



# MAGNUM ENTERTAINMENT GROUP HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE: 2080

GLOBAL OFFERING



SOLE SPONSOR

ANGLO CHINESE 英高  
CORPORATE FINANCE, LIMITED

SOLE GLOBAL COORDINATOR AND SOLE BOOKRUNNER

交銀國際  
BOCOM International

JOINT LEAD MANAGERS

ANGLO CHINESE 英高  
CORPORATE FINANCE, LIMITED

交銀國際  
BOCOM International

金利豐證券  
KINGSTON SECURITIES

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## IMPORTANT

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*If you are in any doubt about any of the contents of the Prospectus, you should obtain independent professional advice.*



## Magnum Entertainment Group Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

Number of Offer Shares	:	84,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	8,400,000 Shares (subject to adjustment)
Number of International Placing Shares	:	75,600,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$1.5 per Offer Share and expected to be not less than HK\$1.0 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	2080

### Sole Sponsor



### Sole Global Coordinator and Sole Bookrunner



### Joint Lead Managers



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

A copy of the Prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to the Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The SFC and the Registrar of Companies in Hong Kong take no responsibility for the contents of the Prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 16th January, 2014 and, in any event, not later than Tuesday, 21st January, 2014. The Offer Price will be not more than HK\$1.5 and is currently expected to be not less than HK\$1.0 unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum indicative Offer Price of HK\$1.5 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, with the consent of the Company, reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in the Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, announcement of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in Hong Kong Economic Times (in Chinese) and on the Company's website at [www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in the Prospectus, including the risk factors set out in the section headed "Risk factors".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain circumstances or grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such circumstances are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Underwriting Agreement — Grounds for termination" in the Prospectus. It is important that you carefully read that section before making any investment.

No information on any website forms part of the Prospectus.

13th January, 2014

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## EXPECTED TIMETABLE

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*If there is any change in the following expected timetable, the Company will issue an announcement to be published in Chinese in Hong Kong Economic Times.*

*Date<sup>(1)</sup>*

*2014*

Latest time to complete electronic applications under <b>HK eIPO White Form</b> services through the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(4)</sup> .....	11:30 a.m. on Thursday, 16th January
Application lists open <sup>(2)</sup> .....	11:45 a.m. on Thursday, 16th January
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms and giving <b>electronic application instructions</b> to HKSCC <sup>(3)</sup> .....	12:00 noon on Thursday, 16th January
Latest time to complete payment of <b>HK eIPO White Form</b> applications by effecting Internet transfer(s) or PPS payment transfer(s) .....	12:00 noon on Thursday, 16th January
Application lists close <sup>(2)</sup> .....	12:00 noon on Thursday, 16th January
Expected Price Determination Date <sup>(5)</sup> .....	on or around Thursday, 16th January
Announcement of the Offer Price, the indication of the levels of interest in the International Placing, the levels in the applications of the Hong Kong Public Offer and the basis of allotment of the Hong Kong Offer Shares to be published in Hong Kong Economic Times (in Chinese) and on the Company's website at <a href="http://www.magnumentertainment.com.hk">www.magnumentertainment.com.hk</a> and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> on .....	Wednesday, 22nd January
Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants (where applicable) will be made available through a variety of channels as described in the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of Results" in the Prospectus on .....	Wednesday, 22nd January
Results of allocations in the Hong Kong Public Offer will be available at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> with a "search by ID" function .....	Wednesday, 22nd January

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## EXPECTED TIMETABLE

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Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offer<sup>(7)</sup> . . . . . on or before Wednesday, 22nd January

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly and partially successful (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer<sup>(6 and 7)</sup> . . . . . on or before Wednesday, 22nd January

Listing Date . . . . . Thursday, 23rd January

*Notes:*

1. All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in the Prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 16th January, 2014, the application lists will not open and close on that day. Further information is set out in the section headed “How to apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in the Prospectus.
3. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares — 6. Applying by giving Electronic Application Instructions to HKSCC via CCASS” in the Prospectus.
4. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
5. Please note that the Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Thursday, 16th January, 2014, and, in any event, no later than Tuesday, 21st January, 2014. Notwithstanding that the Offer Price may be fixed at below the maximum indicative Offer Price of HK\$1.5 per Offer Share, applicants who apply for the Hong Kong Offer Shares must pay on application the maximum indicative Offer Price of HK\$1.5 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies” in the Prospectus.
6. Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. If you apply through the **HK eIPO White Form** services by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account. If you apply through the **HK eIPO White Form** services by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated website ([www.hkeipo.hk](http://www.hkeipo.hk)) by ordinary post and at your own risk. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant provided by

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## EXPECTED TIMETABLE

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you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.

7. Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offer and have provided all information required by their respective Application Forms may collect their refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar in person from 9:00 a.m. to 1:00 p.m. on Wednesday, 22nd January, 2014. Identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offer and have provided all information required by their respective Application Forms may collect their refund cheques in person (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.

Uncollected share certificates (where applicable) and refund cheques will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" in the Prospectus.

**Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Global Offering has become unconditional and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Underwriting Agreement — Grounds for termination" in the Prospectus has not been exercised and has lapsed. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

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## CONTENTS

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*You should rely only on the information contained in the Prospectus and the Application Forms to make your investment decision.*

*The Group has not authorised anyone to provide you with information that is different from what is contained in the Prospectus and, or the Application Forms. Any information or representation not made in the Prospectus must not be relied on by you as having been authorised by the Group, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Underwriters, any of their respective directors, officers, employees, advisers, agents, affiliates or representatives or any other person or party involved in the Global Offering.*

	<i>Page</i>
<b>Expected Timetable</b> .....	i
<b>Contents</b> .....	iv
<b>Summary</b> .....	1
<b>Definitions</b> .....	14
<b>Forward-Looking Statements</b> .....	25
<b>Risk Factors</b> .....	27
<b>Information about the Prospectus and the Global Offering</b> .....	42
<b>Directors and Parties Involved in the Global Offering</b> .....	46
<b>Corporate Information</b> .....	50
<b>Industry Overview</b> .....	52
<b>Laws and Regulations of the Industry</b> .....	61
<b>History, Reorganisation and Corporate Structure</b> .....	69
<b>Business</b> .....	84
<b>Directors, Senior Management and Employees</b> .....	138
<b>Relationship with Controlling Shareholders</b> .....	147
<b>Substantial Shareholders</b> .....	152
<b>Share Capital</b> .....	153
<b>Financial Information</b> .....	156
<b>Future Plans, Reasons for Listing and Use of Proceeds</b> .....	209

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## CONTENTS

---

	<i>Page</i>
<b>Underwriting</b> .....	211
<b>Structure of the Global Offering</b> .....	221
<b>How to Apply for Hong Kong Offer Shares</b> .....	230
<b>Appendix I — Accountants' Report</b> .....	I-1
<b>Appendix II — Unaudited Pro Forma Financial Information</b> .....	II-1
<b>Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law</b> .....	III-1
<b>Appendix IV — Statutory and General Information</b> .....	IV-1
<b>Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection</b> .....	V-1

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## SUMMARY

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*This summary aims to give you an overview of the information contained in the Prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors”. You should read the section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

The Group operates the largest group of clubbing venues in Hong Kong, in terms of gross floor areas and premise capacity, according to the Euromonitor Report. For further details, please refer to the section headed “Industry Overview” in this Prospectus. In the context of the Prospectus, the words “clubs” and “clubbing venues” (generally known as disco or discothèque) refer to entertainment venues in which typically have night time operating hours and are differentiated from other bars, pubs, lounges and taverns by the existence of a dance floor and DJ booth. In the view of the Lan Kwai Fong Association, the Group is a leader in the clubbing industry in Hong Kong and all the Clubs are highly successful, professionally operated and have developed strong reputation for quality service. The three clubbing venues of the Group are all located at the heart of the popular night entertainment area of Hong Kong known as the Lan Kwai Fong area. The Clubs are individually branded to target a range of customers and each offers a different but upscale atmosphere to cater for those customers or the mood of the customers on any given evening. Although the atmosphere and setting are differentiated at each venue of the Group, it endeavours to provide a high standard of customer service in all Clubs.

The Clubs operated by the Group follow the model of the modern clubbing venue which developed out of the discothèque of the 1970s providing lively music, elaborate lighting and a dance floor supplemented by light food and both alcoholic and non-alcoholic beverages. Typically, the margin charged on beverages would be high comparing with bars and public house.

