 60.39% equity interest in the Company. As disclosed in the Company announcement dated 5 September 2013, Mr. Ng Kwong Chue Paul was appointed as executive director of the Company, Ms. Kou Mei In was appointed as non-executive director of the Company and Mr. Sze Lin Tang was appointed as an independent non-executive director of the Company (the “New Management”).

As disclosed in the Company’s announcement dated 6 November 2013, the Company engaged RSM Corporate Advisory (Hong Kong) Limited (the “Forensic Accountants”) to carry out forensic investigation in respect of the Potential Irregularities (the “Forensic Investigation”). It was further disclosed in the Company’s announcements dated 29 January 2014, 4 April 2014, 13 June 2014, 5 September 2014, 28 November 2014 and 30 April 2015 that (1) the Forensic Accountants were yet to commence their field work as the Company and the Forensic Accountants have encountered difficulties in procuring relevant parties including the previous management of the Group to cooperate in the field work of the Forensic Investigation; (2) two PRC law firms were engaged with the objectives to (i) effect the change of legal representatives and board of directors of Da Qing Dairy, Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) (“Chang Qing Dairy”) and Wuchang Benniu Muye Co., Limited (五常犇牛牧業有限責任公司) (“Benniu Muye”) (collectively referred as to the “PRC Subsidiaries”) through legal means; and (ii) obtain information requested by the Forensic Accountants; and (3) the contemplate change of respective legal representatives of the PRC Subsidiaries could not be effected and due to insufficient financial resources of the Company, the Forensic Investigation has been temporarily halted.

In addition, the New Controlling Shareholder appointed two individuals into the board of directors of its wholly-owned subsidiary, Global Milk Products Pte. Ltd., which is incorporated in the Republic of Singapore (“Global Milk”). However, the directors of the Company could not locate complete books and records of the Company and Global Milk and the previous managements of the Company and Global Milk have continued ignoring the request for any information. Subsequently in the shareholders meeting of Global Milk held on 3 December 2015, the Company resolved to put Global Milk into winding up, subject to further advice from legal advisers.

Given the circumstances that the directors of the Company have been unable to locate complete books and records of the Company and Global Milk and to get access to the books and records of the PRC Subsidiaries and in the absence of the Group’s previous management to explain and validate the true state of the affairs of the Company for the current and previous years, it would be extremely difficult and time consuming to ascertain the true and correct financial position and profit or loss of the current and previous years for the Company or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the years and various balances of the Company, Global Milk and the PRC Subsidiaries for the current and previous years. In the Company’s board of directors (the “Board”)’ opinion, any reconstruction of the correct accounting records would also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with the Group’s previous management or those responsible for the financial information which the Predecessor Auditors identified the Potential Irregularities within and outside of the Group.

As of the date of the financial statements of the Company, the directors of the Company have used its best effort, to the extent commercially practicable, to reconstruct the accounting records of the Company, Global Milk and the PRC Subsidiaries for the current and previous years applying the best estimates and judgement based on the information of the Group that are available to the directors of the Company. However, given substantial portion of the books and records could not be located or accessed and the previous management of the Group did not response to the New Management's request, the Board believes that as at the date of approval of the financial statements, it is impossible and impractical to ascertain the transactions and balances of the Company, Global Milk and the PRC Subsidiaries for inclusion in the financial statements of the Company since the years ended 31 December 2011. Also, due to substantial portion of the books and records of the Group for the current and the previous years could not either be located or accessed, the Board believes that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group or financial statements of the Company for the current and the previous years. Accordingly, the comparative financial information disclosed in the financial statements only represents such information as reported in the financial statements of the Company for the year ended 31 December 2015 and therefore may not be comparable with the figures for the current year.

Given these circumstances, the Board has not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the "De-consolidated Subsidiaries") and no consolidated financial statements of the Company were prepared since the year ended 31 December 2011. As such, the results, assets and liabilities of the De-consolidated Subsidiaries have not been included into the financial statements of the Company since 1 January 2011. The resulting loss on de-consolidation of approximately RMB1,583,093,000, which is determined based on the net asset value of the De-consolidated Subsidiaries as at 1 January 2011 has been recognised in the statement of profit or loss and other comprehensive income during the year ended 31 December 2011 and the resulting movement of approximately RMB55,946,000 has been recorded in the statutory surplus reserve in the statement of change in equity for the year ended 31 December 2011.

In the opinion of the directors of the Company, the financial statements as at and for the year ended 31 December 2016 prepared on the aforementioned basis is the most appropriate way of presenting the results and state of affairs of the Company as the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the transactions and balances related to the Deconsolidated Subsidiaries. However, the de-consolidation of the De-consolidated Subsidiaries is not in compliance with the requirements of International Financial Reporting Standard ("IFRS") 10 "Consolidated Financial Statements". Given the abovementioned circumstances, the directors of the Company are unable to ascertain the impact of the Potential Irregularities with respect to the accounting records and transactions of the De-consolidated Subsidiaries, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements.

Due to limited books of accounts and records available to the directors of the Company, the following disclosures have not been made in the financial statements for the current and previous years:

- Details of the credit policy and aging of debtors and creditors as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules");
- Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and IFRSs;
- Details of allowance account for credit losses, financial risk management and fair value disclosure as required by IFRS 7, Financial Instruments — Disclosures; and
- Entity-wide disclosures as required by IFRS 8, "Operating Segments".

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Company for the current and previous years and net liabilities of the Company for the current and previous years.

Due to the limited financial information available and the previous management of the Group did not response to the New Management's request, the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the genuineness and completeness of books and records and the treatment of various balances as included in the financial statements for the year ended 31 December 2016 and have formed the opinion as follows:

As the financial statements for the year ended 31 December 2016 have been prepared based on the lack of books and records available to the Company, the directors of the Company are unable to represent that all transactions entered into by the Company in respect to the previous years have been properly reflected in the financial statements. In this connection, the directors of the Company are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements for the year ended 31 December 2016 in respect of property, plant and equipment in note 11, prepaid lease payments in note 12, intangible assets in note 13, deferred tax assets/(liabilities) in note 14, inventories in note 15, prepayments and deposits paid in note 16, bank balances and cash in note 17, accrued expenses and other payables in note 18, borrowings in note 19, commitments in note 26 and contingent liabilities in note 27.

As per assessment by the Board, based on the investigations carried out by the Forensic Accountants and the information available at this stage, all identified, required adjustments have been put through in the financial statements for the year ended 31 December 2016. Since the investigations may be ongoing, any further adjustments and disclosures, if required, would be made in the financial statements of the Company as and when the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified, and would have a consequential effect on the net loss of the Company for the year ended 31 December 2016 and net liabilities of the Company as at 31 December 2016.

During the year ended 31 December 2016, the Company incurred loss of approximately HK\$8,835,000. In addition, following de-consolidation of the De-consolidated Subsidiaries, the Company become an investment holding company without conducting other business. It was further disclosed in the Company's announcements dated 19 May 2015, 23 November 2015 and 7 June 2016 respectively that the Stock Exchange has placed the Company in the first delisting stage on 14 May 2015 and subsequently placed in the second and the third delisting stage on 19 November 2015 and 7 June 2016 respectively pursuant to Practice Note 17 of the Rules Governing the listing of Securities on the Stock Exchange (the "Listing Rules"). The directors of the Company have also unable to represent that all present and contingent liabilities of the Company have been completely identified as abovementioned. These conditions indicate the existence of a material uncertainty which may cast significant effect on the Company's ability to continue as a going concern.

As disclosed in the Company's announcement dated 23 June 2015, on 4 May 2015, the New Controlling Shareholder entered into a sale and purchase agreement with Global Courage Limited ("Global Courage") pursuant to which the New Controlling Shareholder agreed to sell and Global Courage agreed to purchase the sale shares, representing of approximately 60.39% of the entire share capital of the Company at a consideration of approximately HK\$61,019,000, representing HK\$0.1 per sale share.

As disclosed in the Company's announcement dated 21 December 2016, the Company has submitted a resumption proposal to the Stock Exchange which contains, among other things: (i) a share consolidation; (ii) proposed acquisition (the "Acquisition") of a target group which is primarily engaged in the operation of a hotpot restaurant chain in the PRC from the independent investors.; (iii) proposed disposal (the "Disposal") of the Company's subsidiaries; (iv) a share placing; (v) an open offer; and (vi) a whitewash waiver. As the Acquisition constitutes a very substantial acquisition and reverse takeover and the Disposal constitutes a very substantial disposal under Chapter 14 of the Listing Rules and the Acquisition is also subject to approval of the new listing application of the Company by the Stock Exchange (the "New Listing Application"). The Company has filed the New Listing Application to the Stock Exchange on 27 February 2017.

Given the circumstance that there exists potential new shareholder to invest in the Company and the New Listing Application, the directors of the Company have adopted the going concern basis in the preparation of the financial statements.

Should the Company be unable to achieve a successful restructuring include but not limit to the New Listing Application and to continue to operate as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

2.2 APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

(a) New and revised standards and interpretations in issue and effective

The Company has adopted the following new and revised IFRSs in respect of the following years:

IFRSs (Amendments)	Annual Improvements IFRSs 2012–2014 Cycle
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendments)	Equity Method in Separate Financial Statements

(b) New and revised standards and interpretations in issue but not yet effective

IFRSs (Amendments)	Annual Improvements IFRSs 2014–2016 Cycle ⁵
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ²
IFRS 4 (Amendments)	Insurance Contracts ²
IFRS 9	Financial Instruments ²
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
IFRS 15	Revenue from Contracts with Customers ²
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers ²
IFRS 16	Leases ³
IAS 7 (Amendments)	Disclosure Initiative ¹
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 as appropriate.

The Company is in the process of making an assessment on the impact of these new/revised standards, amendments and interpretation and does not anticipate that the adoption when they become effective will result in any material impact on the Company's result of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (“IASB”). In addition, the financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance (“CO”).

(b) Basis of consolidation

The financial statements include the financial statements of the Company made up to 31 December 2016.

(c) Business combinations

Business Combinations that took place on or after 1 January 2010

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) Revenue recognition

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

Revenue from sale of goods is recognised when goods are delivered and legal title is passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(f) Foreign currencies*(i) Functional and Presentation Currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in HK\$, which is the functional and presentation currency of the Company.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'.

(g) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at costs less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(k) Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

(I) Intangible assets***Intangible Assets Acquired Separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible Assets Acquired in a Business Combination***Trademarks***

Trademarks acquired in a business combination are identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The costs of trademarks are their fair value at the acquisition date. Subsequent to initial recognition, intangible asset with finite useful life are carried at cost less accumulated amortisation and any accumulated impairment loss. The intangible asset will be amortised on a straight-line basis over its useful lives.

Gains and losses arising from derecognition of an intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognised in profit or loss when the asset is derecognised.

(m) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverse, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(o) Related parties transactions

A party is considered to be related to the Company if:

- (a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);

- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employees are also related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in note (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of the person or that person's spouse or domestic partner.

(p) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Company's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including prepayments and deposits paid and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of Financial Assets

The financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as prepayments and deposits paid, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of prepayments and deposits paid, where the carrying amount is reduces through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial Liabilities

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

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis and is included in finance costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCE OF ESTIMATION

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment loss in respect of prepayments and deposits paid

As explained in note 3, prepayments and deposits paid are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of prepayments and deposits paid and recognised as doubtful debts expenses in the year in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the year ended 31 December 2016 (2015: HK\$Nil). The carrying amount of prepayments and deposits paid as at 31 December 2016 was approximately HK\$14,000 (2015: HK\$250,000).

(b) Useful life and residual value property, plant and equipment

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated. The carrying amount of property, plant and equipment as at 31 December 2016 was approximately HK\$Nil (2015: HK\$Nil).

(c) Income tax

The Company is subject to income tax. As a result of the fact that certain matters relating to the income tax have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the corporate income tax, where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the difference arise.

5. REVENUE AND SEGMENT INFORMATION

No revenue and segment information were presented as the Company did not conduct business during the year.

6. LOSS BEFORE TAXATION

The Company's loss before taxation is arrived at after charging the amounts as set out below.

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:			
Staff costs (including directors' emoluments):			
— Salaries and wages		600	—
— Retirement benefit scheme contributions		<u>12</u>	<u>—</u>
		<u>612</u>	<u>—</u>
Depreciation of property, plant and equipment	11	<u>—</u>	<u>47</u>
Auditors' remuneration		<u>550</u>	<u>708</u>
Loss on disposal of property, plant and equipment		<u>—</u>	<u>495</u>
Operating lease rental expenses		<u>—</u>	<u>268</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Directors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	600	—
— Contributions to retirement plans	<u>12</u>	<u>—</u>
	<u>612</u>	<u>—</u>

Details of the emoluments paid or payable to the individual directors of the Company are as follows:

	Year ended 31 December 2016			Total HK\$'000
	Directors' Fees HK\$'000	Retirement benefit scheme contributions HK\$'000	Other emoluments HK\$'000	
Executive directors:				
— Dr. Choi Chiu Fai, Stanley, “Dr. Choi” (note i)	120	6	—	126
— Mr. Choi Ka Wai, “Mr. Choi” (note ii)	120	6	—	126
— Mr. Wang Delin, “Mr. Wang” (note iii)	—	—	—	—
— Mr. Ng Kwong Chue Paul, “Mr. Ng” (note iv)	—	—	—	—
Non-executive director:				
— Ms. Kou Mei In, “Ms. Kou” (note v)	—	—	—	—
Independent non-executive directors:				
— Mr. Ha Kee Chay Eugene, “Mr. Ha” (note vi)	120	—	—	120
— Mr. Szeto Tat Kwan “Mr. Szeto” (note vii)	120	—	—	120
— Mr. Fok Wai Shiny Zddie “Mr. Fok” (note viii)	120	—	—	120
— Mr. Sze Lin Tang, “Mr. Sze” (note ix)	—	—	—	—
— Mr. Qiu Xiaohua, “Mr. Qiu” (note x)	—	—	—	—
	600	12	—	612
	600	12	—	612

Details of the emoluments paid or payable to directors of the Company are as follows:

	Year ended 31 December 2015			
	Directors' Fees	Retirement benefit scheme contributions	Other emoluments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:				
— Mr. Zhao Chuan Wen, “Mr. Zhao CW”	—	—	—	—
— Mr. Zhao Yu, “Mr. Zhao”	—	—	—	—
— Mr. Wang Delin, “Mr. Wang” (note iii)	—	—	—	—
— Mr. Ng Kwong Chue Paul, “Mr. Ng” (note iv)	—	—	—	—
Non-executive director:				
— Ms. Kou Mei In, “Ms. Kou” (note v)	—	—	—	—
Independent non-executive directors:				
— Mr. Sze Lin Tang, “Mr. Sze” (note ix)	—	—	—	—
— Mr. Qiu Xiaohua, “Mr. Qiu” (note x)	—	—	—	—
	—	—	—	—
	—	—	—	—

During the year ended 31 December 2016, no remuneration was paid by the Company to the directors of the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2015: Nil).

Notes:

- i) Dr. Choi was appointed as executive director and chairman of the Company with effect from 29 January 2016 and 19 February 2016 respectively.
- ii) Mr. Choi was appointed as executive directors of the Company with effect from 29 January 2016.
- iii) Mr. Wang was appointed as executive director and chief executive officer of the Company with effect from 18 August 2011 and resigned as executive director and chief executive officer of the Company on 19 February 2016.
- iv) Mr. Ng was appointed as executive director of the Company with effect from 5 September 2013 and resigned as executive director of the Company with effect from 19 February 2016.
- v) Ms. Kou was appointed as non-executive director of the Company with effect from 5 September 2013 and resigned as non-executive director of the Company with effect from 19 February 2016.

- vi) Mr. Ha was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- vii) Mr. Szeto was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- viii) Mr. Fok was appointed as independent non-executive director of the Company with effect from 29 January 2016.
- ix) Mr. Sze was appointed as independent non-executive director of the Company with effect from 5 September 2013 and resigned as independent non-executive director of the Company with effect from 19 February 2016.
- x) Mr. Qiu was appointed as independent non-executive director of the Company with effect from 1 January 2014 and resigned as independent non-executive director of the Company with effect from 19 February 2016.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, three were the directors of the Company for the year ended 31 December 2016 (2015: None were the directors of the Company), details of whose emoluments are included in the disclosures above.

The emoluments of the individual during the year ended 31 December 2016 (2015: None) were as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries and allowances	—	—
Retirement benefit scheme contributions	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

During the years ended 31 December 2015 and 2016, the emoluments of each of the five highest paid individuals were within the band of nil to HK\$1,000,000.

During the year ended 31 December 2016, no remuneration was paid by the Company to any of the five individuals with the highest emoluments in the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2015: HK\$Nil).

8. INCOME TAX EXPENSES

Hong Kong Profits Tax rate was 16.5% (2015: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company did not have any assessable profit arising in Hong Kong for the year.

The income tax expenses can be reconciled to the loss before taxation per the statement of profit or loss and other comprehensive income as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before taxation	<u>(8,835)</u>	<u>(3,411)</u>
Tax at the Hong Kong tax rates	(1,458)	(563)
Effect of unrecognised deductible losses and deductible temporary differences	<u>1,458</u>	<u>563</u>
	<u>—</u>	<u>—</u>

9. DIVIDEND

No dividend has been paid or proposed by the Company during the year ended 31 December 2016 (2015: HK\$Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(8,835)</u>	<u>(3,411)</u>
	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,010,500,000</u>	<u>1,010,500,000</u>

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares in both years.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
As at 1 January 2015	—	—	—
Additions	—	—	—
As at 31 December 2015 and 1 January 2016	—	—	—
Disposal/written off	—	—	—
As at 31 December 2016	—	—	—
ACCUMULATED DEPRECIATION			
As at 1 January 2015	—	—	—
Charged for the year	—	—	—
As at 31 December 2015 and 1 January 2016	—	—	—
Charged for the year	—	—	—
Disposal/written off	—	—	—
As at 31 December 2016	—	—	—
NET BOOK VALUES			
As at 31 December 2016	—	—	—
As at 31 December 2015	—	—	—

The above items of property, plant and equipment, other than construction in progress, after taking into account of their estimate residual values, are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvement	5 years
Furniture, fixtures and office equipment	5 years

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the property, plant and equipment of the Company for the current and the previous years as of the date of approval of the financial statements.

12. PREPAID LEASE PAYMENTS

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Analysed for reporting purpose as:		
— Non-current assets	—	—
— Current assets	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the prepaid lease payments of the Company for the current and the previous years as of the date of approval of the financial statements.

13. INTANGIBLE ASSETS

	Trademarks <i>HK\$'000</i>
COST	
As at 1 January 2015	—
Additions	<u>—</u>
As at 31 December 2015 and 1 January 2016	—
Additions	<u>—</u>
As at 31 December 2016	<u>—</u>
AMORTISATION	
As at 1 January 2015	—
Charge for the year	<u>—</u>
As at 31 December 2015 and 1 January 2016	—
Charged for the year	<u>—</u>
As at 31 December 2016	<u>—</u>
CARRYING VALUES	
As at 31 December 2016	<u>—</u>
As at 31 December 2015	<u>—</u>

The amounts were amortised on a straight-line basis over a period of 10 years.

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the intangible assets of the Company for the current and the previous years as of the date of approval of the financial statements.

14. DEFERRED TAX ASSETS AND LIABILITIES

The following are the Company's major deferred tax assets/(liabilities) recognised and the movements thereon, during the current and prior years:

	Timing difference on expenses recognition <i>HK\$'000</i>	Fair value adjustments on acquisition <i>HK\$'000</i>	Withholding tax on undistributed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2015	—	—	—	—
Charge to profit or loss	—	—	—	—
As at 31 December 2015 and as at 1 January 2016	—	—	—	—
Charge to profit or loss	—	—	—	—
As at 31 December 2016	—	—	—	—

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to completeness and the accuracy of the deferred tax assets/(liabilities) of the Company for the current and the previous years as of the date of approval of the financial statements.

15. INVENTORIES

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Inventories	—	—

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to completeness and the accuracy of the inventories for the current and the previous years as of the date of approval of the financial statements.