### BUSINESS MODEL

Since the Group commenced operations, its management team has successfully developed the Group’s clubbing business which now comprises of Beijing Club, Billion Club and Magnum Club. The Clubs are licensed to provide customers with music, beverages, snacks and entertainment until well after midnight. The Group derives its revenue mainly from beverage sales, and its two largest suppliers were Moët Hennessy Diageo Hong Kong Limited and Telford International Company Limited during the Track Record Period.

As part of its branding and positioning, each Club has a distinct theme expressed through its style and design, whilst all the Clubs are targeted at adults aged between 18 to 45 in general. Billion Club targets at young professionals and provides a more relaxing place to gather. Beijing Club aims to attract mid-ranged income professionals and is targeted at more mature customers than Billion Club. Magnum Club targets at a higher income group. The Group considers that its Clubs appeal to a wide range of customers, including locals and tourists, that are seeking night



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## SUMMARY

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entertainment in the Lan Kwai Fong area. The Clubs normally operate from 11:00 p.m. to 5:00 a.m., with the customer traffic peaking from 12:00 a.m. to 3:00 a.m.. For non-VIP Customers, an admission fee may be charged at the door. An external security service provider and internal crowd control team are retained to maintain orderly behaviour in the Clubs.

The Clubs utilise a membership programme to provide customers with VIP Customer status and various benefit and privileges, such as free entry and other promotional discounts. Such joining fee is made available to members as credit to be used in settling the bill at the relevant Club. Starting from 15th December, 2012, member credit amounts have an expiry term of 12 months. No forfeiture would be applied to the membership registered before 15th December, 2012. Each VIP Customer may join membership programme multiple times and may have multiple membership accounts, the Company did not capture the identification card details of all VIP Customers during the Track Record Period, therefore the particular identity and the precise number of distinct VIP Customers cannot be ascertained. Consequently, the number of VIP Customers has not been disclosed.

With the success of the Clubs and to benefit from the economies of scale of the Group's operations, the Group intends to increase its market penetration and open additional venues. The Group plans to open one new club, namely Zentral, in the new California Tower in the Lan Kwai Fong area in 2014.

### Summary of club details

	Beijing Club	Billion Club	Magnum Club	Zentral (planned) (Note 8)
Address	2/F, 3/F & 5/F., Wellington Place, 2-8 Wellington Street, Central, Hong Kong	3/F., On Hing Building, No.1 On Hing Terrace, Central, Hong Kong	3-4/F., Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong	4/F & 5/F, new California Tower, 30-36 D'Aguilar Street, Central, Hong Kong
Commencement	October 2007	October 2008	December 2011	Opening in 2014
Gross floor area (including flat roof area)	12,403 square feet	7,319 square feet	10,785 square feet	12,000 square feet (estimate)
Number of floors	3	1	2	2
Maximum capacity (Note 1)	454 people	172 people	490 people	N/A
Expected maximum capacity in the future (Note 2)	408 people	154 people	441 people	N/A
Terms of leased property	1st March, 2013 - 29th February, 2016	15th March, 2013 - 14th March, 2014 (Note 3)	20th August, 2011 - 19th August, 2015	N/A
Aggregate rental cost during the Track Record Period (Note 4)	approximately HK\$25,900,000	approximately HK\$13,670,000	approximately HK\$17,704,000	N/A
Alcohol service	Liquor licence	Liquor licence	Liquor licence	N/A
Food service	Licence to serve light refreshments	Licence to serve light refreshments	Licence to serve light refreshments	N/A
Validity of the licences (Note 5)				
- Water Pollution Control Licence	11th July, 2013 - 31st July, 2018	4th July, 2013 - 31st July, 2018	30th July, 2012 - 31st July, 2017	N/A

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## SUMMARY

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	Beijing Club	Billion Club	Magnum Club	Zentral (planned) (Note 8)
- Light Refreshment Restaurant Licence (Note 6)	25th February, 2013 - 24th February, 2014	28th May, 2013 - 27th May, 2014	5th June, 2013 - 4th June, 2014	N/A
- Liquor Licence (Note 7)	16th October, 2013 - 15th October, 2014	14th October, 2013 - 13th October, 2014	8th November, 2013 - 7th November, 2014	N/A
- Place of Public Entertainment Licence	N/A	N/A	14th December, 2013 - 13th December, 2014	N/A

*Notes:*

1. The maximum capacity is the maximum number of people allowed (including 5 to 50 staff in each Club) by the current liquor licence of each Club at any given time.
2. The figures represent 90% of the maximum capacity of the Clubs under its current liquor licence. According to the guidelines published by the LLB, the LLB may consider to impose a safety margin (90%) on the capacity limit for Upstairs Bars in future. For further details, please refer to the section headed “Laws and Regulations of the Industry” of the Prospectus.
3. The Group entered into an agreement with the landlord to renew the lease term of Billion Club to 14th March, 2016.
4. The amounts represent the aggregate rental cost for each Club charged to profit or loss during the Track Record Period, which comprised of 36 months for Beijing Club, 41 months for Billion Club and 25 months for Magnum Club.
5. Light refreshment restaurant licence and liquor licence are subject to renewal every year.
6. As at the Latest Practicable Date, the Group is in the process of renewing the light refreshment restaurant licence of Beijing Club.
7. The dancing endorsements have the same duration as their respective liquor licences.
8. The Group entered into a binding letter with the landlord on 28th May, 2012. Zentral will be located at the new California Tower in the Lan Kwai Fong area which is still under construction and expected to be completed in 2014. The Group will apply for the relevant licences as and when appropriate.

For further details, please refer to the section headed “Business — Clubs and brands” in the Prospectus.

### MARKET POSITION

The total number of liquor licences in Hong Kong as at 31st October, 2013 was 6,379, 119 of which have been granted with the dancing endorsement. The 119 liquor licences with dancing endorsements comprise of a wide variety of different venues, including bars, restaurants, hotels, and so forth. It should be recognised that having liquor licence with dancing endorsement does not necessarily represent a “club” or “clubbing venue” with a nature similar to those of the Group.

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## SUMMARY

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According to the Euromonitor Report, the total number of clubs in Hong Kong increased by 13.3% to 34 clubs in 2012, from 30 clubs in 2011. Hong Kong's clubbing industry was highly concentrated, over 70% of them were concentrated in the Lan Kwai Fong area.

Euromonitor has conducted independent research to obtain an estimate on the number of clubs in Hong Kong. The table below sets forth the total number of clubs in Hong Kong as at the dates indicated:

(Unit)	As at 31st December,		
	2010	2011	2012
Number of clubs in Hong Kong	25	30	34
Number of clubs in the Lan Kwai Fong area	18	22	25
Number of clubs in others area	7	8	9

*Source: Euromonitor has conducted independent research. The data reported above has been determined via a fieldwork program consisting of desk research including online and published news research and trade interviews with certain industry operators, alcohol suppliers and trade associations.*

The Group owns more than 10% of the market share in the Lan Kwai Fong area in terms of number of outlets. For further details, please refer to the section headed "Industry Overview" in the Prospectus.

### COMPETITIVE STRENGTHS

The Directors believe the following key strengths distinguish the Group from its competitors and position the Group for significant growth in the future:

- upscale Clubs<sup>1</sup> with established reputation;
- high quality music, entertainment and clubbing experience;
- standardised operations and economies of scale enabled by large size of Clubs and number of Clubs; and
- in-house production of marketing materials and direct marketing.

For further details, please refer to the section headed "Business — Competitive Strengths" in the Prospectus.

*Note:*

<sup>1</sup> According to the Euromonitor Report, upscale clubs target the upper income band of consumers and are typically better furnished than other clubs.

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## SUMMARY

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### BUSINESS STRATEGIES

The Group's objective is to maintain its status as a leading club owner and operator in Hong Kong. The Group intends to achieve this objective by implementing the following strategies of:

- focusing on large upscale clubs;
- continuing to strengthen the quality of the Clubs' customer service;
- promoting the image and status of the Clubs to maintain customers' positive perceptions of the Clubs;
- continuing to strengthen operational infrastructure to take advantage of economies of scale; and
- further expansion in Hong Kong.

For further details, please refer to the section headed "Business — Business Strategies" in the Prospectus.

### SUMMARY OF FINANCIAL INFORMATION

The Group opened Magnum Club in late 2011 and its turnover increased by approximately 96.0% and 26.9% for the years ended 31st March, 2012 and 2013, respectively. The Group maintained the gross profit margin at around 80% throughout the Track Record Period with an average of 82.4%. Net profit margin dropped during the Track Record Period mainly due to the increase in overhead such as property rentals and staff costs.

The table below sets out the consolidated financial information of the Group for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, and should be read in conjunction with the financial information included in the Accountants' Report set forth in Appendix I to the Prospectus, including the notes thereto.

### Highlights of consolidated statements of comprehensive income

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August,	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	69,986	137,148	173,995	69,981	71,748
Profit before taxation	19,170	35,030	34,098	15,701	7,461
Profit and total comprehensive income for the year/period	<u>16,082</u>	<u>29,167</u>	<u>28,034</u>	<u>13,074</u>	<u>5,574</u>
Number of Clubs	2	3	3	3	3

## SUMMARY

### Highlights of consolidated statements of financial position

	As at 31st March,			As at
	2011	2012	2013	31st August,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2013
				<i>HK\$'000</i>
Current assets	35,138	42,690	71,400	72,185
Non-current assets	3,438	20,086	19,567	18,528
Current liabilities	22,979	38,728	39,169	33,741
Non-current liability	—	284	—	—
Net current assets	12,159	3,962	32,231	38,444
Net assets	<u>15,597</u>	<u>23,764</u>	<u>51,798</u>	<u>56,972</u>

### Turnover in terms of clubbing venues

	Year ended 31st March,						Five months ended			
	2011		2012		2013		31st August,		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	contributed by each Club		contributed by each Club		contributed by each Club		contributed by each Club		contributed by each Club	
Billion Club	22,569	32.2%	23,214	16.9%	14,849	8.5%	6,468	9.2%	5,253	7.3%
Beijing Club	47,417	67.8%	96,863	70.6%	65,992	37.9%	30,690	43.9%	24,078	33.6%
Magnum Club	N/A	N/A	<u>17,071</u>	<u>12.5%</u>	<u>93,154</u>	<u>53.6%</u>	<u>32,823</u>	<u>46.9%</u>	<u>42,417</u>	<u>59.1%</u>
Total	<u>69,986</u>	<u>100.0%</u>	<u>137,148</u>	<u>100.0%</u>	<u>173,995</u>	<u>100.0%</u>	<u>69,981</u>	<u>100.0%</u>	<u>71,748</u>	<u>100.0%</u>

For a detailed breakdown of turnover, in terms of service category, by Clubs, please refer to section headed “Financial Information — Discussion of Certain Consolidated Statement of Comprehensive Income Items — Turnover — Turnover, in terms of service category” in the Prospectus.

### Factors affecting results of operations and financial condition

1. Number of Clubs in operation
2. Revenue contribution from beverage sales
3. Seasonality
4. Liquor price
5. Property rentals
6. Staff costs

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## SUMMARY

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For further details, please refer to the section headed “Financial information — Factors affecting results of operations and financial condition” in the Prospectus.

### Key financial ratios

The following table sets forth some key financial ratios of the Group for the periods indicated:

	Year ended 31st March,			Five months ended
	2011	2012	2013	31st August, 2013
Gearing ratio	0%	0%	0%	0%
Gross margin	84.0%	82.6%	81.7%	81.3%
Net profit margin	23.0%	21.3%	16.1%	7.8%
Return on equity	103.1%	122.7%	54.1%	23.5%
Return on total assets	41.7%	46.5%	30.8%	14.7%
Current ratio	1.5	1.1	1.8	2.1
Quick ratio	1.5	1.1	1.8	2.1
Inventory turnover days	22	13	21	26
Debtors' turnover days	1	7	11	8
Creditors' turnover days	40	25	35	34

For further details, please refer to the section headed “Financial information — Financial ratios” in the Prospectus.

### Operating expenses

During the Track Record Period, the operating expenses mainly consisted of the cost of inventories sold and property rental and related expenses. The cost of inventories sold amounted to approximately HK\$11.2 million, HK\$23.8 million, HK\$31.8 million and HK\$13.4 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The property rental and related expenses amounted to approximately HK\$8.9 million, HK\$20.6 million, HK\$30.3 million and HK\$13.8 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

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## SUMMARY

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### **Source of funds**

During the Track Record Period, the Group had been financing the operations mainly through the internally generated funds. Its source of funds for its operations after the Listing will be a combination of internal generated funds and net proceeds from the Global Offering.

### **Listing expenses**

The total estimated Listing expenses (excluding underwriting fees and commissions) in connection with the Global Offering is approximately HK\$28.0 million, of which approximately HK\$7.8 million is directly attributable to the issue of new shares and to be accounted for as a deduction from the equity and approximately HK\$20.2 million, being 72.1% of HK\$28.0 million, is to be charged to the consolidated statement of comprehensive income. Listing expenses of HK\$2.6 million and HK\$4.0 million were charged to the consolidated statement of comprehensive income for the year ended 31st March, 2013 and the five months ended 31st August, 2013, respectively. Approximately HK\$13.6 million is expected to be charged to the consolidated statement of comprehensive income in the seven months ending 31st March, 2014. The total estimated Listing expenses (excluding underwriting fees and commissions) of HK\$28.0 million is a current estimate for reference only and the final amount is subject to adjustments based on the actual amount incurred or to be incurred. Prospective investors should note that the financial performance of the Group for the year ending 31st March, 2014 would be materially and adversely affected by the estimated Listing expenses mentioned above.

### **Recent developments**

Based on the unaudited financial information, the Group's turnover for the nine months ended 31st December, 2013 was HK\$124.3 million, which has decreased by 5.3% when compared to that for the same period in 2012, the Directors believe the decrease in turnover was primarily due to the increased competition in the clubbing industry. The Group has experienced rising operating expenses (including property rentals and staff costs) and the gross profit margin of the Group was approximately 80.0% for the nine months ended 31st December, 2013 which remained constant compared to that of the same period in 2012. The Directors confirm there was no material change in the retail price of the Group's beverages products. For further details, please refer to the section headed "Risk Factors" in the Prospectus.

### **Material adverse change**

Save as disclosed in the paragraph headed "Listing expenses" and "Recent Developments" in this section and the one-off dividend of HK\$10 million declared on 24th October, 2013, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group and no event since 31st August, 2013 up to the date of the Prospectus that would materially affect the information shown in the Accountant's Report in Appendix I to the Prospectus.

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## SUMMARY

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### **Risk Factors - Highlights**

The Directors consider that there are risks and uncertainties relating to the business and the industry. Some highlighted risks are set out below:

- various approvals, licences and permits are required to operate the Group’s business and the loss of or failure to obtain or renew any or all of these approvals, licences and permits could materially and adversely affect its business and results of operations;
- any regulatory changes may affect the Group’s business and results of operations;
- liquor licences of the Clubs are held by individual employees; and
- the Group may not be able to renew leases for its existing Clubs on favourable terms or at all.

For further details, please refer to the section headed “Risk Factors” in the Prospectus.

### **Laws and Regulations of the Industry**

The LLB has recently published a set of guidelines on assessing liquor licence applications with effect from 1st December, 2013 (“**Guidelines**”), which provides transparency of the licensing criteria and enhances regulation of Upstairs Bars to address public concerns. Under the Guidelines, the LLB may consider, amongst others, imposing licensing conditions regarding attendance of seminars by liquor licence holder, noise insulation at the premises, and safety margin (e.g. 90%) on the capacity limit for Upstairs Bars. For further details, please refer to the section headed “Laws and Regulations of the Industry” of the Prospectus.

### **NON-COMPLIANCE MATTERS**

During the Track Record Period and as at the Latest Practicable Date, the Group had been or is involved in a number of non-compliance matters which can broadly be classified into: (i) non-compliance in relation to licences; (ii) non-compliance in relation to the Inland Revenue Ordinance; and (iii) non-compliance in relation to the Companies Ordinance.



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## SUMMARY

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The table below summarises the major non-compliance matters in relation to licences of the Group during the Track Record Period up to the Latest Practicable Date.

Type of non-compliance	Relevant section(s) of the ordinance/regulations	Rectification actions
Non-compliance in relation to the liquor licensing condition (exceeding the permitted capacity at the relevant Club)	Regulations 17(1) and 21 of the DCR and Sections 46(1) and 46(3) of the DCO	The Group has strengthened the crowd control management system and the internal compliance officer is responsible for ensuring all internal control policies and procedures can be fully implemented. There is no conviction in relation to the breach of the permitted capacity in the Clubs since May 2012.
Non-compliance in relation to liquor licensing condition (dancing endorsement)	Section 46 of the DCO	The Group has obtained the dancing endorsements on the liquor licences of Magnum Club and Billion Club in June 2012 and June 2013, respectively.
Non-compliance in relation to the place of public entertainment licence	Section 4 of the Places of Public Entertainment Ordinance	The Group has obtained the place of public entertainment licence for Magnum Club in December 2012.
Non-compliance in relation to the licences for discharge of effluent	Section 9 of the WPCO	The Group has obtained the water pollution control licences for Magnum Club in July 2012, Billion Club in July 2013 and Beijing Club in July 2013, respectively.
Non-compliance in relation to the Inland Revenue Ordinance (under-reported certain commission paid to employees and other third-party service providers)	Section 82A of the Inland Revenue Ordinance	The Group has made a voluntary disclosure of the matter with the Inland Revenue Department in May 2013 and has reached settlement with the Inland Revenue Department in July 2013.
Non-compliance in relation to the Companies Ordinance	Sections 111 and 122 of the Companies Ordinance	Each of the Hong Kong subsidiaries (except Clubbing HK, Sure Wise and Kind Legend) had laid the audited profit and loss accounts at the annual general meetings held after the specified period which was not extended by the court.
	Section 109 of the Companies Ordinance	Relevant filing at the Companies Registry has been made and the Companies Registry confirmed no prosecution will be made against Joyful Mercy.