16. PREPAYMENTS AND DEPOSITS PAID

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Prepayments	14	250
Deposits paid	—	—
	<u>14</u>	<u>250</u>

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate the complete books and records of the Company for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. Neither representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the prepayments and deposits paid of the Company, nor perform a detailed analysis of the Company's prepayments and deposits paid aging, credit policy and impairment assessment for the current and the previous years as of the date of approval of the financial statements.

17. BANK BALANCES AND CASH

As at 31 December 2016, the Company's bank balances carry market interest rate of 0.01% per annum (2015: 0.01% per annum).

The Company's bank balances and cash denominated in the following currencies:

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Currency:		
United States Dollars	<u>44</u>	<u>44</u>
HK\$	<u>31</u>	<u>35</u>

As disclosed in note 32 of the Group's consolidated financial statements for the year ended 31 December 2010 (the "2010 Financial Statements"), a bank balances and cash amounted to approximately RMB11,523,000 was recorded on the statement of financial position of the Company at 31 December 2010. Except for bank balances of approximately RMB3,000, the directors of the Company have been unable to locate the bank accounts and whereabouts of the bank balances and cash. The Company engaged the Forensic Accountants to conduct investigations, including (i) send letters to the Predecessor Auditors to request them provide the relevant bank information; and (ii) send letters to banks in Hong Kong (including licensed banks, restricted licensed banks and deposit-taking companies) (collectively referred as to the "Banks") to make enquiry on whether the Company maintained any bank accounts in the Banks. However, as of the date of approval of the financial statements in the previous years, the Predecessor Auditors only replied that the relevant information was not available as it was located in their PRC office. In addition, no Banks has indicated the existence of any bank accounts of the Company up to the date of these financial statements in the previous years. Given these circumstances, the directors of the Company recognised a loss of approximately RMB11,520,000 as other suspense accounts in the statements of profit or loss and other comprehensive income for the year ended 31 December 2011.

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to books and records of the Company, including books and records of certain bank transactions of the Company took place for the current and the previous years. Given incomplete books and records of the Company and the Company's previous management did not response to the request for information, it would be impossible and impracticable to ascertain these bank transactions which took place for the current and the previous years and to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of the bank transactions. Given these circumstances, the directors of the Company have recognised (i) losses of approximately HK\$10,543,000 and HK\$2,538,000 in respect of the aggregate amounts of the credit balances of bank transactions took place during the years ended 31 December 2012 and 2013 respectively as other suspense accounts in the statements of profit or loss and other comprehensive income for the year ended 31 December 2012 and 2013 respectively; and (ii) liabilities of approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place during the year ended 31 December 2012 and 2013 as other payables in the statements of financial position.

No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the bank balances and cash transactions for the current and the previous years as of the date of approval of the financial statements.

18. ACCRUED EXPENSES AND OTHER PAYABLES

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Accrued expenses	4,254	5,728
Amount due to a deconsolidated subsidiary	1,028	1,028
Amount due to related parties	15,321	5,252
Other payables	<u>17,694</u>	<u>17,694</u>
	<u>38,297</u>	<u>29,702</u>

As disclosed in notes 2.1 and 17 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries. In addition, the directors of the Company have been unable to locate books and records of certain bank transactions took place for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it would be impossible and impracticable to ascertain these bank transactions took place for the years ended 2011, 2012 and 2013. It would also be extremely difficult and time consuming to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of these bank transactions. Given these circumstances, the directors of the Company have recognised (i) liabilities of approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place for the years ended 31 December 2012 and 2013; and (ii) liabilities of approximately HK\$4,552,000 in respect of the directors of the Company have been unable to locate relevant books and records in the statements of financial position.

As further disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances of the amount due to a deconsolidated subsidiary and other payables for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of accrued expenses and other payables for the current and the previous years as of the date of approval of the financial statements.

Amounts due to related parties were interest-free and repayable on demand.

19. BORROWINGS

	As at 31 December 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Bank borrowings	—	—
— Unsecured	<u>—</u>	<u>—</u>

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the borrowings for the current and the previous years as of the date of approval of the financial statements.

20. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares		
Authorised:		
As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 (HK\$0.00001 each)	<u>38,000,000,000</u>	<u>380</u>
	Number of shares	Share capital <i>HK\$'000</i>
Issued:		
As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	<u>1,010,500,000</u>	<u>10</u>

21. SHARE-BASED PAYMENTS

As set out in note 15 to the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 which were authorised for issue on 18 August 2011 (the “2011 Interim Report”), the Company’s share option scheme (the “Scheme”) was adopted pursuant to a resolution passed on 10 October 2010 for the purpose to reward the directors and employees who have contributed to the Group and to encourage the directors and employees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on 9 October 2020. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme of the Company shall not, in the absence of shareholders’ approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the listing date.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Scheme in any 12-month period shall not exceed 1% of the shares in issue for the time being.

Where any further grant of options to a director or employee would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders in general meeting with such director or employee and his associates abstaining from voting. The Company must send a circular to the shareholders disclosing the identity of the director or employee in question, the number and terms of the options to be granted (and options previously granted to such director or employee) and such other information required under the Listing Rules.

At any time, the maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time.

No share options have been granted pursuant to the Scheme during the years ended 31 December 2015 and 2016.

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Financial assets		
Loan and receivables (including bank balances and cash)	<u>—</u>	<u>—</u>
Financial liabilities		
Amortised cost	<u>38,297</u>	<u>29,702</u>

(b) Financial risk management objective and policies

The Company's major financial instruments include deposits paid, bank balances and cash and accrued expenses and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Market Risk

Foreign Currency Risk

The Company operates in Hong Kong. There is no material foreign exchange risk noted for the Company as the operations and customers of the Company are located in Hong Kong with most of the assets and transactions denominated and settled in Hong Kong Dollars, which is the functional currency of the Company.

Liquidity Risk Management

The Company manages liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended credit lines of funding from major financial institutions to meet the Company's liquidity requirements in the short and long term. The liquidity risk is under continuous monitoring by management. The Company will raise or refinance bank borrowings whenever necessary.

At the end of the reporting period, the Company did not have significant exposure to liquidity risk.

The contractual maturities at the end of the reporting period of the Company's financial liabilities which are required to be repaid on demand or within one year amounted to approximately HK\$38,297,000 (2015: HK\$29,702,000).

	Weighted average effective interest rate %	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2016						
Non-derivative instruments						
Accrued expenses	—	4,254	—	—	4,254	4,254
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	15,321	—	—	15,321	15,321
Other payables	—	17,694	—	—	17,694	17,694
		<u>38,297</u>	<u>—</u>	<u>—</u>	<u>38,297</u>	<u>38,297</u>
	Weighted average effective interest rate %	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2015						
Non-derivative instruments						
Accrued expenses	—	5,728	—	—	5,728	5,728
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	5,252	—	—	5,252	5,252
Other payables	—	17,694	—	—	17,694	17,694
		<u>29,702</u>	<u>—</u>	<u>—</u>	<u>29,702</u>	<u>29,702</u>

(c) Fair value of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate to their fair values.

23. CAPITAL RISK MANAGEMENT

The Company's primary objectives when managing capital are to safeguard the abilities of the entities in the Company to continue as a going concern, so that it can continue to provide returns for shareholder of the Company and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The directors of the Company actively and regularly review and manage the Company's capital structure to maximise the returns to shareholder through the optimisation of the debt afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. The Company's overall strategy remains unchanged from 2015.

Consistent with others in the industry, the Company monitors its capital structure on the basis of the gearing ratio. At 31 December 2016, the Company's gearing ratio was undefined because the Company did not have any borrowings at the end of each reporting period.

24. RETIREMENT BENEFIT PLANS

The employees of the Company in the PRC are members of a state-managed retirement benefits plans operated by the PRC Government. The Company is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits plans is to make the specified contributions under the scheme.

The amounts of contributions made by the Company in respect of the retirement benefit plans during the year ended 31 December 2015 are disclosed in note 6.

25. RELATED PARTY TRANSACTIONS

(a) Balances with related parties

Save as disclosed in notes elsewhere to the financial statements, the Company did not have any significant material related party transactions during the year.

(b) Key management personnel emoluments

The remuneration for key management is disclosed in note 7.

26. COMMITMENTS

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the disclosure of commitments for the current and the previous years as of the date of approval of the financial statements.

27. CONTINGENT LIABILITIES

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the current and the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the disclosure of contingent liabilities for the current and the previous years as of the date of approval of the financial statements.

28. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, the Company had the following events after the end of the reporting period:

(a) The 17 February 2017 announcement

Ms. Wong Po Ling Pauline has tendered her resignation as the company secretary of the Company and Mr. Wong Chun Kit has been appointed as the company secretary of the Company.

(b) The 21 February 2017 announcement

The Company clarified and supplemented that the resumption proposal involves the grant of a whitewash waiver as completion of the Acquisition is conditional upon, among other things, the grant of a whitewash waiver in respect of the obligation of the vendors of the target group to make a mandatory general offer to other shareholders of the Company as a result of the allotment and issue of the new shares of the Company (including the exercise of the conversion rights attaching to the convertible securities of the Company to be issued upon completion) to the vendors of the target group for the settlement of the consideration of the Acquisition pursuant to Note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Repurchases (the “Whitewash Wavier”). The grant of Whitewash Wavier is one of the conditions for the completion of the Acquisition, which is non-waivable by any party to the Acquisition agreement.

(c) The 23 February 2017 announcement

The Company appointed Hooray Capital Limited as an independent financial adviser in respect of the Acquisition, the Whitewash Waiver and the transactions contemplated thereunder.

(d) The 27 February 2017 announcement

On 27 February 2017, the Company filed the New Listing Application to the Stock Exchange in relation to the Acquisition which constitutes a very substantial acquisition, connected transaction and reverse takeover involving a New Listing Application under the Listing Rules.

29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position and the statement of changes in equity of the Company are set out in page 59, page 60 and page 61 respectively.

30. INVESTMENT IN THE DE-CONSOLIDATED SUBSIDIARIES

As explained in note 2.1, the directors of the Company were unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years and the previous management of the Group did not response to any request for information. The financial results, assets and liabilities of the De-consolidated Subsidiaries have not been included in financial statements of the Company and no consolidated financial statements were prepared since 1 January 2011. Details of the De-consolidated Subsidiaries at the end of the reporting period are set out as below:

Name	Place and date of incorporation/establishment	Issued and fully paid share capital/registered capital	Attributable equity interest held	Principal activities
Global Milk	The Republic of Singapore 15 September 2006	SS1	100%	Investment holding
Da Qing Dairy	The PRC 29 October 1997	RMB638,000,000	100%	Manufacture marketing and sales of dairy products
Chang Qing Dairy	The PRC 7 August 2008	RMB260,738,890	100%	Manufacture marketing and sales of dairy products
Benniu Muye	The PRC 25 November 2010	RMB5,000,000	100%	Dairy farming

III. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31 December 2015.

INDEPENDENT AUDITORS' REPORT



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF DAQING DAIRY HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

We were engaged to audit the financial statements of Daqing Dairy Holdings Limited (the “**Company**”) set out on pages 49 to 127, which comprise the Company statements of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“**IFRSs**”) and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

BASIS FOR DISCLAIMER OF OPINION**a) Opening balances and the comparative information**

The opening balances and the comparative figures disclosed in the financial statements are based on the audited financial statements of the Company for the years ended 31 December 2014 of which our auditors' report dated 21 January 2016 expressed a disclaimer opinion. The matters which resulted in that disclaimer opinion included (a) departure from IFRS 10 "Consolidated Financial Statements"; (b) amount due to a deconsolidated subsidiary; (c) accrued expenses and other payables; (d) contingent liabilities and commitments; and (e) going concern basis of accounting. Due to lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the opening balances as at 1 January 2015 and the comparative figures for the years ended 31 December 2013 and 2014 were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including International Accounting Standard ("IAS") 1 "Presentation of Financial Statements". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the opening balances and the comparative figures were free from material misstatement. Any adjustments to the opening balances as at 1 January 2015 that would be required may have a consequential significant effect on the Company's assets and liabilities as at 1 January 2015 and 31 December 2015 and its results for the years ended 31 December 2014 and 2015, and the presentation and disclosure thereof in the financial statements.

b) Departure from International Financial Reporting Standard 10 "Consolidated Financial Statements"

As disclosed in note 2.1 to the financial statements, the predecessor auditors of the Company (the "Predecessor Auditors") identified certain potential irregularities in respect of certain accounting records and transactions recorded in the books of the Company's indirectly wholly-owned subsidiaries incorporated in the People's Republic of China (the "PRC") namely, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司), Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) and Wuchang Benniu Muye Co., Ltd (五常犇牛牧業有限責任公司) (collectively referred as to the "PRC Subsidiaries"). The Predecessor Auditors subsequently resigned on 21 March 2012. As disclosed in note 2.1 to the financial statements of the Company, certain new directors were appointed following the change in controlling shareholder and it was announced on 6 November 2013 that a firm of forensic accounting specialists (the "Forensic Accountants") was appointed to investigate these potential irregularities (the "Forensic Investigation"). Both the Forensic Accountants and the directors of the Company have been unable to get access to the books and records of the PRC Subsidiaries. The directors of the Company have also been unable to locate the complete books and records of the Company and Global Milk Products Pte. Ltd. which is the Company's directly wholly-owned subsidiary incorporated in the Republic of Singapore ("Global Milk"). The directors of the Company have further confirmed to us that the previous management of the Company and its subsidiaries (the "Group") did not response to their request for any information of the Group. Furthermore, the Company resolved to put Global Milk into winding up in a shareholder's meeting held on 3 December 2015.

Given these circumstances, the directors of the Company have not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the “Deconsolidated Subsidiaries”) and no consolidated financial statements of the Company were prepared for the years ended 31 December 2014 and 2015.

The directors of the Company have determined to exclude the De-consolidated Subsidiaries in presenting the financial position, results of operations and cash flows and did not prepare consolidated financial statements for the Group under the above mentioned circumstances. The exclusion of the financial position, results and cash flows of the Deconsolidated Subsidiaries and no consolidated financial statements have been prepared for the Group is a departure from the requirements of IFRS 10 “Consolidated Financial Statements”.

Due to the lack of complete books and records of the Deconsolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanation to assess the accounting treatment on de-consolidation of the Deconsolidated Subsidiaries and the resulting movement in the statutory surplus reserve. We are also unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Group, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements of the Company. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2015 and the loss attributable to owners of the Company for the year then ended.

c) Bank balances and cash

Included in the “bank balances and cash” in the statement of financial position of the Company as at 31 December 2015 with carrying amount of approximately HK\$79,000 (the “Bank Balances and Cash”). We were unable to obtain sufficient appropriate audit evidence regarding the Bank Balances and Cash because: (i) we were unable to carry out any effective confirmation procedures in relation to the Bank Balances and Cash for the purpose of our audit; and (ii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Bank Balances and Cash were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Company’s net liabilities at 31 December 2015 and consequently net loss and cash flows of the Company for the year ended 31 December 2015, and the related disclosures thereof in the financial statements.

d) Amount due to a deconsolidated subsidiary

As disclosed in note 18 to these financial statements, the Company recorded an amount due to a deconsolidated subsidiary of approximately HK\$1,028,000. As further disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate the complete books and records of the Company and Global Milk and have been unable to get access to the books and records of the PRC Subsidiaries. Due to the lack of complete books and records of the Company, Global Milk and the PRC Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence to determine whether the amount due to a deconsolidated subsidiary was properly recorded and accounted for and in compliance

with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amount due to a deconsolidated subsidiary were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2015 and loss attributable to the owners of the Company for the year then end.

e) Accrued expenses and other payables

As disclosed in notes 2.1 and 18 to the financial statements, included in the accrued expenses and other payables in the statement of financial position of the Company as at 31 December 2015 were other payables of approximately HK\$17,694,000 among which (i) HK\$13,142,000 were liabilities recognised in respect of the aggregate amounts of the debit balances of bank transactions as the directors of the Company were unable to locate complete books and records of bank accounts and whereabouts of these bank balances and cash as of the date of approval of the financial statements; and (ii) HK\$4,552,000 were other payables that the directors of the Company have been unable to locate the relevant books and records. Due to the lack of complete books and records of the Company, we have been unable to obtain sufficient appropriate audit evidence as to whether the accrued expenses and other payables were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the accrued expenses and other payables were free from material misstatements. Any adjustments that would be required may have a consequential significant effect on the balances of the Company's accrued expenses and other payables, the Company's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Company for the year ended 31 December 2015, and the related disclosures thereof in the financial statements.

f) Contingent liabilities and commitments

As disclosed in note 2.1 to the financial statements, due to the lack of complete books and records of the Company and the De-consolidated Subsidiaries, we have been unable to obtain sufficient appropriate audit evidence and explanations as to whether the contingent liabilities and commitments committed by the Company were properly recorded and accounted for and in compliance with the requirements of applicable IFRSs including IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 39 "Financial Instruments: Recognition and Measurement". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements. Any adjustment that would be required may have a consequential significant effect on the net liabilities of the Company as at 31 December 2015 and the loss attributable to the owners for the year then ended and the related disclosures thereof in the financial statements.

g) Going concern basis of accounting

As explained in note 2.1 to the financial statements, in making their assessment of the Company's ability to continue as a going concern, the directors of the Company have considered (i) the Company incurred a loss attributable to the owners of the Company of

approximately HK\$3,411,000 for the year ended 31 December 2015 and as of that date, the Company's total liabilities exceeded its total assets by approximately HK\$29,373,000; (ii) following de-consolidation of the Deconsolidated Subsidiaries, the Company becomes an investment holding company without conducting other business; (iii) the Company has been placed in the second delisting stage as of the date of the financial statements; and (iv) as disclosed in note 2.1, the directors of the Company are unable to represent that all present and contingent liabilities or assets of the Company have been completely identified. Given these circumstances, which are more fully described in note 2.1, there were no practicable audit procedures that we could perform to form an opinion on whether management has considered all relevant events and conditions when making assessment on the Company's ability to continue as a going concern.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company as at 31 December 2015, and of the Company's financial performance and cash flows for the year then ended in accordance with IFRSs and as to whether the financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER THE NEW HONG KONG COMPANIES ORDINANCE (CAP. 622)

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the items stated under Basis for Disclaimer of Opinion for the year ended 31 December 2015,

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept for the year ended 31 December 2015.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Yu Chi Fat

Practising Certificate Number: P05467

Hong Kong, 31 March 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Revenue	5	—	—
Cost of sales		—	—
Gross profit		—	—
Administration expenses		(3,411)	(3,414)
Loss before taxation	6	(3,411)	(3,414)
Income tax expenses	8	—	—
LOSS FOR THE YEAR		<u>(3,411)</u>	<u>(3,414)</u>
Total comprehensive loss for the year		<u>(3,411)</u>	<u>(3,414)</u>
Loss for the year attributable to the owners of the Company		<u>(3,411)</u>	<u>(3,414)</u>
Total comprehensive loss for the year attributable to owners of the Company		<u>(3,411)</u>	<u>(3,414)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
Basic and diluted		<u>HK\$(0.003)</u>	<u>HK\$(0.003)</u>

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015

		As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
	<i>Notes</i>			
Non-current assets				
Property, plant and equipment	11	—	542	632
Prepaid lease payments	12	—	—	—
Intangible assets	13	—	—	—
Deferred tax assets	14	—	—	—
		—	542	632
Current assets				
Inventories	15	—	—	—
Prepayments and deposits paid	16	250	631	591
Prepaid lease payments	12	—	—	—
Bank balances and cash	17	79	73	65
		329	704	656
Current liabilities				
Accrued expenses and other payables	18	29,702	27,208	23,836
		29,702	27,208	23,836
Net current liabilities		(29,373)	(26,504)	(23,180)
Total assets less current liabilities		(29,373)	(25,962)	(22,548)

		As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Capital and reserves				
Share capital	20	10	10	10
Reserves		(29,383)	(25,972)	(22,558)
		<u>(29,373)</u>	<u>(25,962)</u>	<u>(22,548)</u>
Non-current liabilities				
Deferred tax liabilities	14	—	—	—
Borrowings	19	—	—	—
		<u>—</u>	<u>—</u>	<u>—</u>
		<u>(29,373)</u>	<u>(25,962)</u>	<u>(22,548)</u>

The financial statements on pages 49 to 127 were approved and authorised for issue by the board of directors on 31 March 2016 and are signed on its behalf by:

Choi Chiu Fai Stanley
Director

Choi Ka Wai
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014 (Restated)	10	1,340,093	13,012	(1,375,663)	(22,548)
Loss for the year (Restated)	—	—	—	(3,414)	(3,414)
Total comprehensive loss for the year (Restated)	—	—	—	(3,414)	(3,414)
Lapse of the share options (Restated)	—	—	(13,012)	13,012	—
At 31 December 2014 and 1 January 2015 (Restated)	10	1,340,093	—	(1,366,065)	(25,962)
Loss for the year	—	—	—	(3,411)	(3,411)
Total comprehensive loss for the year	—	—	—	(3,411)	(3,411)
At 31 December 2015	10	1,340,093	—	(1,369,476)	(29,373)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Operating activities		
Loss before taxation	(3,411)	(3,414)
Adjustments for:		
Depreciation	47	139
Loss on disposal/written off of property, plant and equipment	495	—
	<u>(2,869)</u>	<u>(3,275)</u>
Operating cash flows before movements in working capital	(2,869)	(3,275)
Increase in amount due to a related company	882	2,472
Decrease (increase) in prepayments and deposits paid	381	(40)
Increase in accrued expenses and other payables	1,612	900
	<u>6</u>	<u>57</u>
Cash generated from operations	6	57
Income tax paid	—	—
	<u>6</u>	<u>57</u>
Net cash generated from operating activities	<u>6</u>	<u>57</u>
Investing activity		
Purchase of property, plant and equipment	—	(49)
	<u>—</u>	<u>(49)</u>
Net cash used in investing activity	<u>—</u>	<u>(49)</u>
Net increase in cash and cash equivalents	6	8
Cash and cash equivalents at beginning of the year	73	65
	<u>79</u>	<u>73</u>
Cash and cash equivalents at ending of the year	<u><u>79</u></u>	<u><u>73</u></u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2015***1. GENERAL**

Daqing Dairy Holdings Limited (the “Company”) is a limited company incorporated in the Cayman Islands on 15 October 2009.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 2512, 25/F, Cosco Tower, 183 Queen’s Road Central, Hong Kong.