For further details of licence-related non-compliance and other categories of non-compliance, please refer to the section headed “Business — Non-compliance of the Group during the Track Record Period” in the Prospectus.

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## SUMMARY

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### INTERNAL CONTROL MEASURES

The Group has adopted the following measures to ensure on-going compliance with all applicable laws and regulations and to strengthen its corporate governance and internal controls:

- the Group has established an audit committee to oversee the internal control procedures and accounting and financial reporting matters;
- the Group has engaged an external compliance officer in August 2013 to conduct regular internal control review of the Group. The external compliance officer reports to the audit committee on a semi-annual basis;
- the Group has engaged an internal compliance officer in July 2013 to ensure the implementation of the internal control policies and procedures. The internal compliance officer reports to the audit committee on a monthly basis;
- the Group has established an internal control committee in August 2013 to oversee all daily compliance related issues during the daily operation of the Group. The internal control committee reports to the audit committee on a monthly basis; and
- the Group has established an administration team to supervise the daily operation of the Clubs, and licensing and crowd control related matters. The administration team reports to the delegated person from the internal control committee on a daily basis.

For further details, please refer to the section headed “Business — Internal Control Measures” in the Prospectus.

### SHAREHOLDER INFORMATION

Immediately following the completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option are not exercised, the Controlling Shareholder will hold 216,000,000 Shares (representing 72% of the enlarged issued share capital of the Company).

For further details, please refer to the section headed “Relationship with Controlling Shareholders” in the Prospectus.

### REASONS FOR THE LISTING

The purpose of seeking the Listing is to:

- allow the Group access to capital for future growth with opportunities to raise funds not only at Listing but also at a later stage. This is of particular importance to the Group in view of its expansion plan for opening of Zentral in Lan Kwai Fong in 2014 and in regions other than in Hong Kong, including China;

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## SUMMARY

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- increase the Group's profile and visibility in the market and generate reassurance among the customers and suppliers of the Clubs; and
- enhance the Group's operational efficiency and corporate governance through compliance with rigorous disclosure standards which the Directors believe would lead to improvement in the Group's internal control and operating systems.

### DIVIDEND AND DIVIDEND POLICY

The Group declared dividends of HK\$4.0 million, HK\$21.0 million, nil and nil, for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group declared a one-off and non-recurring dividend to the existing Shareholders in the amount of HK\$10 million on 24th October, 2013. All these dividends had been paid as at the Latest Practicable Date. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by the Company upon Listing.

### OFFERING STATISTICS

Market capitalisation at Listing	:	HK\$300 million to HK\$450 million
Offer Size	:	28% (excluding Shares to be offered pursuant to the exercise of the Over-allotment Option) of the enlarged issued share capital of the Company
Over-allotment Option	:	Up to 15% of the initial number of Offer Shares offered under the Global Offering
Offer Price per Share	:	HK\$1.0 to HK\$1.5 per Share
Board lot	:	2,000 Shares
Use of proceeds (assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.25 per Share (being the mid-point of the indicative Offer Price range))	:	Net proceeds to the Company from the issue of new Shares:  Approximately HK\$80.4 million, after deducting the underwriting fees and commissions (assuming the full payment of the discretionary incentive fee) and estimated expenses payable by the Company.  <ul style="list-style-type: none"><li>• Approximately 50.0% of the net proceeds will be used for the opening costs of Zentral, including, decoration, rental and recruitment of staff or professional consultant;</li></ul>

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## SUMMARY

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- Approximately 20.0% of the net proceeds will be used for marketing purposes, including advertisement on internet, television and printed media;
- Approximately 20.0% of the net proceeds will be used for researching expansion plan in regions other than Hong Kong, including China and Southeast Asia regions. The Group plans to engage an external market consultant and a legal adviser to conduct business development studies and feasibility studies; and
- The remaining 10.0% will be used for working capital and other general corporate purposes.

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## DEFINITIONS

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*In the Prospectus, the following terms shall have the meanings set forth below unless the context otherwise requires.*

“Acquired Subsidiaries”	Best Future together with its wholly-owned subsidiary, Sure Wise, the companies acquired by the Group in September 2010
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), individually or collectively, as the context may require
“Articles” or “Articles of Association”	the articles of association of the Company, conditionally adopted on 3rd January, 2014 and effective on the Listing Date and as amended from time to time, a summary of which is set out in Appendix III to the Prospectus
“Asiatic Century”	Asiatic Century Limited (亞洲世紀有限公司), a company incorporated in Hong Kong with limited liability on 3rd December, 2010, which is an indirect wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Club”	one of the clubs operated by the Group at 2/F, 3/F & 5/F, Wellington Place, 2-8 Wellington Street, Central, Hong Kong
“Best Future”	Best Future Worldwide Limited, a company incorporated in the BVI with limited liability on 19th February, 2009, which is an indirect wholly-owned subsidiary of the Company
“Best Season”	Best Season Corporation Limited (百遜有限公司), a company incorporated in Hong Kong with limited liability on 4th November, 2010, which is an indirect wholly-owned subsidiary of the Company
“Best Treasure”	Best Treasure Limited (澤琛有限公司), a company incorporated in Hong Kong with limited liability on 7th July, 2006
“Billion Club”	Billion, being one of the clubs operated by the Group at 3/F, On Hing Building, No. 1 On Hing Terrace, Central, Hong Kong
“Board”	board of Directors

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## DEFINITIONS

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“BOCOM International Securities” or “Sole Global Coordinator”	BOCOM International Securities Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“Capitalisation Issue”	the capitalisation of an amount of HK\$2,159,900 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 215,990,000 Shares for allotment and issue to the Shareholders as resolved by the Shareholders on 3rd January, 2014 and on 7th January, 2014
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of the Board
“Cheerful Raise”	Cheerful Raise Limited (愷升有限公司), a company incorporated in Hong Kong with limited liability on 17th July, 2006, which is an indirect wholly-owned subsidiary of the Company
“chief executive”	the chief executive (as defined in the SFO) of the Company
“China” or “PRC”	the People’s Republic of China, which for the purpose of the Prospectus and for geographical reference only (unless otherwise indicated), excludes Hong Kong, the Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“Club(s)”	the club(s) (being entertainment venues with night time operating hours and are differentiated from other bars, pubs, lounges and taverns by the existence of a dance floor and DJ booth) owned by the Group, namely Beijing Club, Billion Club and Magnum Club or any one of them, which operate akin to a modern form of discothèque
“Club Kingdom”	Club Kingdom The Central Group Limited (formerly known as Silk Limited (錦尚有限公司)), a company incorporated in Hong Kong with limited liability on 3rd November, 2005, which is an indirect wholly-owned subsidiary of the Company
“Clubbing HK”	Clubbing Kingdom Management Limited (formerly known as Clubbing Kingdom Holdings Limited), a company incorporated in Hong Kong with limited liability on 7th December, 2012, which is an indirect wholly-owned subsidiary of the Company
“Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”	Magnum Entertainment Group Holdings Limited, a company incorporated in the Cayman Islands on 14th January, 2013 as an exempted company with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Rainbow Key and Mr. Yip
“Coral Spring”	Coral Spring Investments Limited, a company incorporated in the BVI with limited liability on 2nd January, 2013, which is an indirect wholly-owned subsidiary of the Company
“Corporate Hero”	Corporate Hero Limited, a company incorporated in the BVI with limited liability on 21st May, 2012, which is an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“DCO”	Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“DCR”	Dutiable Commodities (Liquor) Regulations (Chapter 109B of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	a deed of indemnity dated 3rd January, 2014 and executed by the Controlling Shareholders in favour of the Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities as more particularly referred to Appendix IV to the Prospectus
“Deed of Non-Competition”	a deed of non-competition dated 3rd January, 2014 and executed by the Controlling Shareholders in favour of the Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders — Non-compete undertakings” in the Prospectus
“Director(s)”	the director(s) of the Company or any one of them
“DJ”	disc jockey
“Double Reach”	Double Reach Limited, a company incorporated in the BVI with limited liability on 13th June, 2005, which is an indirect wholly-owned subsidiary of the Company
“Dragon Praise”	Dragon Praise Limited (龍璽有限公司), a company incorporated in Hong Kong with limited liability on 20th July, 2011, which is an indirect wholly-owned subsidiary of the Company
“Ease Goal”	Ease Goal Management Limited (易成管理有限公司), a company incorporated in Hong Kong with limited liability on 2nd August, 2007, which is an indirect wholly-owned subsidiary of the Company
“Easy Large”	Easy Large Limited (穎逸有限公司), a company incorporated in Hong Kong with limited liability on 8th February, 2011, which is an indirect wholly-owned subsidiary of the Company
“EPD”	Environmental Protection Department of the Government
“Euromonitor”	Euromonitor International Limited



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## DEFINITIONS

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“Euromonitor Report”	an independent market research report commissioned by the Company prepared by Euromonitor on the clubbing market in Hong Kong issued in July 2013
“FEHD”	Food and Environmental Hygiene Department of the Government
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Government”	the government of Hong Kong
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”	the Company and its subsidiaries or, where the context so requires, with respect to the period before which the Company became the holding company of its current subsidiaries, the Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HK eIPO White Form”	the application of Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk"><b>www.hkeipo.hk</b></a>
“HK eIPO White Form Service Provider”	the HK eIPO White Form Service provider designated by the Company, as specified on the designated website of the HK eIPO White Form at <a href="http://www.hkeipo.hk"><b>www.hkeipo.hk</b></a>
“HKFRS”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and interpretations) promulgated by HKICPA
“HKICPA”	The Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

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## DEFINITIONS

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“Hong Kong Offer Shares”	the 8,400,000 new Shares initially being offered for subscription by the Company at the Offer Price under the Hong Kong Public Offer (subject to adjustment as described in “Structure of the Global Offering”)
“Hong Kong Public Offer”	the offer by the Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong as described in “Structure of the Global Offering” at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer named in the section headed “Underwriting — Hong Kong Underwriters” of the Prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong underwriting agreement dated 10th January, 2014 relating to the Hong Kong Public Offer entered into by, among others, the Company, the Sole Global Coordinator and the Hong Kong Underwriters
“Honor Legend”	Honor Legend Limited (昂威有限公司), a company incorporated in Hong Kong with limited liability on 6th March, 2008, which is an indirect wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	person(s) or company(ies) which is/are not connected with any member of the Group, any of the Directors, any chief executives and substantial Shareholders of the Company or any of the subsidiaries and any of their respective associates according to the meaning ascribed to them by the Listing Rules
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed “Structure of the Global Offering” on and subject to the terms and conditions stated herein and in the International Underwriting Agreement
“International Placing Shares”	the 75,600,000 Shares being initially offered for subscription by the Company under the International Placing (subject to adjustment as described in the section headed “Structure of the Global Offering” in the Prospectus)

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## DEFINITIONS

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“International Underwriters”	the group of underwriters led by the Sole Global Coordinator, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the conditional placing agreement relating to the International Placing and to be entered into by, among others, the Company and the Sole Bookrunner on behalf of the International Underwriters on or about the Price Determination Date
“Issuing Mandate”	the general unconditional mandate given to the Directors by the Shareholders relating to the issue of new Shares, further details of which are contained in the paragraph headed “Information about the Company — 3. Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus
“Joint Lead Managers”	BOCOM International Securities, Anglo Chinese and Kingston Securities Limited
“Joyful Green”	Joyful Green Limited (欣綠有限公司), a company incorporated in Hong Kong with limited liability on 2nd March, 2010, which is an indirect wholly-owned subsidiary of the Company
“Joyful Mercy”	Joyful Mercy Limited (愷恩有限公司), a company incorporated in Hong Kong with limited liability on 6th July, 2007, which is an indirect wholly-owned subsidiary of the Company
“Kind Legend”	Kind Legend Limited (友傳有限公司), a company incorporated in Hong Kong with limited liability on 27th December, 2007, which is an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	6th January, 2014, being the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus
“Legal Counsel”	Mr. NG, Danny Pak Kin, a barrister-at-law advising on certain aspects of Hong Kong law relating to the Group’s operation
“Listing”	the listing of the Shares on the Main Board of Stock Exchange

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## DEFINITIONS

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“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on 23rd January, 2014, on which the Shares are listed and from which dealings thereon are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“LLB”	Liquor Licensing Board of the Government
“Magnum Club”	one of the clubs operated by the Group at 3-4/F, Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company, as amended from time to time, a summary of which is contained in Appendix III to the Prospectus
“Mr. Wong”	Mr. Wong Hei Yan (黃熙仁), the chief executive officer of the Company
“Mr. Yip”	Mr. Yip Mow Lum (葉茂林), the Chairman, non-executive Director and shareholder holding 100% direct interest in Rainbow Key, the corporate Controlling Shareholder
“New Pride”	New Pride Corporate Limited, a company incorporated in the BVI with limited liability on 2nd January, 2013, which is a direct wholly-owned subsidiary of the Company
“Ocean Ample”	Ocean Ample Investment Limited (洋溢投資有限公司), a company incorporated in Hong Kong with limited liability on 29th June, 2011, which is an indirect wholly-owned subsidiary of the Company
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%) of not more than HK\$1.5 and expected to be not less than HK\$1.0, which is to be determined by agreement between the Sole Global Coordinator and the Company on or before the Price Determination Date

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## DEFINITIONS

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“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, including, where relevant, any additional Shares under the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by the Company under the International Underwriting Agreement to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which the Company may be required to allot and issue up to an aggregate of 12,600,000 additional Shares, representing approximately 15% of the initial number of Offer Shares offered under the Global Offering, at the Offer Price to, among other things, cover the over-allocations (if any) in the International Placing
“Price Determination Agreement”	the agreement expected to be entered into between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about 16th January, 2014 (Hong Kong time), when the Offer Price is determined and, in any event, no later than 21st January, 2014
“Prime Sunlight”	Prime Sunlight Limited, a company incorporated in the BVI with limited liability on 26th January, 2012, which is an indirect wholly-owned subsidiary of the Company
“Prospectus”	this document
“Rainbow Key”	Rainbow Key Investments Limited, a company incorporated in the BVI with limited liability on 16th May, 2012, which is wholly-owned by Mr. Yip, and the Controlling Shareholder holding 72% in the Company upon the Listing (assuming no Over-allotment Option is exercised)
“related parties”	has the meaning as set out in the paragraph headed “Related parties” under Note 1(r) of Section C to the Accountants’ Report set out in Appendix I to the Prospectus
“Reorganisation”	the reorganisation of the Group in preparation for the Listing, details of which are set out in the section “History, Reorganisation and Corporate Structure” of the Prospectus

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## DEFINITIONS

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“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are contained in the paragraph headed “Information about the Company — 3. Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 3rd January, 2014, the principal terms of which are summarised in the paragraph headed “Other Information — 13. Share Option Scheme” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sole Sponsor” or “Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of regulated activities as defined in the SFO, being the sole sponsor to the Global Offering
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Sole Global Coordinator and Rainbow Key pursuant to which the Sole Global Coordinator may borrow up to 12,600,000 Shares from Rainbow Key for the purpose of covering over-allocation in the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Sure Wise”	Sure Wise Investment Limited (智保投資有限公司), a company incorporated in Hong Kong with limited liability on 22nd January, 2009, which is an indirect wholly-owned subsidiary of the Company
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, as approved by the SFC and as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the financial years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“Upstairs Bars”	refers to liquor-licensed premises the principal business of which involve the sale and consumption of liquor on the premises that are not located at the street level according to the guidelines published by the LLB
“VIP Customer(s)”	customers who are participating in the Club’s membership programme
“WPCO”	Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Zentral”	Zentral, a club expected to be opened by the Group in 2014 at 4/F & 5/F, new California Tower, 30-36 D’ Aguilar Street, Central, Hong Kong
“%”	percentage or per centum

*Certain amounts set out in the Prospectus have been subject to rounding adjustments. Accordingly, figures shown as total of certain amounts may not be arithmetic sum of such amounts.*

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## **FORWARD-LOOKING STATEMENTS**

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The Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in the Prospectus. Forward-looking statements can be identified by words such as “may”, “will”, “should”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “continue”, “seek”, “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements the Group make regarding the projections, business strategies and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements the Group make.