The current board of directors has revisited the business plan and strategy of the Company. Since the Company is operating in Hong Kong and their business transactions in terms of operating, investing and financing activities are mainly denominated in Hong Kong Dollar (“HK\$”), the directors decided to change the presentation currency of the Company from Renminbi (“RMB”) to HK\$ that for a more appropriate presentation. The change in presentation currency of the Company has been applied retrospectively. All assets and liabilities are translated into the new presentation currency at the beginning of the comparative period (i.e. 1st January 2014) using the opening exchange rate and retranslated at the respective closing rates at the end of each reporting periods. Statements of profit or loss and other comprehensive income are translated at an average rate in each financial year presented. The financial statements of the Company are presented in HK\$.

The Company acts as an investment holding company.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 October 2010 (the “Listing”). Trading in the shares of the Company has been suspended since 22 March 2012.

2.1 BASIS OF PREPARATION

The financial statements as at and for the year ended 31 December 2015 comprise the Company.

As disclosed in the Company’s announcement dated 29 March 2012, during the audit process in respect of the financial year ended 31 December 2011, irregularities were identified by Deloitte Touche Tohmatsu, the predecessor auditors of the Company (the “Predecessor Auditors”) that (i) certain milk procurement transactions brought to the attention of management and acknowledged by them to be fraudulent; (ii) unexplained differences between sales receipt notes sighted during the Predecessor Auditors’ works in February 2012 and documents purporting to be the same sales receipt notes returned to the Company in March 2012 ostensibly following a Tax Bureau investigation; (iii) the explanation provided by management — The Tax Bureau investigation — for removing accounting records which were then not available to the Predecessor Auditors continuously during the audit; (iv) the validity and commercial substance of acquisitions of milk stations, farm houses and Holstein cattle; and (v) difficulties the Predecessor Auditors encountered during their visits to the local branch of one of the banks of the Company and its subsidiaries (the “Group”) (collectively referred as to the “Potential Irregularities”). The Predecessor Auditors tendered its resignation as auditors of the Company with effect from 21 March 2012 and the Company applied for suspension of trading in the shares on the Main Board of the Stock Exchange on 22 March 2012.

It was further disclosed in the Company’s announcement dated 29 March 2012 that an independent review committee comprised of the independent non-executive directors at that material time and other qualified independent individuals has been established to conduct a review on the Potential Irregularities raised by the Predecessor Auditors.

As disclosed in the Company's announcements dated 18 May 2012 and 20 June 2012, during May and June 2012, those independent non-executive directors at that material time forming the independent review committee tendered their resignation as the independent non-executive directors of the Company.

As disclosed in the Company's announcement dated 9 January 2013, on 2 January 2013, it was discovered that the heating pipes of the offices of a subsidiary, Da Qing Dairy Ltd. (大慶乳品廠有限責任公司) ("Da Qing Dairy"), located in Daqing City, Heilongjiang Province of the People's Republic of China ("PRC"), were cracked as result of severe coldness in the northern area of the PRC and pipeline aging. Due to cracking of the heating pipes, the first and the second floors of the offices had been soaked, and extensive damages were caused to the office facilities, computers and documents in the office of finance, logistics, administration and engineering departments of the Group (collectively referred to as the "Incident").

As disclosed in the Company's announcement dated 18 April 2013, on 8 February 2013, Mr. Zhao Yu, then controlling shareholder of the Company at that material time, entered into a sale and purchase agreement pursuant to which Mr. Zhao agreed to sell and Radiant State Limited (the "New Controlling Shareholder") agreed to purchase the sale shares, representing 52.16% of the entire share capital of the Company at a consideration of HK\$52,704,000 in cash, representing HK\$0.1 per sale share (collectively referred to as the "Purchase").

As disclosed in the Company's announcement dated 5 July 2013, the New Controlling Shareholder received valid acceptances in respect of a total 83,153,622 shares in the Company under the unconditional mandatory cash offer (the "Share Acceptance"), representing 8.23% of the entire issued share capital of the Company. Following completion of the Purchase and the Share Acceptance, the New Controlling Shareholder held 60.39% equity interest in the Company. As disclosed in the Company announcement dated 5 September 2013, Mr. Ng Kwong Chue Paul was appointed as executive director of the Company, Ms. Kou Mei In was appointed as non-executive director of the Company and Mr. Sze Lin Tang was appointed as an independent non-executive director of the Company (the "New Management").

As disclosed in the Company's announcement dated 6 November 2013, the Company engaged RSM Corporate Advisory (Hong Kong) Limited (formerly known as "RSM Nelson Wheeler Corporate Advisory Limited") (the "Forensic Accountants") to carry out forensic investigation in respect of the Potential Irregularities (the "Forensic Investigation"). It was further disclosed in the Company's announcements dated 29 January 2014, 4 April 2014, 13 June 2014, 5 September 2014, 28 November 2014 and 30 April 2015 that (1) the Forensic Accountants were yet to commence their field work as the Company and the Forensic Accountants have encountered difficulties in procuring relevant parties including the previous management of the Group to cooperate in the field work of the Forensic Investigation; (2) two PRC law firms were engaged with the objectives to (i) effect the change of legal representatives and board of directors of Da Qing Dairy, Heilongjiang Chang Qing Dairy Products Co., Ltd. (黑龍江常慶乳業有限責任公司) ("Chang Qing Dairy") and Wuchang Benniu Muye Co., Limited (五常犇牛牧業有限責任公司) ("Benniu Muye") (collectively referred as to the "PRC Subsidiaries") through legal means; and (ii) obtain information requested by the Forensic Accountants; and (3) the contemplate change of respective legal representatives of the PRC Subsidiaries could not be effected and due to insufficient financial resources of the Company, the Forensic Investigation has been temporarily halted.

In addition, the New Controlling Shareholder appointed two individuals into the board of directors of its wholly-owned subsidiary, Global Milk Products Pte. Ltd., which is incorporated in the Republic of Singapore ("Global Milk"). However, the directors of the Company could not locate complete books and records of the Company and Global Milk and the previous managements of the Company and Global Milk have continued ignoring the request for any information. Subsequently in the shareholders meeting of Global Milk held on 3 December 2015, the Company resolved to put Global Milk into winding up, subject to further advice from legal advisers.

Given the circumstances that the directors of the Company have been unable to locate complete books and records of the Company and Global Milk and to get access to the books and records of the PRC Subsidiaries and in the absence of the Group's previous management to explain and validate the true state of the affairs of the Company at 31 December 2011, 2012 and 2013, it would be extremely difficult and time consuming to ascertain the true and correct financial position and profit or loss of 31 December 2011, 2012 and 2013 for the Company or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the years and various balances of the Company as at 31 December 2011, 2012 and 2013, and Global Milk and the PRC Subsidiaries for the current and the previous years. In the Company's board of directors (the "Board")' opinion, any reconstruction of the correct accounting records would also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with the Group's previous management or those responsible for the financial information which the Predecessor Auditors identified the Potential Irregularities within and outside of the Group.

As of the date of the financial statements of the Company, the directors of the Company have used its best effort, to the extent commercially practicable, to reconstruct the accounting records of the Company for the years ended 31 December 2011, 2012 and 2013 and Global Milk and the PRC Subsidiaries for the current and the previous years applying the best estimates and judgement based on the information of the Group that are available to the directors of the Company. However, given substantial portion of the books and records could not be located or accessed and the previous management of the Group did not response to the New Management's request, the Board believes that as at the date of approval of the financial statements, it is impossible and impractical to ascertain the transactions and balances of the Global Milk and the PRC Subsidiaries for inclusion in the financial statements of the Company since the years ended 31 December 2011. Also, due to substantial portion of the books and records of the Group for the previous years could not either be located or accessed, the Board believes that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group or financial statements of the Company for the previous years. Accordingly, the comparative financial information disclosed in the financial statements only represents such information as reported in the financial statements of the Company for the year ended 31 December 2014 and therefore may not be comparable with the figures for the current year.

Given these circumstances, the Board has not consolidated the financial statements of Global Milk and the PRC Subsidiaries (collectively referred to as the "De-consolidated Subsidiaries") and no consolidated financial statements of the Company were prepared since the year ended 31 December 2011. As such, the results, assets and liabilities of the De-consolidated Subsidiaries have not been included into the financial statements of the Company since 1 January 2011. The resulting loss on de-consolidation of approximately RMB1,583,093,000, which is determined based on the net asset value of the De-consolidated Subsidiaries as at 1 January 2011 has been recognised in the statement of profit or loss and other comprehensive income during the year ended 31 December 2011 and the resulting movement of approximately RMB55,946,000 has been recorded in the statutory surplus reserve in the statement of change in equity for the year ended 31 December 2011.

In the opinion of the directors of the Company, the financial statements as at and for the year ended 31 December 2015 prepared on the aforementioned basis is the most appropriate way of presenting the results and state of affairs of the Company as the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the transactions and balances related to the Deconsolidated Subsidiaries. However, the de-consolidation of the De-consolidated Subsidiaries is not in compliance with the requirements of International Financial Reporting Standard ("IFRS") 10 "Consolidated Financial Statements". Given the abovementioned circumstances, the directors of the Company are unable to ascertain the impact of the Potential Irregularities with respect to the accounting records and transactions of the De-consolidated Subsidiaries, if any, and the de-consolidation of the De-consolidated Subsidiaries on the financial statements.

Due to limited books of accounts and records available to the directors of the Company, the following disclosures have not been made in the financial statements for the year ended 31 December 2013 and 2014:

- Details of the credit policy and aging of debtors and creditors as required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”);
- Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and IFRSs;
- Details of allowance account for credit losses, financial risk management and fair value disclosure as required by IFRS 7, Financial Instruments — Disclosures; and
- Entity-wide disclosures as required by IFRS 8, “Operating Segments”.

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Company for the year ended 31 December 2014 and 2015 and net liabilities of the Company as at 31 December 2014 and 2015.

Due to the limited financial information available and the previous management of the Group did not response to the New Management’s request, the directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the genuineness and completeness of books and records and the treatment of various balances as included in the financial statements for the year ended 31 December 2015 and have formed the opinion as follows:

As the financial statements for the year ended 31 December 2015 have been prepared based on the lack of books and records available to the Company in respect to the previous years, the directors of the Company are unable to represent that all transactions entered into by the Company for the previous years have been properly reflected in the financial statements. In this connection, the directors of the Company are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of property, plant and equipment in note 11, prepaid lease payments in note 12, intangible assets in note 13, deferred tax assets/(liabilities) in note 14, inventories in note 15, prepayments and deposits paid in note 16, bank balances and cash in note 17, accrued expenses and other payables in note 18, borrowings in note 19, commitments in note 26 and contingent liabilities in note 27.

As per assessment by the Board, based on the investigations carried out by the Forensic Accountants and the information available at this stage, all identified, required adjustments have been put through in the financial statements for the year ended 31 December 2015. Since the investigations may be ongoing, any further adjustments and disclosures, if required, would be made in the financial statements of the Company as and when the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified, and would have a consequential effect on the net loss of the Company for the year ended 31 December 2015 and net liabilities of the Company as at 31 December 2015.

During the year ended 31 December 2015, the Company incurred loss of approximately HK\$3,411,000. In addition, following de-consolidation of the De-consolidated Subsidiaries, the Company become an investment holding company without conducting other business. It was further disclosed in the Company’s announcements dated 19 May 2015 and 23 November 2015 respectively that the Stock Exchange has placed the Company in the first delisting stage on 14 May 2015 and subsequently placed in the second delisting stage on 19 November 2015 pursuant to Practice Note 17 of the Listing Rules. The directors of the Company have also unable to represent that all present and contingent liabilities of the Company have been completely identified as abovementioned. These conditions indicate the existence of a material uncertainty which may cast significant effect on the Company’s ability to continue as a going concern.

As disclosed in the Company's announcement dated 23 June 2015, on 4 May 2015, the New Controlling Shareholder entered into a sale and purchase agreement with Global Courage Limited ("Global Courage") pursuant to which the New Controlling Shareholder agreed to sell and Global Courage agreed to purchase the sale shares, representing of approximately 60.39% of the entire share capital of the Company at a consideration of approximately HK\$61,019,000, representing HK\$0.1 per sale share.

Given the circumstance that there exists potential new shareholder to invest in the Company, the directors of the Company have adopted the going concern basis in the preparation of the financial statements.

Should the Company be unable to achieve a successful restructuring and to continue to operate as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

2.2 APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND NEW HONG KONG COMPANIES ORDINANCE (CAP. 622)

(a) Changes in accounting policy and disclosures

The Company has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

IAS 19 Amendments	Amendments to IAS 19 Employee Benefits — Defined Benefit Plan: Employee Contributions
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs issued
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs issued

The application of the amendments to IFRSs in the current year has had no material impact on the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

(b) Issued but not yet effective International Financial Reporting Standards

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements:

IFRS 9 (2014)	Financial Instruments ³
Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
IFRS 14	Regulatory Deferral Accounts ⁴
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Lease ⁵
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ¹
Amendments to IAS 27 (2011)	Equity Method in Separate Financial Statements ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to IAS 1	Disclosure Initiative ¹
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs ¹

- ¹ Effective for annual periods beginning on or after 1 January 2016
- ² Effective for annual periods beginning on or after 1 January 2017. In July 2015, the IASB confirmed to delay the effective date by one year to 1 January 2018
- ³ Effective for annual periods beginning on or after 1 January 2018
- ⁴ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Company
- ⁵ Effective for annual periods on or after 1 January 2019

The directors of the Company do not anticipate that the application of the new and revised IFRSs will have a material impact on the Company's financial statements.

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are change to presentation and disclosures of certain information in the financial statements.

In addition, the Company also adopted the amendments to the Listing Rules relating to the disclosure of financial information with reference to the new Hong Kong Companies Ordinance (Cap. 622). The main impact relates to the presentation and disclosure of certain information in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or the Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these financial statements.

(b) Basis of consolidation

The financial statements include the financial statements of the Company made up to 31 December 2015.

(c) Business combinations*Business combinations that took place on or after 1 January 2010*

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent

reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) Revenue recognition

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

Revenue from sale of goods is recognised when goods are delivered and legal title is passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(f) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in HK\$, which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'.

(g) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at costs less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(k) Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

(l) Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Trademarks

Trademarks acquired in a business combination are identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The costs of trademarks are their fair value at the acquisition date. Subsequent to initial recognition, intangible asset with finite useful life are carried at cost less accumulated amortisation and any accumulated impairment loss. The intangible asset will be amortised on a straight-line basis over its useful lives.

Gains and losses arising from derecognition of an intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognised in profit or loss when the asset is derecognised.

(m) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverse, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(o) Related parties transactions

A party is considered to be related to the Company if:

- (a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group(which means that each parent, subsidiary and fellow subsidiaries is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employees are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in note (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

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

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Company and a related party, regardless of whether a price is charged.

(p) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including prepayments and deposits paid and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

The financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as prepayments and deposits paid, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of prepayments and deposits paid, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis and is included in finance costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCE OF ESTIMATION

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment loss in respect of prepayments and deposits paid

As explained in note 3, prepayments and deposits paid are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of prepayments and deposits paid and recognised as doubtful debts expenses in the year in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the year ended 31 December 2015 (2014: (Restated) HK\$ Nil). The carrying amount of prepayments and deposits paid as at 31 December 2015 was approximately HK\$250,000 (2014: (Restated) HK\$631,000).

(b) Useful life and residual value property, plant and equipment

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated. The carrying amount of property, plant and equipment as at 31 December 2015 was approximately HK\$Nil (2014: (Restated) HK\$542,000).

(c) Income tax

The Company is subject to income tax. As a result of the fact that certain matters relating to the income tax have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the corporate income tax, where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the difference arise.

5. REVENUE AND SEGMENT INFORMATION

No revenue and segment information were presented as the Company did not conduct business during the year.

6. LOSS BEFORE TAXATION

The Company's loss before tax is arrived at after charging the amounts as set out below.

	<i>Note</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Loss before taxation has been arrived at after charging:			
Staff costs (including directors' emoluments):			
— Salaries and wages		—	—
— Retirement benefit scheme contributions		—	—
		<u>—</u>	<u>—</u>
Depreciation of property, plant and equipment	11	<u>47</u>	<u>139</u>
Auditors' remuneration		<u>708</u>	<u>400</u>
Loss on disposal of property, plant and equipment		<u>495</u>	<u>—</u>
Operating lease rental expenses		<u>268</u>	<u>804</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Directors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	—	—
— Contributions to retirement plans	—	—
	<u>—</u>	<u>—</u>

Details of the emoluments paid or payable to the individual directors of the Company are as follows:

	Year ended 31 December 2015			
	Directors' Fees	Retirement		Total
		benefit scheme contributions	Other emoluments	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Executive directors:				
— Mr. Wang Delin, “Mr. Wang” (note iii)	—	—	—	—
— Mr. Ng Kwong Chue Paul, “Mr. Ng” (note vii)	—	—	—	—
Non-executive director:				
— Ms. Kou Mei In, “Ms. Kou” (note viii)	—	—	—	—
Independent non-executive directors:				
— Mr. Sze Lin Tang, “Mr. Sze” (note ix)	—	—	—	—
— Mr. Qiu Xiaohua, “Mr. Qiu” (note x)	—	—	—	—
	—	—	—	—
	—	—	—	—

Details of the emoluments paid or payable to directors of the Company are as follows:

	Year ended 31 December 2014			
	Directors' Fees	Retirement		Total
		benefit scheme contributions	Other emoluments	
HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	
Executive directors:				
— Mr. Zhao Chuan Wen, “Mr. Zhao CW” (note i)	—	—	—	—
— Mr. Zhao Yu, “Mr. Zhao” (note ii)	—	—	—	—
— Mr. Wang Delin, “Mr. Wang” (note iii)	—	—	—	—
— Mr. Ng Kwong Chue Paul, “Mr. Ng” (note vii)	—	—	—	—
— Mr. Xia Yuan Jun, “Mr. Xia” (note iv)	—	—	—	—
— Mr. Fong Ping Jan, “Mr. Fong” (note v)	—	—	—	—
Non-executive director:				
— Ms. Kou Mei In, “Ms. Kou” (note viii)	—	—	—	—
Independent non-executive directors:				
— Mr. Chiang Chi Kin Stephen, “Mr. Chiang” (note vi)	—	—	—	—
— Mr. Sze Lin Tang, “Mr. Sze” (note ix)	—	—	—	—
— Mr. Qiu Xiaohua, “Mr. Qiu” (note x)	—	—	—	—
	—	—	—	—
	—	—	—	—

During the year ended 31 December 2015, no remuneration was paid by the Company to the directors of the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2014: (Restated) Nil).