Forward-looking statements are based on the current expectations and assumptions regarding the business, the economy and other future conditions. The Group gives no assurance that these expectations and assumptions will prove to have been correct. Since forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The results may differ materially from those indicated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. The Group cautions you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the success of the existing Clubs and new clubs to be opened;
- the ability to manage effectively the planned expansion;
- the ability to retain senior management team members and recruit qualified and experienced new team members;
- the ability to maintain an effective quality control system;
- the ability to manage the purchase costs for liquors, property rentals and related expenses and staff costs;
- laws, regulations, licences and rules for the clubbing industry in force in Hong Kong;
- future development, trends and conditions in the clubbing industry in Hong Kong;
- the prospective financial conditions; and
- other factors that are described in “Risk Factors” in the Prospectus.



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## **FORWARD-LOOKING STATEMENTS**

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Any forward-looking statement made by the Group in the Prospectus speaks only as at the date on which it is made. Factors or events that could cause the actual results to differ may emerge from time to time, and it is not possible for the Group to predict all of them. Subject to the requirements of applicable laws, rules and regulations, the Group undertakes no obligation to update any forward looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in the Prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully consider all of the information set out in the Prospectus, including the risks and uncertainties described below before making any investment decisions in relation to the Offer Shares. You should pay particular attention to the fact that the Company is incorporated in the Cayman Islands, the legal and regulatory environment of which may differ from that prevailing in Hong Kong. Any of the following risks, together with other risks and uncertainties that are deemed currently immaterial, may materially and adversely affect the Group's business, financial condition or results of operations. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### **RISK FACTORS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY**

#### **Various approvals, licences and permits are required to operate the Group's business and the loss of or failure to obtain or renew any or all of these approvals, licences, and permits could materially and adversely affect its business and results of operations**

The Group's operation is subject to various Hong Kong laws and regulations which may be subject to change from time to time. The Clubs are required to maintain three principal types of licences for each venue, namely the light refreshment restaurant licence, the liquor licence and the water pollution control licence. The light refreshment restaurant licence permits the Clubs to prepare and sell for consumption on the premises certain food items listed by the Government and is required to be obtained before the commencement of such sales. The liquor licence permits the Clubs to sell liquor for consumption on the premises and is required to be obtained before the commencement of such sales. The water pollution control licence is required to be obtained before any discharge of trade effluents into a communal sewer or communal drain in a water control zone commences. The light refreshment restaurant licences and liquor licences are typically granted for a period of one year. The water pollution control licences are normally granted for a period of five years. New clubs may be granted provisional licences which are valid for a period of up to six months pending the issue of full licences. There is no assurance that the Group's existing light refreshment restaurant licences, liquor licences and water pollution control licences can be successfully renewed upon their expiry. Further, there is no assurance that any new clubs to be opened by the Group can obtain all the requisite licences as intended. In the event that the Group fails to obtain or renew all or some of the requisite licences, its business and the results of operations may be adversely affected.

During the Track Record Period, the Group has been involved in four occasions of breach of licensing conditions of liquor licences at the Clubs as detailed in the section headed "Business — Non-compliance of the Group during the Track Record Period". Additionally, a club not within the Group previously managed by Mr. Wong, namely Hei Hei Club, was cited for repeated breaches of licensing conditions of liquor licence during 2005 to 2007, mainly for exceeding the permitted capacity and resulted in Hei Hei Club not being able to renew its liquor licence from the LLB in 2007. There is no assurance that such breaches will not adversely affect the renewal of the liquor licences of the Clubs.

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## RISK FACTORS

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### **The Group's operation may be susceptible to an increase in its purchase costs, staff costs and rental costs of leased property, which could adversely affect its margins and results of operations**

The Group's profitability depends on its ability to anticipate and react to changes in purchase costs of alcoholic beverages. Costs of inventory sold accounted for 16.0%, 17.4%, 18.3% and 18.7% of the Group's turnover for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group relies on the alcoholic beverages brands' designated suppliers. Increases in distribution costs or sale prices or failure to perform by suppliers could cause its purchase costs to increase. The Group may be unwilling or unable to pass these cost increases to its customers, as a result its operating margins may decrease.

The Group is generally able to have agreements with most of the alcoholic beverages suppliers for up to 1 year, but it has not entered into futures contracts or engaged in other financial risk management strategies associated with potential price fluctuations in purchase costs. The Group may not be able to anticipate and react to changes in its purchase costs through its purchasing practices and menu price adjustments in the future, and failure to do so may materially and adversely affect its business and results of operations.

The Group offers competitive wages and other benefits to its employees in order to attract, motivate and retain qualified employees. Due to the general increase in labour costs in Hong Kong, the salary level of employees in the clubbing industry in Hong Kong has generally increased in recent years. For the years ended 31st March, 2011, 2012 and 2013, and the five months ended 31st August, 2013, the staff costs represented 11.3%, 11.9%, 17.9% and 24.5% of the Group's turnover, respectively. The Group expects the staff costs may continue to increase as inflationary pressures in Hong Kong may continue to drive up wages and in such circumstance, its operating margins may be affected negatively.

The Group has experienced an increase in rental cost of leased property, the property rental and related expenses for the Clubs accounted for approximately 17.3%, 20.3%, 22.1% and 22.9% of the total operating expenses (excluding income tax and listing expenses) for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group expects the property rental cost may continue to increase in the future and may adversely affect the operating margins of the Group.

### **Any regulatory change may affect the Group's business and results of operations**

The Group's operation is subject to various Hong Kong laws and regulations which may change from time to time and may become more stringent. Failure to comply with such laws or regulations may result in fines, suspension of operations, loss of licences and, in more extreme cases, criminal proceedings against an enterprise and its management within the Group. In addition, compliance with these changing laws and regulatory requirements may cause the Group to incur considerable time and significant expenses, which the Group may be unable to pass on to its customers and in such event, the results of the Group's operations may be adversely affected. The licensing requirements may be subject to change from time to time. For instance, the LLB has recently published a set of guidelines on assessing liquor licence applications with

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## **RISK FACTORS**

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effect from 1st December, 2013. For further details, please refer to the section headed “Laws and Regulations of the Industry” of the Prospectus. Such guideline is intended to tighten the qualification of the operator of Upstairs Bars, imposing more stringent control on capacity limit and safety of Upstairs Bars and additions of licensing conditions on the liquor licence. The Group may require more time and resources to comply with any newly imposed conditions on the liquor licence, attend hearings when obtaining or renewing the liquor licences and any limitation on capacity which may adversely impact the Group’s operation.

### **Liquor licences of the Clubs are held by individual employees**

Each of the clubs in Hong Kong is required to obtain a liquor licence from the relevant regulatory authority to serve liquor. The application and granting of liquor licences in Hong Kong are made to individuals on behalf of a business rather than to the company directly. Selected individuals are required to apply for the relevant licences on behalf of the Group. For further details, please refer to the section “Business — Liquor licences for all the Clubs” of the Prospectus. The Directors cannot assure you that these licence holders will not resign from the Group or commit misconduct which may cause their licences to be revoked. In such events, if the Clubs cannot apply or be granted with new licences in a timely manner, it could cause interruption of the Group’s business and materially and adversely impact its business and the results of operations.

Complying with laws and regulations may be expensive, and any non-compliance may expose the Group to liabilities which could cause significant expense and management attention to resolve. The Group may also experience adverse publicity arising from such non-compliance which could damage its reputation, reduce customer traffic and as a result, adversely impact its business and results of operations.

### **The Group may not be able to renew leases for its existing Clubs on favourable terms or at all**

As at the Latest Practicable Date, the Group leased premises for all the Clubs. The leases for Beijing Club, Billion Club and Magnum Club expire on 28th February, 2016, 14th March, 2016, and 19th August, 2015, respectively (For Beijing Club and Magnum Club, the Group has options to renew the leases on the terms subject to the parties’ further discussion for further 3 years and 4 years, respectively, upon expiry of the existing lease). Any increase in the Clubs’ rents may increase the total operating expenses, which may adversely affect the Group’s profit margins, cash flows, and financial position and therefore, materially impact its business and results of operations.

The Group usually enters into a lease agreement with the lessor to operate its Clubs for a lease term between 1 to 4 years. When a lease agreement expires, the lessor may opt not to renew the lease or may wish to increase the rent or change other terms and conditions and the Group will have to negotiate the terms of renewal. Such renewal rate of all lease agreements will be subject to further discussion with the landlord. The Directors anticipate that Hong Kong property prices, especially rental costs for premises that are suitable for the Clubs’ operations will keep increasing. The Group may not be able to renew the relevant lease agreements on terms and

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## RISK FACTORS

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conditions which are acceptable to it, or if any lease is not renewed, the Group may not be able to obtain alternative premises on comparable terms on a timely basis, if at all. In the events that the Group needs to close down a Club at the end of a lease, its business may be disrupted and it may incur extra costs to relocate. The Directors cannot assure you that the revenue and profit generated from such relocated clubs will be equivalent to or more than the revenue and profit previously generated from the closed Clubs. As a result, the Group's business operations and financial condition may be materially and adversely affected.

**The Group depends on its major suppliers for the timely, stable and adequate supply of high quality alcohol; otherwise it may experience short-term supply shortage and increased costs**

One of the crucial factors in the Group's success is the ability to source adequate supply of high quality alcohol at a competitive price. The Group's ability to maintain stable offerings on the menus in the Clubs depends in part upon its ability to acquire high quality alcohol and related supplies from reliable sources that meets its quality specifications and in sufficient quantities. For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the purchases from the Group's five largest alcohol suppliers in aggregate accounted for 93.2%, 92.5%, 93.3% and 95.0%, respectively, and its purchase from the largest supplier, namely Moët Hennessy Diageo Hong Kong Limited, accounted for 59.0%, 62.7%, 61.6% and 65.7% of its total purchases for such periods. The Directors cannot assure you that the Group will be able to maintain business relationships with its key suppliers.

A disruption or reduction of the alcohol supplies to the Group can occur due to various reasons that are out of its control, including but not limited to unanticipated demand, adverse weather conditions, diseases, natural disasters, a supplier ceasing operations or unexpected production shortages. If any of the suppliers fail to perform adequately or in a timely manner, the Group may not be able to find suitable replacement suppliers in a short period of time on acceptable terms under such circumstances and its failure to do so could increase its alcohol costs and cause shortage of certain alcohol and other supplies at its Clubs. Any such shortage could result in a significant reduction and thereafter may have material and adverse impact on the Group's business and results of operations. Even if the Group is able to find alternative suppliers, the Group cannot ensure the beverage quality provided by the new suppliers so that the Group may face the risk of selling counterfeit beverages.

**Competitions from other entertainment operators may adversely affect the Group's market share and profit margins. The establishment of new clubs in the existing market may negatively affect the results of its existing Clubs**

The clubbing industry is part of the night entertainment industry. The Clubs compete against other forms of night entertainment including public houses, bars, karaoke, live music performance, Mah Jong houses amongst others.

The clubbing industry in Hong Kong, in particular in the Lan Kwai Fong area, is highly competitive. Key competitive factors in the industry include quality of service, price, clubbing experience, locations of the clubs and ambiances of the facilities. The Clubs face significant

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## **RISK FACTORS**

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competition from others in the area. Some of the Group's competitors also offer dining services. There are a number of well-established competitors who may have greater financial, marketing, personnel and other resources than the Group. Additionally, other operators may develop new clubs that operate in similar concepts and target the Group's customers resulting in increased competition.

The Clubs may lose market share and may not be able to increase or sustain their revenues and profitability if they fail to compete successfully with other clubs in the market, which could have a material and adverse effect on the Group's business, financial condition and results of operation. The Group may also need to try to improve or upgrade its equipment and furnishing to evolve new concepts in order to compete with other clubs from time to time. The Directors cannot guarantee that such improvements or upgrade will be successful.

The trends and popularity of clubs in Hong Kong, especially in the Lan Kwai Fong area, are constantly shifting. As a result, the opening of new clubs in or near areas in which the Group already has existing Clubs could impact the sales and customer traffic of existing Clubs. Some of the customers may be diverted from the existing Clubs to the new clubs, and vice versa.

The Group plans to open one new club in the near future to increase its penetration in the existing market in Hong Kong. The opening of the new club is intended to benefit the overall performance of the Group. The opening of the new club, including Zentral, may or may not impact the sales, customer traffic or performance of each of the existing Clubs. There can be no guarantee that customer diversion among the existing and new clubs will not occur or become more significant in the future as the Group continues to expand its operations, which could have a material and adverse effect on the sales and performance of the existing Clubs and their overall profitability.

### **The Group's operating results may fluctuate due to seasonal and other factors**

The Group's results of operations may fluctuate significantly from time to time due to various factors, including but not limited to the timing of new club openings and the incurrence of associated pre-opening costs and expenses, operating costs for the newly opened clubs, losses associated with the club closings and seasonal fluctuations. During the Track Record Period, the Group generally derived a higher amount of revenue during the summer seasons and certain holiday periods, such as Halloween, Christmas and New Year's Eve holiday. As a result of the above factors, the Group's results of operations may fluctuate significantly from time to time and comparisons between different periods may not be meaningful. The results for a given period are not necessarily indicative of results to be expected for any other period.

### **The Group's business is affected by changes in consumer preference and the life cycles of the Clubs may be shortened**

As night entertainment, especially the clubbing industry, is constantly evolving with the introduction of new concepts, and is subject to rapidly changing consumer preferences and tastes, the life cycles of the Clubs may be shortened. The Group's continued success depends in part upon the popularity and style of experience the Clubs offer. Shifts in consumer preferences

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## RISK FACTORS

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away from the experience the Clubs offer could materially and adversely affect the Group's business and results of operations. Moreover, the Group's future success depends in parts on its ability to anticipate and respond to the changes in consumer preferences and tastes and other factors that affect the clubbing industry, including new market entrants and demographic changes. It cannot assure you that its offerings will continue to suit the popular tastes and demands of consumers. If it is unable to identify new consumer preferences and develop new concepts and/or new products, or if it lags behind its competitors, sales at the Clubs may be adversely affected.

If the Group changes its concepts to respond to changing consumer preferences, it may lose customers who do not like the new concepts, and may not be able to attract a sufficient new customer base to compensate for lost customers with the result that its business and the results of operations are adversely affected.

**The Group's business and reputation may be affected by any significant liability claims, litigation, customer complaints, illegal activities conducted by the customers or adverse publicity relating to the products or services of its Clubs**

The Clubs' customers and guests may file complaints or claims against the Clubs regarding their offerings and services, including the beverages they prepare and the branded products they sell. In addition, the Group may not be able to completely prevent customers from conducting certain illegal activities.

Being in the clubbing industry where a significant part of the Group's operation is related to alcohol consumption, the Group faces an inherent risk of liability claims. The beverage quality depends in part on the quality of alcohol provided by the brands' designated suppliers in Hong Kong and the Group may not be able to detect all defects in the supplies. The Clubs may fail to detect or prevent food contamination occurring at the kitchens or at the bar which could adversely affect the quality of the beverage or food served. The Group also faces the risk that certain employees may not adhere to its standard procedures and requirements. Any failure to detect illegal activities, defective beverage supplies or poor hygiene, cleanliness standards and other quality control requirements in one or more of the Clubs, could lead to liability claims, complaints and related adverse publicity, reduced traffic at the Clubs and the imposition on the Group of penalties by relevant authorities and compensation awards by courts.

During the Track Record Period and up to the Latest Practicable Date, the Group received an insignificant number of formal customer complaints and they are generally related to the service quality of the Clubs, and the Group is not aware of any incidence of serious customer complaint or other material claim that could have material adverse effect on its business and operation results. Nevertheless, the Directors cannot assure you that the Group will not receive any serious customer complaints which may materially affect the Group's operation in the future.

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## **RISK FACTORS**

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Any formal complaints or claims against the Group, even if meritless or unsuccessful, could be time consuming and force diverted management attention from other business concerns, which could adversely affect its business and operation results. Customer may lose confidence in the Clubs from adverse publicity which may adversely affect the Group's business. As a result, the Clubs could experience reduced traffic which it may or may not be able to recover. Any such incidents could materially harm the Group's reputation, business results and financial condition.

### **The Group has had certain compliance irregularities which may lead to enforcement actions being taken**

Some of the Group's subsidiaries incorporated in Hong Kong have on various occasions been involved in a number of non-compliance matters. These include non-compliance with certain statutory requirements in the Companies Ordinance with respect to matters such as timely adoption of audited accounts. For details, please refer to "Business — Non-Compliance of the Group during the Track Record Period" in the Prospectus. There is no assurance that the relevant authorities would not take any enforcement action against the relevant Hong Kong subsidiaries in the Group and their respective directors in relation to the non-compliance. In the event that such enforcement action is taken, the reputation, cash flow and results of operation of the Group may be adversely affected.

### **The Group's success and normal operations are largely dependent on certain key personnel and its ability to attract and retain talented personnel**

The Group's future success depends largely on the continuing services and performance of its key management personnel, such as Mr. Wong, general manager and club managers. The Group must continue to attract, retain and motivate a sufficient number of qualified management and operating personnel, including general managers, club managers and bartenders to maintain consistency in the quality and ambiances of the Clubs. Competition in the industry for the experienced and talented personnel is intense, the Directors cannot assure you that the Group will be able to attract, retain and motivate its key management and operating personnel.