Notes:

- i) Mr. Zhao CW was appointed as executive director and chairman with effect from 10 October 2010. Mr. Zhao CW resigned as chairman with effect from 18 August 2011. Mr. Zhao CW resigned as executive director with effect from 21 January 2014.
- ii) Mr. Zhao resigned as chief executive officer and was appointed as chairman with effect from 18 August 2011. Mr. Zhao resigned as executive director and chairman with effect from 10 January 2014.
- iii) Mr. Wang was appointed as executive director and chief executive officer with effect from 18 August 2011 and resigned as executive director and chief executive officer on 19 February 2016.
- iv) Mr. Xia was appointed as executive director and deputy executive officer with effect from 10 October 2010. Mr. Xia resigned as executive director and deputy executive officer with effect from 3 January 2014.
- v) Mr. Fong was appointed as executive director and chief financial officer with effect from 10 October 2010. Mr. Fong resigned as executive director and chief financial officer with effect from 10 January 2014.
- vi) Mr. Chiang was appointed as independent non-executive director with effect from 28 November 2013. Mr. Chiang resigned as independent non-executive director with effect from 31 December 2014.
- vii) Mr. Ng was appointed as executive director with effect from 5 September 2013 and resigned as executive director with effect from 19 February 2016.
- viii) Ms. Kou was appointed as non-executive director with effect from 5 September 2013 and resigned as non-executive director with effect from 19 February 2016.
- ix) Mr. Sze was appointed as independent non-executive director with effect from 5 September 2013 and resigned as independent non-executive director with effect from 19 February 2016.
- x) Mr. Qiu was appointed as independent non-executive director with effect from 1 January 2014 and resigned as independent non-executive director with effect from 19 February 2016.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, none were the directors of the Company for the year ended 31 December 2015 (2014: None were the directors of the Company), details of whose emoluments are included in the disclosures above.

The emoluments of the individual during the year ended 31 December 2015 (2014: None) were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Salaries and allowances	—	—
Retirement benefit scheme contributions	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

During the years ended 31 December 2015 and 31 December 2014, the emoluments of each of the five highest paid individuals were within the band of nil to HK\$1,000,000.

During the year ended 31 December 2015, no remuneration was paid by the Company to any of the five individuals with the highest emoluments in the Company as an inducement to join or upon joining the Company or as compensation for loss of office (2014: (Restated) HK\$ Nil).

8. INCOME TAX EXPENSES

Hong Kong Profits Tax rate was 16.5% (2014: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company did not have any assessable profit arising in Hong Kong for the year.

The income tax expenses can be reconciled to the loss before taxation per the statement of comprehensive income as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Loss before taxation	<u>(3,411)</u>	<u>(3,414)</u>
Tax at the Hong Kong tax rates	(563)	(564)
Effect of unrecognised deductible losses and deductible temporary differences	<u>563</u>	<u>564</u>
	<u>—</u>	<u>—</u>

9. DIVIDEND

No dividend has been paid or proposed by the Company during the year ended 31 December 2015 (2014: (Restated) HK\$ Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(3,411)</u>	<u>(3,414)</u>
	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,010,500,000</u>	<u>1,010,500,000</u>

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares in both years.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
As at 1 January 2014 (Restated)	588	63	651
Additions (Restated)	<u>2</u>	<u>47</u>	<u>49</u>
As at 31 December 2014 and 1 January 2015 (Restated)	590	110	700
Disposal/written off	<u>(590)</u>	<u>(110)</u>	<u>(700)</u>
As at 31 December 2015	<u>—</u>	<u>—</u>	<u>—</u>
ACCUMULATED DEPRECIATION			
As at 1 January 2014 (Restated)	18	1	19
Charged for the year (Restated)	<u>118</u>	<u>21</u>	<u>139</u>
As at 31 December 2014 and 1 January 2015 (Restated)	136	22	158
Charged for the year	40	7	47
Elimination upon disposal/written off	<u>(176)</u>	<u>(29)</u>	<u>(205)</u>
As at 31 December 2015	<u>—</u>	<u>—</u>	<u>—</u>
NET BOOK VALUES			
As at 31 December 2015	<u>—</u>	<u>—</u>	<u>—</u>
As at 31 December 2014 (Restated)	<u>454</u>	<u>88</u>	<u>542</u>
As at 1 January 2014 (Restated)	<u>570</u>	<u>62</u>	<u>632</u>

The above items of property, plant and equipment, other than construction in progress, after taking into account of their estimate residual values, are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvement	5 years
Furniture, fixtures and office equipment	5 years

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the property, plant and equipment of the Company for the previous years as of the date of approval of the financial statements.

12. PREPAID LEASE PAYMENTS

	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Analysed for reporting purpose as:			
— Non-current assets	—	—	—
— Current assets	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the prepaid lease payments of the Company for the previous years as of the date of approval of the financial statements.

13. INTANGIBLE ASSETS

	Trademarks
	<i>HK\$'000</i>
COST	
As at 1 January 2014 (Restated)	—
Additions (Restated)	—
	<hr/>
As at 31 December 2014 and 1 January 2015 (Restated)	—
Additions	—
	<hr/>
As at 31 December 2015	—
	<hr/> <hr/>
AMORTISATION	
As at 1 January 2014 (Restated)	—
Charge for the year (Restated)	—
	<hr/>
As at 31 December 2014 and 1 January 2015 (Restated)	—
Charged for the year	—
	<hr/>
As at 31 December 2015	—
	<hr/> <hr/>
CARRYING VALUES	
As at 31 December 2015	—
	<hr/> <hr/>
As at 31 December 2014 (Restated)	—
	<hr/> <hr/>
As at 1 January 2014 (Restated)	—
	<hr/> <hr/>

The amounts were amortised on a straight-line basis over a period of 10 years.

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the intangible assets of the Company for the previous years as of the date of approval of the financial statements.

14. DEFERRED TAX ASSETS AND LIABILITIES

The following are the Company's major deferred tax assets/(liabilities) recognised and the movements thereon, during the current and prior years:

	Timing difference on expenses recognition <i>HK\$'000</i>	Fair value adjustments on acquisition <i>HK\$'000</i>	Withholding tax on undistributed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2014 (Restated)	—	—	—	—
Charge/(credit) to profit or loss (Restated)	—	—	—	—
As at 31 December 2014 and as at 1 January 2015 (Restated)	—	—	—	—
Charge/(credit) to profit or loss	—	—	—	—
As at 31 December 2015	—	—	—	—

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not respond to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to completeness and the accuracy of the deferred tax assets/(liabilities) of the Company for the previous years as of the date of approval of the financial statements.

15. INVENTORIES

	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Inventories	—	—	—

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not respond to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to completeness and the accuracy of the inventories for the previous years as of the date of approval of the financial statements.

16. PREPAYMENTS AND DEPOSITS PAID

	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Prepayments	250	387	348
Deposits paid	—	244	243
	<u>250</u>	<u>631</u>	<u>591</u>

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate the complete books and records of the Company for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No presentation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the prepayment and deposits paid of the Company, and perform a detailed analysis of the Company's prepayment and deposits paid aging, credit policy and impairment assessment for the previous years as of the date of approval of the financial statements.

17. BANK BALANCES AND CASH

As at 31 December 2015, the Company's bank balances carry market interest rate of 0.01% per annum (2014: 0.05% per annum).

The Company's bank balances and cash denominated in the following currencies:

	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Currency:			
United States Dollars	<u>44</u>	<u>46</u>	<u>47</u>
HK\$	<u>35</u>	<u>27</u>	<u>18</u>

As disclosed in note 32 of the Group's consolidated financial statements for the year ended 31 December 2010 (the "2010 Financial Statements"), a bank balances and cash amounted to approximately RMB11,523,000 was recorded on the statement of financial position of the Company at 31 December 2010. Except for bank balances of approximately RMB3,000, the directors of the Company have been unable to locate the bank accounts and whereabouts of the bank balances and cash. The Company engaged the Forensic Accountants to conduct investigations, including (i) send letters to the Predecessor Auditors to request them provide the relevant bank information; and (ii) send letters to banks in Hong Kong (including licensed banks, restricted licensed banks and deposit-taking companies) (collectively referred as to the "Banks") to make enquiry on whether the Company maintained any bank accounts in the Banks. However, as of the date of approval of the financial statements, the Predecessor Auditors only replied that the relevant information was not available as it was located in their PRC office. In addition, no Banks has indicated the existence of any bank accounts of the Company up to the date of these financial statements. Given these circumstances, the directors of the Company recognised a loss of approximately RMB11,520,000 as other suspense accounts in the statements of profit or loss and other comprehensive income for the year ended 31 December 2011.

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to books and records of the Company, including books and records of certain bank transactions of the Company took place for the previous years. Given incomplete books and records of the Company and the Company's previous management did not response to the request for information, it would be impossible and impracticable to ascertain these bank transactions which took place for the previous years and to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of the bank transactions. Given these circumstances, the directors of the Company have recognised (i) losses of approximately HK\$10,543,000 and HK\$2,538,000 in respect of the aggregate amounts of the credit balances of bank transactions took place during the years ended 31 December 2012 and 2013 respectively as other suspense accounts in the statements of profit or loss and other comprehensive income for the year ended 31 December 2012 and 2013 respectively; and (ii) liabilities of approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place during the year ended 31 December 2012 and 2013 as other payables in the statements of financial position as at 31 December 2013, 2014 and 2015.

No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the bank balances and cash transactions for the previous years as of the date of approval of the financial statements.

18. ACCRUED EXPENSES AND OTHER PAYABLES

	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i> (Restated)	As at 1 January 2014 <i>HK\$'000</i> (Restated)
Accrued expenses	5,728	4,116	3,216
Amount due to a deconsolidated subsidiary	1,028	1,028	1,028
Amount due to related parties	5,252	4,370	1,898
Other payables	17,694	17,694	17,694
	<u>29,702</u>	<u>27,208</u>	<u>23,836</u>

As disclosed in notes 2.1 and 17 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries. In addition, the directors of the Company have been unable to locate books and records of certain bank transactions took place for the previous years. Given the incomplete books and records and the previous

management of the Group did not respond to any request for information, it would be impossible and impracticable to ascertain these bank transactions took place for the years ended 2011, 2012 and 2013. It would also be extremely difficult and time consuming to obtain sufficient documentary information to satisfy themselves regarding the nature, completeness, existence and accuracy of these bank transactions. Given these circumstances, the directors of the Company have recognised (i) liabilities of approximately HK\$13,142,000 in respect of the aggregate amounts of the debit balances of bank transactions took place for the years ended 31 December 2012 and 2013 respectively as other payables in the statement of financial position as at 31 December 2013, 2014 and 2015; and (ii) liabilities of approximately HK\$4,552,000 in respect of the directors of the Company have been unable to locate relevant books and records for the previous years as other payables in the statements of financial position as other payables as at 31 December 2013, 2014 and 2015.

As further disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years. Given the incomplete books and records and the previous management of the Group did not respond to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances of the amount due to a deconsolidated subsidiary and other payables for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of accrued expenses and other payables for the previous years as of the date of approval of the financial statements.

Amounts due to related parties were interest-free and repayable on demand.

19. BORROWINGS

	As at 31 December 2015	As at 31 December 2014	As at 1 January 2014
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
Bank borrowings	—	—	—
— Unsecured	—	—	—

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not respond to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the borrowings for the previous years as of the date of approval of the financial statements.

20. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares		
Authorised:		
As at 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015 (HK\$0.00001 each)	<u>38,000,000,000</u>	<u>380</u>

	Number of shares	Share capital <i>HK\$'000</i> (Restated)
Issued:		
As at 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	<u>1,010,500,000</u>	<u>10</u>

21. SHARE-BASED PAYMENTS

As set out in note 15 to the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 which were authorised for issue on 18 August 2011 (the “2011 Interim Report”), the Company’s share option scheme (the “Scheme”) was adopted pursuant to a resolution passed on 10 October 2010 for the purpose to reward the directors and employees who have contributed to the Group and to encourage the directors and employees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on 9 October 2020. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme of the Company shall not, in the absence of shareholders’ approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the listing date.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Scheme in any 12-month period shall not exceed 1% of the shares in issue for the time being.

Where any further grant of options to a director or employee would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders in general meeting with such director or employee and his associates abstaining from voting. The Company must send a circular to the shareholders disclosing the identity of the director or employee in question, the number and terms of the options to be granted (and options previously granted to such director or employee) and such other information required under the Listing Rules.

At any time, the maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time.

As disclosed in the Company's announcement dated 28 April 2011 and the 2011 Interim Report, the Company granted to eligible directors and employees ("Grantees") 27,000,000 share options (the "Share Options") to subscribe for ordinary shares of HK\$0.00001 each in the Company, at an exercise price of HK\$3.512 per share. The Share Options vested on 28 October 2012 and the exercisable period of the Share Options was from 28 October 2012 to 27 October 2014.

The closing price of the Company's shares immediately before 28 April 2011, the date of grant, was HK\$3.15 per share.

Pursuant to the monthly returns on equity issuer on movements in securities submitted by the Company dated 5 November 2014, 12,000,000 share options have been lapsed up to October 2014. Details of the movement of the Share Options during the current and the previous year and the outstanding number of share options balance as at 31 December 2015 are as follows:

	Number of share options
Balance as at 1 January 2014	12,000,000
Lapse of share options	<u>(12,000,000)</u>
Balance as at 31 December 2014 and 1 January 2015 and 31 December 2015	<u><u>—</u></u>

As further disclosed in the 2011 Interim Report, the total fair values of the options determined at the date of grant using the Binomial model were HK\$28,701,000. The following assumptions were used to calculate the fair value of share options:

	28 April 2011
Grant date share price	HK\$3.15
Exercise price	HK\$3.512
Expected volatility	50%
Dividend yield	0%
Risk-free interest rate	1.2%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the Share Options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

As disclosed in the Company's monthly return dated 5 November 2014, 12,000,000 share options have been lapsed and the Company transferred the balances of the share option reserve of HK\$Nil (2014: (Restated) approximately HK\$13,012,000) to accumulated loss in the statement of changes in equity.

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Financial assets		
Loan and receivables (including bank balances and cash)	—	244
Financial liabilities		
Amortised cost	29,702	27,208

(b) Financial risk management objective and policies

The Company's major financial instruments include deposits paid, bank balances and cash and accrued expenses and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Market risk***Foreign currency risk***

The Company operates in Hong Kong. There is no material foreign exchange risk noted for the Company as the operations and customers of the Company are located in Hong Kong with most of the assets and transactions denominated and settled in Hong Kong Dollars, which is the functional currency of the Company.

Liquidity risk management

The Company manages liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended credit lines of funding from major financial institutions to meet the Company's liquidity requirements in the short and long term. The liquidity risk is under continuous monitoring by management. The Company will raise or refinance bank borrowings whenever necessary.

At the end of the reporting period, the Company did not have significant exposure to liquidity risk.

The contractual maturities at the end of the reporting period of the Company's financial liabilities which are required to be repaid on demand or within one year amounted to approximately HK\$29,702,000 (2014: (Restated) HK\$27,208,000).

	Weighted average effective interest rate %	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2015						
Non-derivative instruments						
Accrued expenses	—	5,728	—	—	5,728	5,728
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	5,252	—	—	5,252	5,252
Other payables	—	17,694	—	—	17,694	17,694
		<u>29,702</u>	<u>—</u>	<u>—</u>	<u>29,702</u>	<u>29,702</u>
		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
At 31 December 2014						
Non-derivative instruments						
Accrued expenses	—	4,116	—	—	4,116	4,116
Amount due to a deconsolidated subsidiary	—	1,028	—	—	1,028	1,028
Amount due to related parties	—	4,370	—	—	4,370	4,370
Other payables	—	17,694	—	—	17,694	17,694
		<u>27,208</u>	<u>—</u>	<u>—</u>	<u>27,208</u>	<u>27,208</u>
		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)

(c) Fair value of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate to their fair values.

23. CAPITAL RISK MANAGEMENT

The Company's primary objectives when managing capital are to safeguard the abilities of the entities in the Company to continue as a going concern, so that it can continue to provide returns for shareholder of the Company and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The directors of the Company actively and regularly review and manage the Company's capital structure to maximise the returns to shareholder through the optimisation of the debt afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. The Company's overall strategy remains unchanged from 2014.

Consistent with others in the industry, the Company monitors its capital structure on the basis of the gearing ratio. At 31 December 2015, the Company's gearing ratio was undefined because the Company did not have any borrowings at the end of each reporting period.

24. RETIREMENT BENEFIT PLANS

The employees of the Company in the PRC are members of a state-managed retirement benefits plans operated by the PRC Government. The Company is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits plans is to make the specified contributions under the scheme.

The amounts of contributions made by the Company in respect of the retirement benefit plans during the year ended 31 December 2015 are disclosed in note 6.

25. RELATED PARTY TRANSACTIONS**(a) Balances with related parties**

Save as disclosed in notes elsewhere to the financial statements, the Company did not have any significant material related party transactions during the year.

(b) Key management personnel emoluments

The remuneration for key management is disclosed in note 7.

26. COMMITMENTS

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the disclosure of commitments for the current and the previous years as of the date of approval of the financial statements.

27. CONTINGENT LIABILITIES

As disclosed in note 2.1 to the financial statements, the directors of the Company have been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the previous years. Given the incomplete books and records and the previous management of the Group did not response to any request for information, it is impossible and impracticable for the directors of the Company to ascertain the balances for the previous years. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the disclosure of contingent liabilities for the current and the previous years as of the date of approval of the financial statements.

28. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, the Company had the following events after the end of the reporting period:

Year 2016*(a) The 29 January 2016 announcement*

On 29 January 2016, (i) the Company despatched a composite offer and response document relating to unconditional mandatory cash offer by Head & Shoulders Securities Limited on behalf of Global Courage for all the issued shares in the Company (other than those shares already owned by Global Courage and parties acting in concert with it) and (ii) the Company appointed the following parties into the Board, including:

- (i) Dr. Choi Chiu Fai Stanley and Mr. Choi Ka Wai were appointed as executive directors of the Company; and
- (ii) Mr. Ha Kee Choy Eugene, Mr. Szeto Tat Kwan Brandon and Mr. Fok Wai Ming Eddie were appointed as independent non-executive directors of the Company.

(b) The 19 February 2016 announcement

- (i) The unconditional mandatory cash offer (the “Offer”) was closed at 4:00 p.m. on 19 February 2016;
- (ii) The offeror received valid acceptances in respect of 31,483,007 shares under the offer, representing 3.12% of the entire issued shares of the Company as at 19 February 2016;
- (iii) Following completion of the offer, the Company was in compliance with the minimum public float requirement;
- (iv) The following parties were resigned from the Board with effect from 19 February 2016:
 - Mr. Ng resigned as executive director of the Company;
 - Ms. Kou resigned as the Chairman and non-executive director of the Company;
 - Mr. Sze and Mr. Qiu resigned as independent non-executive directors of the Company; and
 - Mr. Wang resigned as chief executive officer and executive director of the Company.
- (v) Dr. Choi Chiu Fai Stanley was appointed as the chairman of the Board with effect from 19 February 2016.

29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position and the statement of changes in equity of the Company are set out in page 50, page 51 and page 52 respectively.

30. INVESTMENT IN THE DE-CONSOLIDATED SUBSIDIARIES

As explained in note 2.1, the directors of the Company been unable to locate and to get access to the complete books and records of the Company and the De-consolidated Subsidiaries for the current and the previous years and the previous management of the Group did not response to any request for information. The financial results, assets and liabilities of the De-consolidated Subsidiaries have not been included in financial statements of the Company and no consolidated financial statements were prepared since 1 January 2011. Details of the De-consolidated Subsidiaries are set out as below:

Name	Place and date of incorporation/establishment	Issued and fully paid share capital/registered capital	Attributable equity interest held	Principal activities
Global Milk	The Republic of Singapore 15 September 2006	SS1	100%	Investment holding
Da Qing Dairy	The PRC 29 October 1997	RMB638,000,000	100%	Manufacture marketing and sales of dairy products
Chang Qing Dairy	The PRC 7 August 2008	RMB10,000,000	100%	Manufacture marketing and sales of dairy products
Benniu Muye	The PRC 25 November 2010	RMB5,000,000	100%	Dairy farming

2. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS

Set out below are the management discussion and analysis of the Group's operations for each of the three years ended 31 December 2015. The information set out below is principally extracted from the "Management Discussion and Analysis" section of the relevant annual report of the Company to provide further information relating to the financial condition and results of operations of the Group during the periods stated. These extracted materials speak as of the date they were originally published. The Company's prospects and intentions will have changed since that date, and the reader should therefore not place undue reliance on this information, particularly the information consisting of or relating to forward-looking or future statements.

FINANCIAL REVIEW

Given the circumstances that substantial portion of the books and records of the Company's subsidiaries could not be located or accessed and the previous management of the Group did not response to the Board's request, the financial statements of those subsidiaries have been deconsolidated from the consolidated financial information of the Group. Therefore, the financial statements as at and for the year ended 31 December 2016 and 2015 comprise the Company. The loss for the year ended 31 December 2016 was approximately HK\$8,835,000 (2015: approximately HK\$3,411,000). The loss for the year was mainly attributable to the professional fees incurred for the publication of the outstanding financial information of the Company in the past, preparation of the announcements and documents in relation to the general offer and resumption work.

PROSPECTS

The Board will closely work with professional parties on the New Listing Application for the Resumption in the near future and strive for the best return to the Shareholders.

DIVIDEND

The Board resolved not to recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2016, the Company had total assets of approximately HK\$89,000 (2015: approximately HK\$329,000). The main asset of the Company as at 31 December 2016 was bank balances and cash.

As at 31 December 2016, the Company's current liabilities amounted to approximately HK\$38,297,000 (2015: approximately HK\$29,702,000).

The net liabilities value per share of the Company was approximately HK\$0.04 as at 31 December 2016 (2015: approximately HK\$0.03). The net liabilities value per Share was computed based on 1,010,500,000 Shares in issue as at 31 December 2016 and 2015 respectively.

No gearing ratio, being total interest bearing indebtedness over total assets, was computed as the Company did not have interest bearing indebtedness as at 31 December 2016 and 2015 respectively.

PLEDGE OF ASSETS

As at 31 December 2016, the Company had no charges on its assets (2015: Nil).

CAPITAL STRUCTURE

The Company had no changes in capital structure during the year ended 31 December 2016.

SIGNIFICANT INVESTMENT AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 21 November 2016, the Company as purchaser entered into a conditional sale and purchase agreement with independent potential investors for an acquisition of a new business which is primarily engaged in the operation of a hotpot restaurant chain in the PRC. On the same day, the Company entered into a conditional sale and purchase agreement with a potential purchaser for a disposal of the Company's subsidiaries.

FOREIGN CURRENCY RISK

The foreign currency risk of the Company is the foreign currency deposited in banks. As at 31 December 2016, the Company had bank balances of approximately HK\$44,000 (2015: approximately HK\$44,000) denominated in United States dollars.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Company as at 31 December 2016 was five (2015: five). The Group remunerates its employees mainly based on individual's performance and qualification. Other benefits include bonuses awarded on a discretionary basis and mandatory provident fund schemes.

For the year ended 31 December 2015

FINANCIAL REVIEW

Due to the loss of control over the subsidiaries in Singapore and in the PRC, the financial statements of those subsidiaries have been de-consolidated from the consolidated financial information of the Group. There was no turnover for the year under review (2014:

Nil). The loss for the year ended 31 December 2015 was approximately HK\$3,411,000 (2014: approximately HK\$3,414,000). The loss for the year mainly attributed from loss on disposal of equipment and legal expenses.

PROSPECTS

The Board is in the process of identifying suitable target for business cooperation and/or acquisition and preparing for the resumption proposal.

DIVIDEND

The Board resolved not to recommend the payment of any dividend for the year ended 31 December 2015 (2014: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2015, the Company had total assets of approximately HK\$329,000 (2014: approximately HK\$1,246,000). The main asset of the Company as at 31 December 2015 was prepayments. During the year under review, the Company has yet to have any financial restructuring plan.

As at 31 December 2015, the Company's current liabilities amounted to approximately HK\$29,702,000 (2014: approximately HK\$27,208,000).

The net liabilities value per share of the Company was approximately HK\$0.03 as at 31 December 2015 (2014: approximately HK\$0.03). The net liabilities value per share was computed based on 1,010,500,000 Shares in issue as at 31 December 2015 and 2014 respectively.

No gearing ratio, being total interest bearing indebtedness over total assets, was computed as the Company did not have interest bearing indebtedness as at 31 December 2015 and 2014 respectively.

PLEDGE OF ASSETS

As at 31 December 2015, the Company had no charges on its assets (2014: Nil).

CAPITAL STRUCTURE

The Company had no changes in capital structure during the year ended 31 December 2015.

SIGNIFICANT INVESTMENT AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Company did not enter any significant investment and acquisitions and disposals of subsidiaries during the year ended 31 December 2015.

FOREIGN CURRENCY RISK

The foreign currency risk of the Company is the foreign currency deposited in banks. As at 31 December 2015, the Company had bank balances of approximately HK\$44,000 (2014: approximately HK\$46,000) denominated in United States dollars.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Company as at 31 December 2015 was five. The Group remunerates its employees mainly based on industry practice, individual's performance and qualification. Other benefits include bonuses awarded on a discretionary basis and mandatory provident fund schemes.

For the year ended 31 December 2014

FINANCIAL REVIEW

Due to the loss of control over the subsidiaries in Singapore and in the PRC, the financial statements of those subsidiaries have been de-consolidated from the consolidated financial information of the Group. There was no turnover for the year (2013: Nil). The loss for the year ended 31 December 2014 was approximately RMB2,622,000 (2013: approximately RMB3,445,000). The loss for the year mainly attributed from rental expense and auditors' remuneration.

PROSPECTS

The Board is in the process of identifying suitable target for business cooperation and/or acquisition and preparing for the resumption proposal.

DIVIDEND

The Board resolved not to recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2014, the Company had total assets of approximately RMB987,000 (2013: approximately RMB1,015,000). The main assets of the Company as at 31 December 2014 were property, plant and equipment for office use and bank balances and cash. During the year under review, the Company has yet to have any financial restructuring plan.

As at 31 December 2014, the Company's current liabilities amounted to approximately RMB21,625,000 (2013: approximately RMB19,116,000).

The net liabilities value per share of the Company was approximately RMB0.020 as at 31 December 2014 (2013: approximately RMB0.018). The net liabilities value per share was computed based on 1,010,500,000 ordinary shares in issue as at 31 December 2014 and 2013 respectively.

The gearing ratio as computed based on total interest bearing indebtedness over total assets. No gearing ratio was computed as the Company did not have interest bearing indebtedness as at 31 December 2014 and 2013 respectively.

PLEDGE OF ASSETS

As at 31 December 2014, the Company had no charges on its assets (2013: Nil).

CAPITAL STRUCTURE

The Company had no changes in capital structure during the year ended 31 December 2014.

SIGNIFICANT INVESTMENT AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Company did not enter any new significant investment and acquisitions and disposals of subsidiaries during the year ended 31 December 2014 (2013: Nil).

FOREIGN CURRENCY RISK

The Company's functional currency is RMB. The foreign currency risk of the Company is the foreign currency deposited in the bank. As at 31 December 2014, the Company had bank balances of approximately RMB37,000 (2013: approximately RMB37,000) and approximately RMB21,000 (2013: approximately RMB14,000) denominated in USD and HKD respectively.

3. FINANCIAL TRADING PROSPECT

Upon Completion, the Enlarged Group will be principally engaged in the business of the Target Group's restaurant chain business in the PRC. The Group is optimistic about the future prospects of the restaurant chain business in the PRC. Going forward, the Enlarged Group intends to seek sustainable growth by pursuing the following principal strategies:

- replicating the business models and expand the restaurants network;
- drive same-store sales growth and profitability;
- continue to promote brand image and recognition; and
- continue to strengthen operational infrastructure to deliver sustainable growth.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the banking and other facilities presently available, and subject to the Acquisition Completion, the completion of Share Placing and the completion of Open Offer under the Resumption Proposal, the Enlarged Group will have sufficient working capital for its business for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

5. MATERIAL CHANGE

The Directors confirm that, save for expenses arising from the proposed transactions in respect of the Resumption, there have been no material change in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made, up to and including the Latest Practicable Date.

6. INDEBTEDNESS OF THE GROUP

Indebtedness

As at 31 March 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group is analysed as follows:

The Company:

HK\$'000

Unsecured and unguaranteed:

Amount due to a deconsolidated subsidiary	1,028
Amounts due to related parties	<u>23,522</u>
Total	<u><u>24,550</u></u>

The Target Group:

HK\$'000

Unsecured and Unguaranteed:

Long-term borrowing	<u><u>50,000</u></u>
---------------------	----------------------

As at 31 March 2018, a long-term borrowing of HK\$50,000,000, arising from an independent third party, at an interest rate at 6.00% per annum and repayable within two years.

Save as disclosed above, the Target Group had no pledge, acceptance creditor, hire purchase commitments and other term loans as at 31 March 2018.

The Enlarged Group:

	<i>HK\$'000</i>
<i>Unsecured and unguaranteed:</i>	
Amount due to a deconsolidated subsidiary	1,028
Amounts due to related parties	23,522
Long-term borrowing	<u>50,000</u>
Total balances	<u><u>74,550</u></u>

Contingent Liabilities

Except as otherwise disclosed above, the Target Group and the Enlarged Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance, outstanding convertible debt securities or other similar indebtedness, any guarantees or other material contingent liabilities as at 31 March 2018.

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

The following is the unaudited pro forma financial information of the Enlarged Group as if the Share Consolidation, the Acquisition, the Disposal, the Share Placing and the Open Offer (collectively the “**Transactions**”) had been completed on 31 December 2017 for the Enlarged Group’s unaudited pro forma consolidated statement of financial position and at the beginning of the year ended 31 December 2017 for the Enlarged Group’s unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the Enlarged Group’s unaudited pro forma consolidated statement of cash flows. The unaudited pro forma financial information of the Enlarged Group is based on the financial statements of the Company for the year ended 31 December 2017 as set out in the Company’s annual report 2017 and adjusted to reflect the effect of the Transactions. Capitalised terms used herein shall have the same meaning as those defined in this circular unless the context otherwise requires.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors in accordance with Rules 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), for the purposes of illustrating the effect of the Transactions pursuant to the terms of relevant agreements and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Enlarged Group has the Transactions been completed as of the specified dates or any future date.

1. Unaudited pro forma consolidated statement of financial position of the Enlarged Group
as at 31 December 2017

	The Company as at 31 December 2017 HK\$'000 (Audited) Note 1	The Target Group as at 31 December 2017 RMB'000 (Audited) Note 2	The Target Group as at 31 December 2017 HK\$'000 (Audited) Note 2	Sub-total HK\$'000	Pro forma adjustment HK\$'000 Note 5(a)	Pro forma adjustment HK\$'000 Note 5(b)	Pro forma adjustment HK\$'000 Note 7	Pro forma adjustment HK\$'000 Note 8	Pro forma adjustment HK\$'000 Note 9	The Enlarged Group as at 31 December 2017 HK\$'000
ASSETS										
Non-current assets										
Property, plant and equipment	—	99,240	118,979	118,979						118,979
Intangible asset	—	468	561	561						561
Prepayment and other receivables	—	32,955	39,510	39,510						39,510
Deferred tax assets	—	12,891	15,455	15,455						15,455
	—	145,554	174,505	174,505						174,505
Current assets										
Inventories	—	27,955	33,515	33,515						33,515
Trade receivables	—	15,136	18,147	18,147						18,147
Prepayment and other receivables	186	59,757	71,642	71,828						71,828
Receivables due from related parties	—	80,040	95,960	95,960						95,960
Cash and cash equivalents	80	60,431	72,451	72,531			77,682	10,358	(11,500)	149,071
	266	243,319	291,715	291,981						368,521
Total assets	266	388,873	466,220	466,486						543,026
EQUITY										
Share capital	10	—	—	10	76		15	2		103
Reserves	(43,317)	49,788	59,691	16,374	388,335 (388,411)	87,815 (129,470)	77,667	10,356	(11,500)	51,166
	(43,307)	49,788	59,691	16,384						51,269
Non-controlling interests	—	576	692	692						692
Total equity	(43,307)	50,364	60,383	17,076						51,961
LIABILITIES										
Non-current liabilities										
Other non-current liabilities	—	26,930	32,286	32,286						32,286
Borrowings	—	41,795	50,108	50,108						50,108
Convertible bonds	—	—	—	—		41,655				41,655
Deferred tax liabilities	—	1,300	1,559	1,559						1,559
	—	70,025	83,953	83,953						125,608
Current liabilities										
Trade payables	—	74,440	89,246	89,246						89,246
Other payables and accruals	43,573	108,272	129,806	173,379						173,379
Deferred revenue	—	41,593	49,866	49,866						49,866
Current income tax liabilities	—	10,743	12,880	12,880						12,880
Dividend payables	—	33,436	40,086	40,086						40,086
	43,573	268,484	321,884	365,457						365,457
Total liabilities	43,573	338,509	405,837	449,410						491,065
Total equity and liabilities	266	388,873	466,220	466,486						543,026
Net current (liabilities)/assets	(43,307)	(25,165)	(30,169)	(73,476)						3,064
Total assets less current liabilities	(43,307)	120,389	144,336	101,029						177,569

2. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2017

	The Company as at 31 December 2017 <i>HKS'000</i> (Audited) <i>Note 1</i>	The Target Group as at 31 December 2017 <i>RMB'000</i> (Audited) <i>Note 2</i>	The Target Group as at 31 December 2017 <i>HKS'000</i> (Audited) <i>Note 2</i>	Sub-total <i>HKS'000</i>	Pro forma adjustment <i>HKS'000</i> <i>Note 4</i>	Pro forma adjustment <i>HKS'000</i> <i>Note 9</i>	Pro forma adjustment <i>HKS'000</i> <i>Note 10</i>	The Enlarged Group as at 31 December 2017 <i>HKS'000</i>
Revenue	—	700,432	830,092	830,092				830,092
Foods and beverage and other materials consumables used	—	(248,959)	(295,045)	(295,045)				(295,045)
Employee benefit expenses	—	(183,190)	(217,101)	(217,101)				(217,101)
Property rentals and related expenses	—	(131,496)	(155,838)	(155,838)				(155,838)
Utilities expenses	—	(20,613)	(24,429)	(24,429)				(24,429)
Depreciation, amortisation and impairment	—	(49,412)	(58,559)	(58,559)				(58,559)
Other expenses	—	(37,876)	(44,887)	(44,887)				(44,887)
Other gains — net	—	4,803	5,692	5,692				5,692
Operating profit	—	33,689	39,925	39,925				39,925
Administrative expenses	(5,099)	—	—	(5,099)				(5,099)
Deemed listing expenses	—	—	—	—	(89,996)			(89,996)
Transaction costs	—	—	—	—		(11,500)		(11,500)
Finance income	—	6,726	7,971	7,971				7,971
Finance expenses	—	(2,616)	(3,100)	(3,100)			(13,041)	(16,141)
Finance income/(expenses) — net	—	4,110	4,871	4,871				(8,170)
(Loss)/profit before income tax	(5,099)	37,799	44,796	39,697				(74,840)
Income tax expenses	—	(12,147)	(14,394)	(14,394)				(14,394)
(Loss)/profit for the year	<u>(5,099)</u>	<u>25,652</u>	<u>30,402</u>	<u>25,303</u>				<u>(89,234)</u>
(Loss)/profit for the year attributable to:								
Owners of the Company	(5,099)	25,675	30,429	25,330				(89,207)
Non-controlling interests	—	(23)	(27)	(27)				(27)
	<u>(5,099)</u>	<u>25,652</u>	<u>30,402</u>	<u>25,303</u>				<u>(89,234)</u>

3. Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2017

	The Company as at 31 December 2017 HK\$'000 (Audited) Note 1	The Target Group as at 31 December 2017 RMB'000 (Audited) Note 2	The Target Group as at 31 December 2017 HK\$'000 (Audited) Note 2	Sub-total HK\$'000	Pro forma adjustment HK\$'000 Note 4	Pro forma adjustment HK\$'000 Note 7	Pro forma adjustment HK\$'000 Note 8	Pro forma adjustment HK\$'000 Note 9	Pro forma adjustment HK\$'000 Note 10	The Enlarged Group as at 31 December 2017 HK\$'000
Operating activities										
(Loss)/profit before income tax	(5,099)	37,799	44,796	39,697	(89,996)			(11,500)	(13,041)	(74,840)
Adjustments for:										
Depreciation of property, plant and equipment	—	49,299	58,425	58,425						58,425
Amortisation of intangible asset	—	113	134	134						134
Losses on disposal of property, plant and equipment	—	5	6	6						6
Finance (income)/expenses — net	—	(4,110)	(4,871)	(4,871)					13,041	8,170
Decrease in inventories	—	379	449	449						449
Increase in operating receivables	(172)	(42,427)	(50,281)	(50,453)						(50,453)
Increase/(decrease) in operating payables	5,276	(22,107)	(26,199)	(20,923)						(20,923)
Transaction costs	—	—	—	—				11,500		11,500
Deemed listing expenses	—	—	—	—	89,996					89,996
Cash generated from operations	5	18,951	22,459	22,464						22,464
Income tax paid	—	(17,628)	(20,891)	(20,891)						(20,891)
Net cash generated from operating activities	5	1,323	1,568	1,573						1,573
Investing activities										
Purchase of property, plant and equipment	—	(25,012)	(29,642)	(29,642)						(29,642)
Purchases of intangible asset	—	(241)	(286)	(286)						(286)
Proceeds from disposal of property, plant and equipment	—	2,210	2,619	2,619						2,619
Loans granted to related parties	—	(11,745)	(13,919)	(13,919)						(13,919)
Receipt of loan repayments by related parties	—	25,682	30,436	30,436						30,436
Net cash used in investing activities	—	(9,106)	(10,792)	(10,792)						(10,792)
Financing activities										
Capital injection from non-controlling interest	—	600	711	711						711
Net proceeds from offer shares	—	—	—	—			10,358			10,358
Net proceeds from placing of shares	—	—	—	—		77,682				77,682
Payment for the transaction costs	—	—	—	—				(11,500)		(11,500)
Interest paid	—	(2,610)	(3,093)	(3,093)						(3,093)
Net cash (used in)/generated from financing activities	—	(2,010)	(2,382)	(2,382)						74,158
Net increase/(decrease) in cash and cash equivalents	5	(9,793)	(11,606)	(11,601)						64,939
Cash and cash equivalents at beginning of the year	75	71,717	85,981	86,056						86,056
Effect of foreign exchange rate changes	—	(1,493)	(1,924)	(1,924)						(1,924)
Cash and cash equivalents at ending of the year	80	60,431	72,451	72,531						149,071
Analysis of the balances of cash and cash equivalents:										
Bank balances and cash	80	60,431	72,451	72,531						149,071

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the audited financial statements of the Company for the year ended 31 December 2017 as set out in Appendix II to this Circular.
2. The amounts represent the unadjusted financial information of the Target Group as at 31 December 2017 (for the purpose of unaudited pro forma consolidated statement of financial position) and for the year ended 31 December 2017 (for the purpose of unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows), which is extracted from the Accountant's Report of the Target Group as set out in Appendix I to the Circular, and is translated to Hong Kong dollars at the exchange rate of RMB0.8341 to HK\$1 prevailing at 31 December 2017 in relation to the statement of financial position and RMB0.8438 to HK\$1 prevailing at 31 December 2017 in relation to the statement of profit or loss and other comprehensive income and statement of cash flows.

The Transactions are considered to be linked and shall be executed as a single package. Accordingly, the Directors determine to apply the principles of reverse acquisition in IFRS 3 by analogy to the unaudited pro forma financial information. The consolidated financial statements prepared following a reverse acquisition represent a continuation of the financial statements of the legal subsidiary (accounting acquirer — the Target Group), the assets and liabilities of which are recognised and measured at their pre-combination carrying amounts. Therefore, there is no adjustment in connection with the fair value of identifiable assets and liabilities of the Target Group included in the unaudited pro forma financial information.

3. The Company proposes that every two issued and unissued shares of HK\$0.00001 each in the capital of the Company be consolidated into one consolidated share of HK\$0.00002 (the “**Share Consolidation**”).
4. The pro forma adjustment is related to the Acquisition.

As described in note 2, the Directors have applied the principles of reverse acquisition in IFRS 3 by analogy to the unaudited pro forma financial information. Accordingly, the Acquisition would be accounted for in the Enlarged Group's financial statements as a continuation of the financial statements of the Target Group, together with a deemed issue of equity, and a re-capitalisation of the equity of the Target Group.

The acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition.

The Target Group is deemed to issue shares to give the Company's existing shareholders the same percentage of ownership in the Enlarged Group (without considering the impact of the Open Offer), which is calculated to be equivalent to 10% interest in the Target Group. Consequently, the fair value of the shares deemed to have been issued is measured to be HK\$517,881,250, representing purchase consideration for the entire interests in the Target Group pursuant to the Acquisition Agreement) multiplied by the percentage of ownership of the Target Group (i.e. 10%) associated with the deemed issue of equity.

The Company is only a non-operating public shell corporation at the date of completion of the Acquisition. Because the Company is not a business as defined under IFRS 3 at the date of completion of the Acquisition, the fair value of the shares deemed to have been issued by the

accounting acquirer (the Target Group) and the fair value of the accounting acquiree's (the Company's) identifiable net assets received should be treated in its entirety as a payment for a stock exchange listing and expensed as it is incurred.

HK\$'000

Assuming that the Acquisition had been taken place on 31 December 2017

Fair value of deemed issued equity	51,788
Net liabilities of the Company (without considering the impact of the Consideration Shares, the Placing Shares, the Offer Shares and the Conversion Shares) attributable to owners of the Company as at 31 December 2017	43,307
Estimated listing expenses charged to profit or loss	(95,095)

Assuming that the Acquisition had been take place on 1 January 2017

Fair value of deemed issued equity	51,788
Net liabilities of the Company (without considering the impact of the Consideration Shares, the Placing Shares, the Offer Shares and the Conversion Shares) attributable to owners of the Company as at 31 December 2016	38,208
Estimated listing expenses charged to profit or loss	(89,996)

This pro forma adjustment in respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income above is not expected to have a continued effect on the Enlarged Group.

5. As if the Acquisition had been taken place on 31 December 2017, the Company shall acquire the entire equity interests in the Target Group. The consideration for the sale and purchase of the sale shares is HK\$517,881,250, of which, upon Acquisition Completion:
- (a) HK\$388,410,937.50, will be paid to the Vendors in proportion to their respective interest in the Target Company by way of allotment and issue of 3,789,375,000 consideration shares at the issue price of HK\$0.1025 and with par value of HK\$0.00002 per consideration share (the "Consideration Shares"), assuming the issue price of the Consideration Shares at the Acquisition Completion was approximately to its fair value; and
 - (b) HK\$129,470,312.50, will be paid to the Vendors in proportion to their respective interest in the Target Company by way of issue of consideration convertible bonds in the aggregate principal amount of HK\$129,470,312.50 entitling the Vendors (or its nominees) to convert into 1,263,125,000 conversion shares in full based on the initial conversion price of HK\$0.1025 per conversion share (the "Consideration CBs").

For the purpose of preparation of unaudited pro forma consolidated statement of financial position, the principal amount of the Consideration CBs are divided into debt component and equity component according to IAS 32 *Financial Instruments: Presentation* issued by the International Accounting Standards Board ("IASB"), on initial recognition.

The directors of the Company have engaged an independent valuer, Norton Appraisals Limited, to determine the fair value of the Consideration CBs to be recognised, in accordance with IFRS 13 *Fair Value Measurement* issued by the IASB. The fair value of the liability

component amounted to approximately HK\$41,655,000, which is determined by discounted cash flow method. The residual amount of HK\$87,815,000 was assigned to the equity component which will be credited to the equity of the Company.

The fair value of the liability component as at the date of Completion may be different from the value used in the Unaudited Pro Forma Financial Information.

6. The Company (as the vendor) and Mr. Jiang Jianhui (as the Disposal Purchaser) entered into the Disposal Agreement pursuant to which the Company has conditionally agreed to sell and Mr. Jiang has conditionally agreed to purchase the entire issued share capital of Global Milk Singapore for a total consideration of HK\$1.00. As Global Milk Singapore and its subsidiaries have been deconsolidated by the Group in the previous year of 2011, the Enlarged Group would record a gain on the Disposal of HK\$1.00, assuming the Disposal had taken place on 1 January 2017.
7. To record the issue of Placing Shares assuming 757,875,000 Placing Shares have been placed at the placing price of HK\$0.1025, the pro forma adjustments include (i) an increase in share capital of approximately HK\$15,000, representing 757,875,000 shares of the Company at par value of HK\$0.00002 each and (ii) an increase in share premium of approximately HK\$77,667,000.
8. The pro forma adjustment represents the Company issued and allotted of 101,050,000 Offer Shares at HK\$0.1025 with par value of HK\$0.00002 per Offer Shares on the basis of 1 Offer Shares for every 5 Consolidated Shares held on the Record Date. The estimate net proceeds raised from the Open Offer was approximately HK\$10,358,000.

The pro forma adjustments include (i) an increase in share capital of approximately HK\$2,000, representing 101,050,000 shares of the Company at par value of HK\$0.00002 each and (ii) an increase in share premium of approximately HK\$10,356,000.

9. The pro forma adjustment represents expenditures incurred directly to the Transactions including financial advisor fees, legal fees, printing costs, accountants fees, and other related expenses of approximately HK\$11,500,000 would be charged to the Enlarged Group's consolidated profit or loss accounts for the year ended 31 December 2017, assuming the Transactions had been taken place on 1 January 2017. The adjustment has no continuing effect to the Enlarged Group but will be reflected in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Enlarged Group in the year these expenses actually incurred.
10. As described in note 5(b) above, HK\$129,470,312.50 of the convertible bonds would be issued as part of the consideration to acquire the Target Group. The adjustment represents imputed interests on the Consideration CBs of approximately HK\$13,041,000 for the year ended 31 December 2017, assuming the Acquisition had taken place on 1 January 2017. The imputed interest expense recognised in the statement of profit or loss and other comprehensive income is calculated using the effective interest method.

11. The table below is related to the presentation of the issued capital of the Enlarged Group upon completion of the Transactions.

The share capital is adjusted to reflect the capital of the legal parent (the accounting acquiree — the Company). It is represented by the movements in the share capital of the Company as follows:

	Number of ordinary shares	Par or nominal value <i>HK\$'000</i>
Authorised:		
At 31 December 2017 (shares of HK\$0.00001 each)	<u>38,000,000,000</u>	<u>380</u>
Immediately after the changes to the authorised share capital of the Company (shares of HK\$0.00002 each)	<u>19,000,000,000</u>	<u>380</u>
Issued and fully paid:		
At 31 December 2017	505,250,000	10
Shares to be issued upon completion of the Acquisition Agreement	3,789,375,000	76
Shares to be issued upon completion of the Placing Agreement	757,875,000	15
Shares to be issued upon completion of the Open Offer	<u>101,050,000</u>	<u>2</u>
The pro forma issued share capital of the Enlarged Group	<u>5,153,550,000</u>	<u>103</u>

12. Unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group

	Unaudited net tangible liabilities of the Company as at 31 December 2017 <i>HK\$'000</i> <i>Note a</i>	Unaudited net tangible liabilities of the Company per Share as at 31 December 2017 <i>HK\$</i> <i>Note b</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group as at 31 December 2017 <i>HK\$'000</i> <i>Note c</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per share as at 31 December 2017 <i>HK\$</i> <i>Note d</i>
Consolidated net tangible (liabilities)/ assets	<u>(43,307)</u>	<u>(0.043)</u>	<u>93,055</u>	<u>0.015</u>

Notes:

- a) The unaudited net tangible liabilities of the Company as at 31 December 2017 is based on the amount of unaudited net tangible liabilities attributable to the owners of the Company as at 31 December 2017, which is extracted from the Company's annual report 2017.
- b) The number of shares used for the calculation of the unaudited net tangible liabilities of the Company per share is 1,010,500,000, being the number of shares in issue as at 31 December 2017.
- c) The unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group are calculated on the basis of the amount of the unaudited pro forma adjusted consolidated net assets of the Enlarged Group as at 31 December 2017, which is extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group after excluding (i) intangible assets of approximately HK\$561,000; and (ii) liabilities component of the Consideration CBs of approximately HK\$41,655,000, assuming the Consideration CBs have been fully converted as at 31 December 2017.
- d) The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group attributable to the owners of the Company after completion of the Transactions are based on 6,416,675,000 shares in issue upon completion of the Transactions, which represents:
 - (i) 505,250,000 Consolidated Shares of the Company in issue upon the Share Consolidation has taken place as at 31 December 2017;
 - (ii) 3,789,375,000 Consideration Shares to be issued under the Acquisition as at 31 December 2017;
 - (iii) 1,263,125,000 Conversion Shares to be issued under the Acquisition as at 31 December 2017;
 - (iv) 757,875,000 Placing Shares to be issued at 31 December 2017; and
 - (v) 101,050,000 Offer Shares to be issued at 31 December 2017.
13. No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2017 in respect of the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information for the purpose in this circular.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

9 May 2018

The Board of Directors
Daqing Dairy Holdings Limited
Room 2512, 25/F.
Cosco Tower
183 Queen's Road
Central
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN
INVESTMENT CIRCULAR**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Daqing Dairy Holdings Limited (the "**Company**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Company as at 31 December 2017, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2017 and related notes as set out on pages III-1 to III-8 of the circular issued by the Company dated 9 May 2018 (the "**Circular**"). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in page III-1.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the Share Consolidation, Acquisition, the Disposal, the Share Placing and the Open Offer (as defined in the section headed "Definitions" of the Circular, collectively the "**Transactions**") on the Company's financial position as at 31 December 2017 and the Company's financial performance and cash flows for the year ended 31 December 2017 as if the Transactions had taken place at 31 December 2017. As part of this process, information about the Company's financial position, financial performance and

cash flows has been extracted by the directors of the Company (the “**Directors**”) from the Company’s annual report for the year ended 31 December 2017, on which an audit report has been published.

Directors’ responsibility for the unaudited pro forma financial information

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

Our independence and quality control

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

The 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 plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 would have been as presented.

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

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

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

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Your Faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Yu Chi Fat
Practising Certificate Number: P05467
Hong Kong

Set out below is a summary of certain provisions of the Memorandum of Association and the Articles of Association and of certain aspects of the Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 October 2009 under the Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum of Association states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may, by special resolution, alter its Memorandum of Association with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles of Association were conditionally adopted on 10 October 2010 and became effective upon the listing of the Shares on the Stock Exchange on 28 October 2010. The following is a summary of certain provisions of the Articles of Association:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum of Association and the Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and the Memorandum of Association and the Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles of Association and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles of Association or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles of Association, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles of Association, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles of Association. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles of Association, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles of Association, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided among the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous

paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors, unless otherwise determined from time to time by the members in general meeting.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles of Association.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register

must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles of Association may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles of Association state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to amend the Articles of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles of Association, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear Business Days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles of Association), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear Business Days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles of Association), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles of Association (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles of Association, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles of Association)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles of Association; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles of Association), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear Business Days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out

in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear Business Days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear Business Days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange (as defined in the Articles of Association), it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles of Association) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and

such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles of Association), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles of Association).

(l) Power for any subsidiary of the company to own shares in the company and financial assistance to purchase shares of the company

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles of Association) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company 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 a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles of Association and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours on every Business Day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles of Association), unless the register is closed in accordance with the Articles of Association.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles of Association the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution among the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12-year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles of Association) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles of Association), has elapsed from the date of such advertisement and the Designated Stock Exchange (as defined in the Articles of Association) has been notified of such

intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles of Association provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the

Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 27 October 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of directors and officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial ownership register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be,

as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this circular. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. RESPONSIBILITY STATEMENTS

1. 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 (other than the information relating to the Vendors and the Target Group) 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.

This circular, for which the proposed 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 Target Group and the Vendors.

The proposed Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular (other than the information relating to the Group) 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. This circular includes particulars given in compliance with the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Vendors and the Target Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Vendors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Group) and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

B. FURTHER INFORMATION ABOUT THE GROUP**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 15 October 2009. As at the date of its incorporation, the Company had an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. As at the Latest Practicable Date, the Company has an authorised share capital of HK\$380,000 divided into 38,000,000,000 Shares of HK\$0.00001 each and issued share capital of HK\$10,105 divided into 1,010,500,000 Shares, all fully paid or credited as fully paid.

The Company changed its name from “Global Milk Holdings Limited” to “Global Milk Holdings Limited 環球乳業控股有限公司” on 9 February 2010. On 31 May 2010, the Company changed its name from “Global Milk Holdings Limited 環球乳業控股有限公司” to “Global Dairy Holdings Limited 環球乳業控股有限公司”. On 17 June 2011, the Company further changed its name from “Global Dairy Holdings Limited 環球乳業控股有限公司” to “Daqing Dairy Holdings Limited 大慶乳業控股有限公司”.

The Company is registered as a non-Hong Kong company under Part XI of the predecessor Companies Ordinance of Hong Kong and its principal place of business in Hong Kong is at Room 2512, 25/F, Cosco Tower, 183 Queen’s Road Central, Hong Kong. Mr. Wong Chun Kit was appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company at Room 2512, 25/F, Cosco Tower, 183 Queen’s Road Central, Hong Kong.

As the Company was incorporated in the Cayman Islands, its operation is subject to the laws of the Cayman Islands and its constitution which comprises the Memorandum of Association, the Articles of Association and Cayman Islands company law. A summary of certain relevant parts of the Memorandum of Association, the Articles of Association and certain relevant aspects of the Cayman Islands company law is set out in Appendix IV to this circular.

2. Changes in the share capital of the Company and the Group*(a) The Company*

On 4 May 2015, Radiant State Limited and Global Courage Limited entered into the sale and purchase agreement in relation to the acquisition of controlling interest of the Company and the unconditional mandatory cash offer.

(b) The Group

There has been no alteration in the share capital of the Company within two years immediately preceding the Latest Practicable Date.

As the excluded companies, being all the subsidiaries of the Company, will be divested pursuant to the Disposal, no information is included in this circular regarding the change, if any, in share capital or registered capital of the excluded companies.

C. FURTHER INFORMATION ABOUT THE TARGET GROUP

1. Changes in share capital of the members of the Target Group

The following alterations in the share capital or the registered capital of the Target Group took place within two years immediately preceding the Latest Practicable Date:

Target Company

The Target Company was incorporated on 19 August 2016 in the Cayman Islands as a limited liability company. On 16 December 2016, 87 shares were allotted and issued to Mr. Hung, 3 shares each were allotted and issued to each of Ms. Hung, Mr. So, Mr. Ho and Ms. Sezto, all of which are fully paid or credited as fully paid, increasing the issued share capital of the Target Company from 1 share to 100 shares as at the Latest Practicable Date.

Billion Great

Billion Great was incorporated on 10 December 2009 in Hong Kong as a limited liability company. On 18 February 2016, 8,920 shares were allotted and issued to Dragonfair, increasing the issued share capital of Billion Great from 1,080 shares to 10,000 shares as at the Latest Practicable Date.

Billion Express

Billion Express was incorporated on 10 December 2009 in Hong Kong as a limited liability company. On 18 February 2016, 900 shares were allotted and issued to Fuze Developments, increasing the issued share capital of Billion Express from 100 shares to 1,000 shares as at the Latest Practicable Date.

Fuze Developments

Fuze Developments was incorporated on 23 August 2012 in the BVI as a limited liability company. On 21 March 2017, 93 shares were allotted and issued to Mr. Hung, 3 shares each were allotted and issued to each of Ms. Hung and Mr. Ho, all of which are fully paid or credited as fully paid, increasing the issued share capital of Fuze Developments from 1 share to 100 shares as at the Latest Practicable Date.

Dragonfair

Dragonfair was incorporated on 17 August 2007 in the BVI as a limited liability company. On 21 March 2017, 999 shares were allotted and issued to Mr. Hung, 50 shares were allotted and issued to Mr. So and 30 shares were allotted

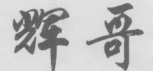
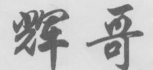
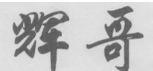
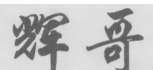
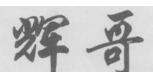
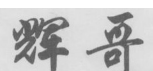
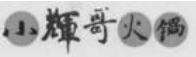

and issued to Ms. Hung, all of which are fully paid or credited as fully paid, increasing the issued share capital of Dragonfair from 1 share to 1,080 shares as at the Latest Practicable Date.


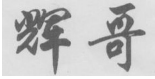

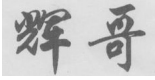
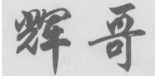

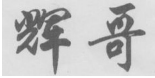

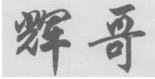

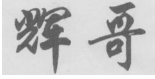
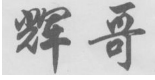
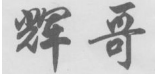

Save as disclosed above, there has been no alteration in the share capital or the registered capital of any member of the Target Group within two years immediately preceding the Latest Practicable Date.

2. Intellectual property of the company and the Target Group

(a) Trademark

As at the Latest Practicable Date, the Target Group had registered the following trademarks which are material in relation to the business of the Target Group:














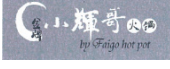
Trademark	Class	Registered Owner	Place of registration	Registration Number	Registration/ Application Date	Expiry Date
	43	Shanghai Longhui	PRC	3373345	28 August 2004	27 August 2024
	31	Shanghai Longhui	PRC	13103054	7 January 2015	6 January 2025
	33	Shanghai Longhui	PRC	13103093	7 January 2015	6 January 2025
	40	Shanghai Longhui	PRC	15293495	28 October 2015	27 October 2025
	30	Shanghai Longhui	PRC	18381884	28 December 2016	27 December 2026
	42	Shanghai Longhui	PRC	18627008	28 January 2017	27 January 2027
	43	Shanghai Longhui	PRC	11784854	7 May 2014	6 May 2024
	40	Shanghai Longhui	PRC	15293606	21 October 2015	20 October 2025




Trademark	Class	Registered Owner	Place of registration	Registration Number	Registration/ Application Date	Expiry Date
	31, 33	Shanghai Longhui	PRC	14968011	7 November 2015	6 November 2025
	30	Shanghai Longhui	PRC	13893585	28 July 2016	27 July 2026
	29	Shanghai Longhui	PRC	3746876	14 July 2005	13 July 2025
	35	Shanghai Longhui	PRC	21003449	21 December 2017	20 December 2027
	30	Shanghai Longhui	PRC	21761313	7 February 2018	6 February 2028
	43	Shanghai Longhui	PRC	23528233	21 March 2018	20 March 2028
	43	Billion Great	Germany	302014026645	7 March 2014	31 March 2024
	43	Billion Great	Germany	302014071691	18 November 2014	30 November 2024
	43	Billion Great	Italy	0001607914	31 October 2013	30 October 2023
	43	Billion Great	Italy	0001654287	5 December 2014	4 December 2024
	43	Billion Great	Singapore	T1317049D	23 October 2013	22 October 2023
	43	Billion Great	Japan	5662415	4 April 2014	3 April 2024
	43	Billion Great	France	134041879	23 October 2013	22 October 2023
	43	Billion Great	France	144123930	7 October 2014	6 October 2024

Trademark	Class	Registered Owner	Place of registration	Registration Number	Registration/ Application Date	Expiry Date
	43	Billion Great	Australia	1661699	2 December 2014	1 December 2024
	43	Billion Great	United Kingdom	UK00003027518	24 January 2014	23 October 2023
	43	Billion Great	United Kingdom	UK00003075903	2 January 2015	7 October 2024
	43	Billion Great	Korea	41-0293466	9 July 2014	8 July 2024
	43	Billion Great	Korea	41-0326108	6 July 2015	5 July 2025

As at the Latest Practicable Date, the Target Group had applied for registration of the following trademarks:

Trademark	Class	Applicant	Place of application	Application number	Application date
	43	Shanghai Longhui	PRC	25943893	24 August 2017
	42	Shanghai Longhui	PRC	25943874	24 August 2017
	29	Shanghai Longhui	PRC	25941086	25 August 2017
	30	Shanghai Longhui	PRC	25938622	25 August 2017
	35	Shanghai Longhui	PRC	25934488	23 August 2017
	43	Shanghai Longhui	PRC	27934174	28 December 2017
	43	Shanghai Longhui	PRC	27934173	28 December 2017
	35	Shanghai Longhui	PRC	29108224	7 February 2018

Trademark	Class	Applicant	Place of application	Application number	Application date
	35	Shanghai Longhui	PRC	29108222	7 February 2018
	31	Shanghai Longhui	PRC	29108203	7 February 2018
	42	Shanghai Longhui	PRC	29106145	8 February 2018
	40	Shanghai Longhui	PRC	29106140	8 February 2018
	33	Shanghai Longhui	PRC	29104256	6 February 2018
	32	Shanghai Longhui	PRC	29104252	6 February 2018
	43	Shanghai Longhui	PRC	29098793	7 February 2018
	43	Shanghai Longhui	PRC	29098792	7 February 2018
	42	Shanghai Longhui	PRC	29098789	7 February 2018
	29	Shanghai Longhui	PRC	29097311	6 February 2018
	31	Shanghai Longhui	PRC	29097274	6 February 2018
	30	Shanghai Longhui	PRC	29097265	6 February 2018
	33	Shanghai Longhui	PRC	29094880	7 February 2018
	40	Shanghai Longhui	PRC	29092204	6 February 2018

Trademark	Class	Applicant	Place of application	Application number	Application date
	30	Shanghai Longhui	PRC	29090381	7 February 2018
	32	Shanghai Longhui	PRC	29089406	11 February 2018
	29	Shanghai Longhui	PRC	29089378	11 February 2018

As at the Latest Practicable Date, the Group had registered or applied for the registration of the following trademarks which are material in relation to the business of the Group:

Trademark	Class	Registered Owner	Place of registration	Registration Number	Registration Date	Expiry Date
	5, 29	the Company	Hong Kong	301590921	19 April 2010	18 April 2020
	5, 29	the Company	Hong Kong	301590994	19 April 2010	18 April 2020
	5, 29	the Company	Hong Kong	301591010	19 April 2010	18 April 2020
	5, 29	the Company	Hong Kong	301591029	19 April 2010	18 April 2020
	5, 29	the Company	Hong Kong	301591038	19 April 2010	18 April 2020
	5, 29	the Company	Hong Kong	301619127	20 May 2010	19 May 2020

Trademark	Class	Registered Owner	Place of registration	Registration Number	Registration Date	Expiry Date
	5, 29	the Company	Hong Kong	301725949	29 September 2010	28 September 2020
	5, 29	the Company	Hong Kong	302013281	23 August 2011	22 August 2021
	5, 29	the Company	Hong Kong	302013308	23 August 2011	22 August 2021

(b) *Domain name*

As at the Latest Practicable Date, the Target Group had registered the following domain name which is material in relation to the business of the Target Group:

Domain Name	Registered Owner	Expiry Date
faigo.com.cn	Shanghai Huige	15 April 2019

As at the Latest Practicable Date, the Company had not registered any domain name which is material in relation to the business of the Group:

Save as disclosed above, there are no other trademarks, domain names or other intellectual property rights which are material in relation to the business of the Enlarged Group.

D. DISCLOSURE OF INTERESTS**1. Interests of the Directors**

As at the Latest Practicable Date, the interests (or long positions) and short positions of Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) as recorded in the register required to be kept under section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules or required to be disclosed under the Takeovers Code, were as follows:

Long positions in the Shares and underlying shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Dr. Choi (<i>Note</i>)	Interest in controlled corporation	641,676,629	63.50%

Note:

The 641,676,629 Shares are held by Global Courage Limited (“**Global Courage**”). Global Courage is wholly-owned by Head and Shoulders Direct Investment Limited (“**Head and Shoulders**”), which in turn is wholly-owned by Dr. Choi. Thus, Head and Shoulders and Dr. Choi are deemed to be interested in the 641,676,629 Shares held by Global Courage pursuant to the SFO.

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated companies were notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO; or were recorded in the register required to be kept under section 352 of the SFO; or was otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

2. Interests of substantial shareholders

As at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest (or long positions) or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

Long positions in the Shares and underlying shares of the Company

Name	Capacity	Number of Shares/ underlying shares held	Approximate percentage of shareholding
Global Courage Limited (Note 1)	Beneficial owner	641,676,629	63.50%
Head and Shoulders Direct Investment Limited (Note 1)	Interest of controlled corporation	641,676,629	63.50%
Mr. Hung (Notes 2 and 6)	Beneficial owner	4,731,666,250	936.48%
Ms. Hung (Notes 3 and 6)	Beneficial owner	148,543,500	29.40%
Mr. Ho (Notes 4 and 6)	Beneficial owner	112,670,750	22.31%
Mr. So (Notes 5 and 6)	Beneficial owner	59,619,500	11.81%

Notes:

- The 641,676,629 Shares are held by Global Courage. Global Courage is wholly-owned by Head and Shoulders, which in turn is wholly-owned by Dr. Choi. Thus, Head and Shoulders and Dr. Choi are deemed to be interested in the 641,676,629 Shares held by Global Courage pursuant to the SFO.
- Under the SFO, the Vendors are deemed to be interested in the Consideration Shares and the Conversion Shares to be allotted and issued to them upon the Acquisition Completion pursuant to the Acquisition Agreement. As such, Mr. Hung is deemed to be interested in the 3,548,749,688 Consideration Shares to be allotted and issued to him upon the Acquisition Completion and the 1,182,916,563 Conversion Shares to be allotted and issued to him upon the full conversion of the Consideration CBs granted to him pursuant to the Acquisition Agreement.
- Under the SFO, the Vendors are deemed to be interested in the Consideration Shares and the Conversion Shares to be allotted and issued to them upon the Acquisition Completion pursuant to the Acquisition Agreement. As such, Ms. Hung is deemed to be interested in the 111,407,625 Consideration Shares to be allotted and issued to her upon the Acquisition Completion and the 37,135,875 Conversion Shares to be allotted and issued to her upon the full conversion of the Consideration CBs granted to her pursuant to the Acquisition Agreement.

4. Under the SFO, the Vendors are deemed to be interested in the Consideration Shares and the Conversion Shares to be allotted and issued to them upon the Acquisition Completion pursuant to the Acquisition Agreement. As such, Mr. Ho is deemed to be interested in the 84,503,062 Consideration Shares to be allotted and issued to him upon the Acquisition Completion and the 28,167,688 Conversion Shares to be allotted and issued to him upon the full conversion of the Consideration CBs granted to him pursuant to the Acquisition Agreement.
5. Under the SFO, the Vendors are deemed to be interested in the Consideration Shares and the Conversion Shares to be allotted and issued to them upon the Acquisition Completion pursuant to the Acquisition Agreement. As such, Mr. So is deemed to be interested in the 44,714,625 Consideration Shares to be allotted and issued to him upon the Acquisition Completion and the 14,904,875 Conversion Shares to be allotted and issued to him upon the full conversion of the Consideration CBs granted to him pursuant to the Acquisition Agreement.
6. These percentage figures was calculating based on the number of Consolidated Shares against the existing number of issued Shares prior to the Share Consolidation becoming effective.

Persons who were interested in 10% or more of the issued voting shares of any other member of the Enlarged Group

Name of the member of the Enlarged Group	Name of Shareholder	Approximate percentage of interest held in the member of the Enlarged Group
Hefei Huige	Hefei Feixiang Catering Services Company Limited* (合肥蜚翔餐飲服務有限公司)	30%

As at the Latest Practicable Date, save as disclosed above and in this circular, no person has any interest in 10% or more of the issued voting shares of any member of the Enlarged Group.

Save as disclosed, the Directors and chief executive of the Company are not aware, as at the Latest Practicable Date, of any person (who are not Directors and chief executive of the Company) who had an interest (or long position) or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

E. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Enlarged Group within the two years preceding the date of this circular and are or may be material:

- (i) the Disposal Agreement;
- (ii) the Acquisition Agreement;
- (iii) the Underwriting Agreement; and
- (iv) the Placing Agreement.

F. LEGAL PROCEEDING OF THE ENLARGED GROUP

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim that has a material and adverse effect on the Enlarged Group's business, financial conditions or results or operations, no litigation, arbitration or claim of material importance was known to the Directors and the proposed Directors to be pending or threatened against any member of the Enlarged Group.

G. CONSENTS AND QUALIFICATIONS OF EXPERTS

Success New Spring, Veda Capital, Hooray Capital Limited, PricewaterhouseCoopers, HLB Hodgson Impey Cheng Limited, Haiwen & Partners, AllBright Law Offices, Conyers Dill & Pearman, Protiviti Shanghai Co., Limited and Frost & Sullivan have given and have not withdrawn their respective written consents to the issue of this circular with copies of their reports, valuation certificate, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

The qualifications of the experts who have given opinions in this circular are as follows:

Name	Qualifications
Success New Spring	A licensed corporation under the SFO authorised to carry out Type 6 regulated activity (advising on corporate finance)
Veda Capital	A licensed corporation under the SFO authorised to carry out Type 6 regulated activity (advising on corporate finance)
Hooray Capital Limited	A licensed corporation under the SFO authorised to carry out Type 6 regulated activity (advising on corporate finance)
PricewaterhouseCoopers	Certified Public Accountants
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Haiwen & Partners	PRC legal adviser
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Protiviti Shanghai Co., Limited	Internal control consultant
Frost & Sullivan	Industry consultant

As at the Latest Practicable Date, each of Success New Spring, Veda Capital, Hooray Capital Limited, PricewaterhouseCoopers, HLB Hodgson Impey Cheng Limited, Haiwen & Partners, Conyers Dill & Pearman, Protiviti Shanghai Co., Limited and Frost & Sullivan does not have any shareholding in any members 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.

H. SERVICE CONTRACTS**1. Service contracts**

As at the Latest Practicable Date, each of the Directors has a contract of service with the Company, which (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the commencement of the Offer Period; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period:

Name of Director	Term of the contract	Amount of remuneration payable
Dr. Choi	Effective from 29 January 2016 subject to retirement by rotation at least once every years and subject to the Articles and applicable laws	HK\$120,000 per year
Mr. Choi Ka Wai	Effective from 29 January 2016 subject to retirement by rotation at least once every years and subject to the Articles and applicable laws	HK\$120,000 per year
Mr. Ha Kee Choy Eugene	Effective from 29 January 2016 subject to retirement by rotation at least once every years and subject to the Articles and applicable laws	HK\$120,000 per year
Mr. Fok Wai Ming Eddie	Effective from 29 January 2016 subject to retirement by rotation at least once every years and subject to the Articles and applicable laws	HK\$120,000 per year
Mr. Szeto Tat Kwan	Effective from 29 January 2016 subject to retirement by rotation at least once every years and subject to the Articles and applicable laws	HK\$120,000 per year

The Company intends to enter into service contracts with each of the proposed Directors for an initial term of three years, commencing from their respective appointment dates.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with any member of the Enlarged Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration

The remunerations (including fees, salaries, allowances and benefits in kind and pension scheme contribution) paid to the Directors in aggregate for the financial years ended 31 December 2015, 31 December 2016 and 31 December 2017 were approximately HK\$0, HK\$612,000 and HK\$612,000, respectively.

Save as disclosed above, no other payments have been paid or are payable, or any benefits in kind granted, in respect of the three years ended 31 December 2015, 31 December 2016 and 31 December 2017, by any member of the Enlarged Group to the Directors.

Based on the existing remuneration package of the Directors and the remuneration package to the proposed Directors as mentioned above in "1. Service contracts" of this section and in the paragraph headed "Compensation of proposed Directors and senior management" under the section headed "Directors and senior management of the Enlarged Group", the Company estimates the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (including the proposed Directors) from any member of the Enlarged Group in respect of the year ending 31 December 2018 to be approximately HK\$1.60 million.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

3. Employee's remuneration and benefits

The Group is enrolled in a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees who are eligible to participate in the MPF Scheme in Hong Kong. The assets (if any) of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the employees' relevant income to the MPF Scheme subject to a monthly relevant income cap of HK\$30,000, and this contribution is matched by the employees. The Group has no other obligation for the payment of post-retirement benefits beyond described above.

In accordance with the applicable laws and regulations of the PRC, the Group makes contributions to social security scheme and housing provident funds for the employees in the PRC.

I. COMPETING INTERESTS

None of the Directors, the proposed Directors, the Controlling Shareholder, nor any of their respective close associates is a director or a shareholder of any company, firm, corporation, business or enterprise (in whatever form) engaged in a business similar to or in competition with the existing business of the Enlarged Group or any of its subsidiaries, either directly or indirectly, apart from the Enlarged Group itself, in light of their sizes, nature, location and/or targeted customers.

J. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the written resolutions of all the then Shareholders passed on 10 October 2010 and adopted by the written resolutions of the Board passed on 10 October 2010 (the “**Adoption Date**”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

(1) Purpose

The purpose of the Share Option Scheme is to reward Participants (as defined in paragraph 2 below) who have contributed to the Group and to encourage Participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and its Shareholders as a whole.

(2) Who may join

Our Board may offer (“**Offer**”) to the directors (including executive directors, non-executive directors and independent non-executive directors and any of their respective associates) and employees (including any of their associates) of our Group, companies owned by directors of our Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of our Group who our Board considers, in its sole discretion, have contributed or will contribute to our Group (the “**Participants**”) to take up options (“**Options**”) at a price calculated in accordance with paragraph 4 below. An Offer shall remain open for acceptance by the Participant concerned for 28 days from the Business Day on which the Board resolves to make an Offer, or the grant of an Option to a Participant whether or not the Offer is subject to Shareholders’ approval on the terms of the Share Option Scheme (“**Date of Grant**”) provided that no such Offer shall be open for acceptance after the expiry of the period to be determined and notified by our Board to the Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or a person entitled to any such Option in consequence of the death of the original grantee or the personal representative of such person (“**Grantee**”) at the time of making an Offer which shall not expire later than 10 years from the Date of Grant (“**Option Period**”) or after the Share Option Scheme is terminated or after the Participant has ceased to be a Participant. An Offer is deemed to be accepted when our Company receives from the Grantee the Offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to our Company of HK\$1.00

as consideration for the grant of Option. Such remittance is not refundable in any circumstances. The Offer shall specify the terms on which the Option is granted. Such terms may at the discretion of our Board, include among other things, (i) the minimum period for which an Option must be held before it can be exercised; and/or (ii) a performance target that must be reached before the Option can be exercised in whole or in part; and (iii) any other terms, all of which may be imposed (or not imposed) either on a case-by-case basis or generally.

(3) Grant of Options to connected persons or any of their associates

Any grant of Options to any Director, chief executive or substantial shareholder (as such term is defined in the Listing Rules) of our Company, or any of their respective associates under the Share Option Scheme or any other share option schemes of our Company or any of its Subsidiaries shall be subject to the prior approval of the independent non-executive directors of our Company (excluding independent non-executive directors who are the proposed Grantees of the Options in question). Where any grant of Options to a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1 per cent. of the Shares in issue on the date of such grant; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million,

such further grant of Options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll). The Company shall send a circular to the Shareholders in accordance with the Listing Rules and all connected persons of the Company shall abstain from voting in favour of the resolution at such general meeting of the Shareholders. Any proposed change in the terms of the Options granted to a Grantee who is a substantial Shareholder or an independent non-executive Director of the Company, or any of their respective associates, must be approved by the Shareholders in general meeting.

(4) Subscription price

Subject to adjustments made in a situation contemplated under paragraph 9 below, the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option (“**Subscription Price**”) shall be determined by our Board in its absolute discretion but in any event shall not be less than the higher of:

- (a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;

- (b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and
- (c) the nominal value of the Shares.

(5) Maximum number of Shares

- (a) The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the day when the Shares were first listed on the Stock Exchange, being a total of 101,050,000 Shares (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval but in any event, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of our Shareholders' approval of the renewed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.
- (b) Notwithstanding the foregoing, the Company may grant Options beyond the Scheme Mandate Limit to Participants if:
 - (i) separate Shareholders' approval has been obtained for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by our Company before such Shareholders' approval is sought; and
 - (ii) the Company, in connection with the seeking of such separate Shareholders' approval, has first sent a circular to Shareholders containing such information as may be required by the Listing Rules then prevailing to be included in such circular.
- (c) Subject to paragraph 5(d) below, the maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of our Company other than those options granted pursuant to specific approval by our Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being.

- (d) Where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant) and such other information required under the Listing Rules.
- (e) At any time, the maximum number of Shares which may be issued upon exercise of all Options which then have been granted and have yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 30% of the Shares in issue from time to time.

(6) Time of exercise of Option

Subject to any restrictions applicable under the Listing Rules, an Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period.

(7) Rights are personal to grantee

An Option is personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Option.

(8) (a) Rights on ceasing employment or other engagement

- (i) If the Grantee ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or, has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his Option will lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment.

- (ii) If the Grantee who is an employee or a director of the Company or another member of the Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph 8(a)(i) above, the Option shall lapse (to the extent not already exercised) on the date of cessation or termination of his employment and shall on that day cease to be exercisable.

(b) Rights on death

- (i) If the Grantee ceases to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as described in paragraph 8(a)(i) above have arisen, his personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within a period of twelve months following the date of his death.
- (ii) Subject as herein provided:

where any of the events set out in paragraphs 10 to 13 occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so exercise the Option only within such of the various periods respectively set out in such paragraphs provided further that if within a period of 3 years prior to the Grantee's death, the Grantee had committed any of the acts specified in paragraph 8(a)(i) above which would have entitled the Company to terminate his employment prior to his death, our Board may at any time forthwith terminate the Option (to the extent not already exercised) by written notice to the Grantee's legal personal representative(s) and/or to the extent the Option has been exercised in whole or in part by his legal personal representative(s), but Shares have not been allotted, he shall be deemed not to have so exercised such Option and the Company shall return to him the amount of the Subscription Price for the Shares received by the Company in respect of the purported exercise of such Option.

(C) Rights on cessation to be a Participant in respect of a Grantee not being an employee or a director

If a Grantee who is not an employee or a director of the Company or another member of the Group ceases to be a Participant as and when determined by the Board by resolution for any reason other than his death, our Board may by written notice to such Grantee within one month from the date of such cessation determine the period within which the Option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(9) Effects of alterations to capital

In the event of an alteration in the capital structure of the Company, whilst any Option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or, consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding adjustments (if any) shall be made to:

- (a) the number or nominal amount of Shares subject to the Option so far as unexercised; or
- (b) the Subscription Price,

or any combination thereof, provided that:

- (i) any such adjustments give a Grantee the same proportion of the equity capital of the Company as that to which that Grantee was previously entitled; and
- (ii) notwithstanding paragraph 9(i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalization issue, should be made in accordance with the acceptable adjustments set out in the Supplemental Guidance on Listing Rules 17.03 issued by the Stock Exchange on 5 September 2005 and such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time;

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value.

(10) Rights on a general offer by way of takeover

In the event of a general offer by way of takeover (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Company shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) or to the extent as notified by the Company at any time within such period as shall be notified by the Company.

(11) Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) may at any time thereafter, (but before such time as shall be notified by the Company) exercise the Option either to its full extent or to the extent notified by the Company.

(12) Rights on winding up

In the event a notice is given by the Company to the Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to all Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three Business Days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares to the Grantee which fall to be issued on such exercise.

(13) Rights on a compromise or arrangement

In the event a compromise or arrangement (other than a scheme of arrangement) between the Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice to all the Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by the Company and the Company shall as soon as possible and in any event no later than three Business Days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares which fall to be issued on such exercise.

(14) Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Memorandum of Association and Articles of Association of the Company for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which these Shares are allotted on exercise of the Option and accordingly shall entitle the holders to participate in all dividend or other distributions paid or made after the date on which the Shares are allotted other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the date on which the Shares are allotted.

(15) Period of the Share Option Scheme

Options may be granted to the Participants under the Share Option Scheme during the period of 10 years commencing on the Adoption Date.

(16) Alterations to the Share Option Scheme

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

(17) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option Period (subject to the provisions of this Share Option Scheme);
- (b) the expiry of the periods referred to in paragraphs 8(a), 8(b), 8(c), 10 to 13 above respectively;
- (c) the expiry of the period referred to in paragraph 10 above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares in the Offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the Offer lapses or is withdrawn before that date;
- (d) the date of commencement of the winding-up of our Company;
- (e) the date on which the Grantee ceases to be a Participant as referred to in paragraph 8(a)(i) above;
- (f) the date on which the Grantee commits a breach of paragraph 7 above; and
- (g) subject to paragraph 8(a)(ii), the date the Grantee ceases to be a Participant for any other reason.

(18) Termination of Share Option Scheme

Our Company by ordinary resolution in general meeting or our Board may at anytime terminate the Share Option Scheme and in such event no further Options may be granted but in all other respects the Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

(19) Restrictions on the timing of grant of Option

In addition, a grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published as prescribed by the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (a) the date of the board meeting of our Company (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or, any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules);

and ending on the date of the results announcement, no Option may be granted.

(20) Cancellation

Any Options granted but not exercised may be cancelled if the Participant so agrees.

(21) Options granted under the Share Option Scheme

Options granted under the Share Option Scheme do not carry any right to vote, or any right, dividend, transfer or any other rights, including those arising on the liquidation of our Company.

(22) Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

(23) Present status of the Share Option Scheme

As at the date of this circular, no Option is agreed to be granted pursuant to the Share Option Scheme. As at the Latest Practicable Date, after deducting the Options previously granted, a total of 74,050,000 Options may be granted by the Company under the Scheme Mandate Limit.

K. TAX AND OTHER INDEMNITIES

Pursuant to the terms of the Deed of Indemnity to be entered into between, among other parties, each of the Vendors (collectively, the “**Indemnifiers**”) and the Company, the Indemnifiers will jointly and severally indemnify the Target Group in respect of any and all taxation falling on any member of the Target Group resulting from or by reference to any income, profits, gains earned, accrued or received on or before the date of Acquisition Completion or any event or transaction entered into or occurring on or before the date of Acquisition Completion whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

The indemnity contained above shall not apply to taxation falling on the Target Group in respect of their current accounting periods or any accounting period commencing on or after the date of Acquisition Completion unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Target Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Vendors other than any such act, omission or transaction:

- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the date of Acquisition Completion; or
- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the date of Acquisition Completion; or
- (iii) consisting of the Target Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation.

L. FURTHER INFORMATION RELATING TO THE COMPANY UNDER THE TAKEOVERS CODE**1. The Company**

As at the Latest Practicable Date and save as disclosed in this circular,

- (a) the Company did not have any interests in any securities, shares, options, warrants, derivatives or convertible securities of the Concert Group and it had not dealt for value in any securities, shares, options, warrants, derivatives or convertible securities of any member of the Concert Group during the Relevant Period;
- (b) Save for the 641,676,629 Shares held by Dr. Choi through Global Courage Limited (representing approximately 63.50% of the issued share capital of the Company as at the Latest Practicable Date), none of the Directors or persons acting in concert with any of them had any interests in the securities,

shares, options, warrants, derivatives or convertible securities of the Company or of any member of the Concert Group and, none of the Directors or persons acting in concert with any of them had dealt for value in any securities, shares, options, warrants, derivatives or convertible securities of the Company or of any member of the Concert Group during the Relevant Period;

- (c) none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor advisers to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company and none of them had dealt for value in any securities, shares, options, warrants, derivatives or convertible securities of the Company during the Relevant Period;
- (d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with the Company, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code;
- (e) there were no securities, shares, options, warrants, derivatives or convertible securities in the Company which were managed on a discretionary basis by fund managers connected with the Company;
- (f) none of the Directors or any persons acting in concert with them of the Company had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company during the Relevant Period;
- (g) there was no material contract entered into by the Company or by any member of the Concert Group in which any of the Directors had a material personal interest;
- (h) there was no agreement or arrangement pursuant to which any of the Directors would be given any benefit as compensation for loss of office or otherwise in connection with the Acquisition and the Whitewash Waiver;
- (i) there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of, or otherwise in connection with the Acquisition or the Whitewash Waiver;
- (j) As at the Latest Practicable Date, Dr. Choi was interested in an aggregate of 641,676,629 Shares (representing approximately 63.50% of the issued share capital of the Company as at the Latest Practicable Date) through his

indirectly wholly-owned company, Global Courage Limited, and as such, Global Courage Limited shall abstain from voting at the EGM on the resolution to approve the Whitewash Waiver; and

- (k) there was no agreement, arrangement or understanding (including any compensation arrangement) in the Company or any person acting in concert with it, and any of the Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition or the Whitewash Waiver.

2. The Sponsor

The Sponsor has made the New Listing Application on behalf of the Company to the Listing Committee for the listing of and permission to deal in the Consolidated Shares in issue upon effective of the Share Consolidation, the Consideration Shares, the Conversion Shares, the Placing Shares and the Offer Shares. For the purpose of the New Listing Application, the Sponsor is considered an independent sponsor pursuant to Rule 3A.07 of the Listing Rules.

As at the Latest Practicable Date:

- (a) neither the Sponsor nor any persons controlling, controlled by or under the same control as it owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;
- (b) neither the Sponsor nor any persons controlling, controlled by or under the same control as it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities in the Company which may be an inducement to deal or refrain from dealing) with any persons; and
- (c) there was no agreement, arrangement or understanding between the Sponsor or persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors or Shareholders on the other part, which was conditional on or dependent upon the outcome of, or otherwise in connection with the Acquisition or the Whitewash Waiver.

3. Other advisers to the Company

As at the Latest Practicable Date, none of Independent Financial Adviser, or any person controlling, controlled by or under the same control as the Independent Financial Adviser, any bank, financial and professional advisers to the Company in relation to the Acquisition and any person controlling, controlled by or under the same control as such banks, financial and professional advisers, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company.

4. Market prices of the Shares

Trading in the Shares was suspended since 22 March 2012.

M. FURTHER INFORMATION RELATING TO THE CONCERT GROUP UNDER THE TAKEOVERS CODE

Set out below are details of the principal members of the Concert Group (for the purpose of the Takeovers Code) and their respective directors:

Name	Residential Address
Mr. Hung	Flat C, 39/F, Block 2, Robinson Place, 70 Robinson Road, Mid-Level, Hong Kong
Ms. Hung	Room 2901, Lane No. 1038, No. 170 Hua Shan Road, Shanghai, China
Mr. Ho	No. 30 Lane 366, Zhuguang Road, Qingpu District, Shanghai, PRC
Mr. So	Room 329, Wai Sum House, Lung Hang Estate, Shatin, New Territories, Hong Kong
Ms. Sezto	Flat A, 4/F, Block 9, Phase 2, Belvedere Garden, Tsuen Wan, New Territories, Hong Kong

Each of the Vendors have confirmed (with respect to himself/herself) that as at the Latest Practicable Date:

- (a) except disclosed in section headed “Disclosure of Interests” in this Appendix, neither he/she nor any person acting in concert with him/her owned or controlled any shares or convertible securities, warrants, options or derivatives of the Company;
- (b) neither he/she nor any persons acting in concert with him/her have entered into any outstanding derivative in respect of securities in the Company;
- (c) neither he/she nor any person acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any person;
- (d) there was no agreement, arrangement or understanding (including any compensation arrangement) between he/she or any person acting in concert with him/her, and any of the Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition or the Whitewash Waiver;
- (e) neither he/she nor any person acting in concert with him/her had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company;

- (f) save and except for the Acquisition, neither he/she nor any person acting in concert with him/her has dealt for value in any shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period; and
- (g) there was no agreement, arrangement or understanding entered into by him/her or any person acting in concert with him/her for the transfer, charge or pledge of any Shares to any other persons.

N. SPONSOR AND FINANCIAL ADVISER

A listing application on behalf of the Company has been submitted to the Stock Exchange by the Sponsor on 27 February 2017. Success New Spring Capital Limited, the sponsor, satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules. The aggregate fee of the sponsor is HK\$4,874,000, payable by the Company.

Veda Capital is the financial adviser of the Company in connection with the Resumption and the transactions contemplated under this circular.

O. TOTAL EXPENSES

The aggregate fees, together with the Stock Exchange listing fee, SFC transaction levy, legal and other professional fees, printing and other expenses relating to, among other things, the Acquisition, the Disposal, the Open Offer, the Share Placing and the Share Consolidation are estimated to be approximately HK\$31.3 million in aggregate, of which HK\$5.7 million and HK\$25.6 million are payable by the Company and the Target Group respectively.

P. ESTATE DUTY

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Cayman Islands, BVI, Hong Kong, the PRC and other jurisdiction in which the companies comprising the Group are incorporated.

Q. MISCELLANEOUS

- (a) Save as disclosed in this circular,
 - (i) within the two years preceding the date of this circular, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) within the two years preceding the date of this circular, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of the Enlarged Group;

- (iii) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this circular to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the introduction or related transaction as mentioned in this circular;
 - (iv) no share or loan capital of any member of the Enlarged Group is under option or is agreed conditionally or unconditionally to be put under option;
 - (v) the Group has no outstanding convertible debt securities or debentures;
 - (vi) none of the Directors or proposed Directors nor any of the persons whose names are listed in the paragraph headed “Consents and qualifications of experts” in this appendix is interested in the promotion of or in any assets which have within the two years immediately preceding the issue of this circular been 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;
 - (vii) within the two years preceding the date of this circular, no commission has been paid or payable (except commission to sub-underwriter) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries; and
 - (viii) none of the Directors or proposed Directors nor any of the persons whose names are listed in the paragraph headed “Consents and qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group.
- (b) The Company has no founder shares, management shares or deferred shares.
 - (c) All necessary arrangements will be made to enable the Consolidated Shares, the Consideration Shares, the Conversion Shares, the Offer Shares and the Placing Shares to be admitted into CCASS for clearing and settlement.
 - (d) The English text of this circular shall prevail over the Chinese text.

Copies of the following documents will be available for inspection at the principal place of business of the Company at Room 2512, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong, during normal business hour from 9:00 a.m. to 6:00 p.m., Monday to Friday (other than public holidays in Hong Kong) from the date of this circular up and including the date of the EGM, and will be displayed on the website of the SFC (www.sfc.hk) and the website of the Company (<http://www.cre8ir.com/daqingdairy>):

1. the Memorandum and the Articles of Association of the Company;
2. the Memorandum and the Articles of Association of the Target Company;
3. the Directors' service contracts referred to in the paragraph headed "Service contracts" in Appendix V to this circular;
4. the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
5. the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
6. the letter of advice from Hooray Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
7. the annual reports of the Company for each of the three years ended 31 December 2017;
8. the accountant's report of the Target Group for the financial years ended 31 December 2015, 2016 and 2017 prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this circular;
9. the audited combined financial statement of the companies comprising the Target Group for the financial years ended 31 December 2015, 2016 and 2017;
10. the report on unaudited pro forma financial information of the Enlarged Group issued by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix III to this circular;
11. the letter of advice from Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this circular;
12. the Companies Law;
13. the legal opinions prepared by the PRC Legal Advisers in respect of certain aspects of the Target Group in the PRC;
14. the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this circular;

15. the written consents referred to in the paragraph headed “Consents and qualifications of expert” in Appendix V to this circular;
16. a copy of this circular;
17. a copy of the Market Research Report;
18. a copy of the Share Option Scheme; and
19. a copy of the internal control review report by Protiviti Shanghai Co., Limited.



DAQING DAIRY HOLDINGS LIMITED

大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of Daqing Dairy Holdings Limited (the “**Company**”) will be held at Dynasty I of the Dynasty Club, 7/F., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 May 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions, with or without amendment:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Consolidated Shares (as defined below) and with effect from the business day immediately following the date of passing of this resolution, every two (2) issued and unissued existing shares of HK\$0.00001 each in the share capital of the Company (the “**Share(s)**”) be consolidated into one (1) share of HK\$0.00002 (the “**Consolidated Share(s)**”, the consolidation the “**Share Consolidation**”); and
- (b) any one director of the Company (the “**Director**”) be and is hereby authorised generally to sign, execute and deliver such documents (including the affixation of the common seal of the Company where required) and do all such acts and things and to take all such steps as he or she may consider necessary, expedient or desirable in connection with or to give effect to the Share Consolidation.”

2. “**THAT:**

- (a) subject to and conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares (as defined below) and the Conversion Shares (as defined below), the conditional sale and purchase agreement dated 21 November 2016 (as amended and restated on 20 February 2017 and as supplemented on 30 June 2017, 30 October 2017 and 2 May 2018 (the “**Acquisition Agreement**”)) and entered into between Mr. Hung Shui Chak,

NOTICE OF EGM

Ms. Hung Ying, Mr. Ho, Roy Poon Kwong, Mr. So Kam Chuen and Ms. Sezto Yuen Man (collectively the “**Vendors**”) as vendors and the Company as purchaser, in relation to the sale and purchase of the entire issued share capital of Longhui International Catering Management Holdings Limited at a total consideration of HK\$517,881,250 (a copy of which is marked “**A**” and produced at the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder, including:

- (i) the allotment and issue of an aggregate of 3,789,375,000 new Consolidated Shares at the issue price of HK\$0.1025 each (the “**Consideration Shares**”), credited as fully paid, to the Vendors (or their respective nominees) pursuant to the terms and conditions of the Acquisition Agreement;
- (ii) the issue of 5-year zero coupon convertible bonds in the aggregate principal amount of HK\$129,470,312.50 (the “**Convertible Bonds**”) to the Vendors (or their respective nominees) pursuant to the terms and conditions of the Acquisition Agreement, which are convertible into new Consolidated Shares (the “**Conversion Shares**”) at the initial conversion price of HK\$0.1025 per Conversion Share (subject to adjustments) and the issue of Conversion Shares upon the exercise of the conversion rights attaching thereto; and
- (iii) all other transactions contemplated under the Acquisition Agreement;

be and are hereby approved, ratified and confirmed; and

- (b) any one Director be and is hereby authorised generally to do all such acts and things and to sign, execute and deliver all such documents (including the affixation of the common seal of the Company where required) as he or she may, in his/her absolute discretion, consider necessary, desirable or expedient to give effect, determine, implement or complete any matters relating to or in connection with the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares and to agree to such variation, amendment or waiver as are, in his/her opinion, in the interests of the Company.”

3. “**THAT:**

the terms of the application for a waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission to the Vendors pursuant to Note 1 on the Dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong from an obligation to make a mandatory general offer to other shareholders of the Company in respect of the Consolidated Shares (other than those already owned or agreed to be acquired by the Vendors) as a result of the allotment and issue of the Consideration Shares be and are hereby approved and any one Director be and is hereby authorised generally to do all such acts and things and

NOTICE OF EGM

execute and deliver all such documents as he or she may, in his/her absolute discretion, consider necessary, desirable or expedient to give effect, determine, implement or complete any matters relating to the Whitewash Waiver.”

4. **“THAT:**

- (a) the placing agreement dated 2 May 2018 and entered into between the Company as issuer and Enhanced Securities Limited as placing agent (the **“Placing Agreement”**) for the placing of 757,875,000 new Consolidated Shares (the **“Placing Share(s)”**) at a placing price of HK\$0.1025 per Placing Share on a fully underwritten basis (a copy of which is marked **“B”** and produced at the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder, including the allotment and issue of the Placing Shares in accordance with the terms of the Placing Agreement, be and are hereby approved, ratified and confirmed; and
- (b) any one Director be and is hereby authorised generally to do all such acts and things and to sign, execute and deliver all such documents (including the affixation of the common seal of the Company where required) as he or she may, in its absolute discretion, consider necessary, desirable or expedient to give effect, determine, implement or complete any matters relating to or in connection with the implementation of and giving effect to the Placing Agreement and the transactions contemplated thereunder including the issue of the Placing Shares and to agree to such variation, amendment or waiver as are, in his/her opinion, in the interests of the Company.”

5. **“THAT:**

- (a) the sale and purchase agreement (the **“Disposal Agreement”**) dated 21 November 2016 (and as supplemented on 30 June 2017, 30 October 2017 and 2 May 2018) and entered into between the Company as vendor and Mr. Jiang Jianhui as purchaser in relation to the sale and purchase of the entire issued share capital of Global Milk Singapore Pte. Ltd. at a cash consideration of HK\$1.00 (a copy of which is marked **“C”** and produced at the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one Director be and is hereby authorised generally to do all such acts and things and to sign, execute and deliver all such documents (including the affixation of the common seal of the Company where required) as he or she may, in his/her absolute discretion, consider necessary, desirable or expedient to give effect, determine, implement or complete any matters relating to or in connection with the implementation of and giving effect to the Disposal Agreement and the transactions contemplated thereunder, and to agree to such variation, amendment or waiver as are, in his/her opinion, in the interests of the Company.”

NOTICE OF EGM

6. “**THAT:**

- (a) conditional upon completion of the Acquisition Agreement, the appointment of the following candidates as directors of the Company with effect from the date of resumption of trading in the shares of the Company on the Stock Exchange be and is hereby approved:
- (i) Mr. Hung Shui Chak as an executive Director;
 - (ii) Mr. So Kam Chuen as an executive Director;
 - (iii) Mr. Yuan Mingjie as an executive Director;
 - (iv) Mr. Chen Jun as an executive Director;
 - (v) Mr. Chan Chun Yiu Thomas as an independent non-executive Director;
and
 - (vi) Mr. Mai Guangfan as an independent non-executive Director;
- (b) any one Director be and is hereby authorised to fix the Directors’ remuneration and to do all such acts and things and execute all such documents as he or she may, in his/her absolute discretion, consider necessary, desirable or expedient in connection with the appointment of Directors set out in paragraph (a) above.”

By order of the Board
Daqing Dairy Holdings Limited
Choi Chiu Fai Stanley
Chairman

Hong Kong, 9 May 2018

Executive Directors

Dr. Choi Chiu Fai Stanley (*Chairman and Chief Executive Officer*)

Mr. Choi Ka Wai

Independent non-executive Directors

Mr. Ha Kee Choy Eugene

Mr. Szeto Tat Kwan

Mr. Fok Wai Ming Eddie

Registered office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

NOTICE OF EGM

Principal place of business in Hong Kong

Room 2512, 25/F.

Cosco Tower

183 Queen's Road Central

Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened shall be entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the above meeting of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company, but must attend the meeting in person to represent the member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he/she/they represent as such member could exercise.
2. To be valid, the form of proxy together with the power of attorney or other authority (if any), under which it is signed or a certified copy of that power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof.
3. Completion and delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. Pursuant to Rule 13.39(4) of the Listing Rules, any votes of shareholders at a general meeting must be taken by poll (except for those relating purely to a procedural or administrative matter which may be voted on by a show of hands). Therefore, the resolutions proposed at the meeting shall be voted by poll.