If one or more of the Group's key personnel are unable or unwilling to continue in their present positions, the Group may not be able to replace them easily or at all in a timely manner, and its business may be disrupted and results of operations may be materially and adversely affected. In addition, if any member of the senior management team or any other key personnel joins a competitor or forms a competing business, the Group may lose business secrets and know-how as a result of which its business and results of its operation may be materially and adversely affected.

### **Information technology system failures could interrupt the Group's operations and adversely affect its business**

The Group relies on its computer systems and network infrastructure across its operations to monitor the daily operations of its Clubs and to collect accurate up-to-date financial and operating data for business analysis. Any damage or failure of its computer systems or network



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## RISK FACTORS

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infrastructure that causes an interruption in its operations could have a material and adverse effect on its business and results of operations.

The Group also receives and maintains certain personal information about its VIP Customers when they join the Clubs. If the network security is breached and such information is stolen or obtained by unauthorised persons or used inappropriately, the Group may become subject to litigation or other proceedings brought by the VIP Customers. Any such litigation or proceedings may distract the management from running the Group's operation and cause it to incur significant unplanned expenses. Consumer perception of the Clubs could also be damaged significantly by such events, which could further adversely affect the Group's business and results of operations.

**The Group may not be able to detect, deter and prevent all instances of fraud or other misconduct committed by its employees, customers or other third parties, wrongdoing by the employees and/or outsiders may harm its reputation and business**

Customers with excess alcohol may not maintain sobriety and disturb other customers and the operation of the Clubs. Although the Group has implemented controls, it may be susceptible to illegal activities or misconduct, including pilferage, theft, fraud, fights, drugs abuse, sexual harassment, bribery, usage of false personal identification, corruption, among others and it may not be able to detect, deter and prevent all instances of misconduct committed by its employees, customers or other third parties in the Clubs. The Group is not legally liable for illegal activities conducted by customers which are not permitted in the Club. Such wrongdoing may harm the Group's reputation, profits and operation results. To the best knowledge of the Directors, there has been no instance of fraud or other misconduct that has materially affected the Group's business and results of operations. However, failure in deterring, detecting or preventing above mentioned examples of misconduct against the Group's interests may have a material adverse effect on the Group's business operation and financial condition.

If customers were repeatedly found conducting illegal activities on Club premises during police inspections, the LLB and the police may take into account of such factor for vetting the application of the respective Club when applying for the renewal of its licences. Such incidents may also seriously harm the Group's reputation, business results and financial condition.

**The Group may not have adequate insurance coverage for all claims associated with its business operations**

The Group has obtained insurance policies that it believes are adequate and customary for businesses of its size and type and are in line with the standard commercial practice in the jurisdiction where it has operations. For more details on the insurance policies, please refer to the section headed under "Business — Insurance" in the Prospectus. However, there are types of losses the Group may incur that cannot be insured against or that it believes are not commercially reasonable to insure, such as the loss of reputation. If the Group was held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of its insurance coverage, its business and results of operations may be materially and adversely affected.

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## **RISK FACTORS**

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### **The Group's financial results depend on the success of its existing and new clubs**

The Group's financial results depend on its ability to increase sales and efficient cost management in its limited number of existing and new clubs. The most important factor in the Group's success is its ability to increase customer traffic and the average spending per invoice. Significant factors that might adversely impact the customer traffic and the average spending per invoice may include, amongst others:

- Changes in consumption pattern;
- Increase in competition in the night entertainment/clubbing industry;
- Deteriorating general economic conditions;
- Limitation of capacity in the Clubs;
- Change in government policies on clubs;
- Customer budgeting constraints and opt for cheaper products e.g. beer instead of wine or spirits;
- Customer sensitivity to the menu price increases;
- The reputation and consumer perception of the Clubs and their pricing, services and value;
- Customer experience in the Clubs; and
- Availability of events or promotions in the Clubs.

The failure of the existing or new clubs to perform as expected could have a significant adverse impact on the Group's business, financial condition and operation results.

Furthermore, the results of operation may be significantly influenced by the timing of the opening of other operators' new clubs and by factors beyond the Group's control, including initially lower sales and higher operation costs and rental expenses incurred before opening.

### **The Group currently operates on a limited number of Clubs**

As at the Latest Practicable Date, the Group operates three Clubs. If any of the Group's Clubs experience problems in operation which result in the need to close a Club temporarily or permanently, the total revenue and profitability of the Group may be materially and adversely affected. The timeline of a clubbing venue can be subject to trends and the changing landscape of the clubbing scene.

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## RISK FACTORS

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**The Group's future growth and performance depend on its ability to expand, if its expansion plans prove to be unsuccessful, or if it fails to obtain sufficient funding for such plans, its growth prospects, business and operation results may be adversely affected**

The Group plans to open new clubs in Hong Kong. It plans to open one new club, namely Zentral, in 2014. The Directors expect the cash needs to increase in the future as the Group continues to expand. The anticipated additional cash needs, including working capital and capital expenditure for the years ending 31st March, 2014, 2015 and 2016 are HK\$7.0 million, HK\$26.3 million and HK\$3.2 million, respectively. The anticipated cash needs account for operating expenses of Clubs currently in operation and expansion expenses of the new clubs. The Directors believe that the Group currently has sufficient cash and cash equivalents, anticipated cash flow from operations, and the proceeds from the Global Offering to meet the cash needs for at least the next 12 months from the date of the Prospectus. Additional cash resources, however, may be required to finance the continued growth or other future developments of the Group, including any investments considered suitable. The amount and timing of such additional financing needs will vary depending on the timing of the new club openings, investment in new clubs and the amount of cash flow from operations. If the Group's resources are insufficient to satisfy its cash requirements, it may seek additional financing by selling additional equity or debt securities or by obtaining a credit facility. The Group's capital raising ability depends on a number of factors, such as its business and strategies. The sale of additional equity securities could result in dilution to its Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in restrictive operating and financing covenants that may, among other things, delay or limit the Group's expansion plans and operations or its ability to pay dividends. The debt service payments may also limit the Group's flexibility in allocating its resources to other activities. If the Group fails to service the debt obligations or is unable to comply with such debt covenants it could be in default under the relevant debt obligations and its financial conditions may be materially and adversely affected. In addition, the Group's expansion plans may prove to be unsuccessful, in which case its overall cash flow position, profitability, business and results of operation may be materially and adversely affected.

Furthermore, the Group is considering expanding into regions outside Hong Kong in the future but no detailed plan has been made. Such expansions may require a high level of expertise and experience that the management and staff of the Group currently do not possess. The Directors cannot assure that the management and staff will be able to gain the required expertise and experience in a timely manner, if at all, and such expansion may not succeed. Failure to do so may materially and adversely affect the Group's business and results of operations.

The Group's ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, some of which are beyond its control, including but not limited to the general financial, economic and capital market conditions, credit availability from banks or other lenders, investors' confidence in the Group, the performance of the night entertainment industry, especially the clubbing industry in general, and its operating and financial performance in

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## **RISK FACTORS**

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particular. The Directors cannot assure you that future financing will be available in amounts or on terms acceptable to the Group, if at all. In the event that financing is not available or the Group is unable to obtain such financing on terms that are acceptable to it, its business, results of operations and growth prospects may be adversely affected.

### **The Group's historical dividends may not be indicative of its future dividends**

The Group declared dividends of HK\$4.0 million, HK\$21.0 million, nil and nil for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group declared a one-off and non-recurring dividend to the existing Shareholders in the amount of approximately HK\$10.0 million on 24th October, 2013. All these dividends had been paid as at the Latest Practicable Date.

The Group and its Directors cannot assure you that it will declare or pay dividends in the future, and the amount of dividends that were declared and paid in the past may not be indicative of future dividends. The payment and amount of any dividends will be at the discretion of the Directors and will depend upon the Group's future operations, financial performance and other factors which the Directors deem relevant.

### **The Group may be required to defend against intellectual property claims from third parties, which could harm the Group's business**

The Group has only registered its "Magnum" trademark in the Trademark Registry of Hong Kong. The Group's other brands such as "Beijing" and "Billion" may be subject to intellectual property rights claims from third parties. Third parties may obtain intellectual property rights in the future and claim that the Group's brands infringe their intellectual property rights. There is no assurance that such Independent Third Party may not launch any claims in future against any of the Group's clubs. Even if the Group were to prevail against such claims, any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of the Group's management and key personnel from the Group's business operations.

### **Record labels, recording associations or other third parties may make claims against the Group for music royalties**

The record labels, recording association or other third parties may make claims against the Group for music royalties. The Directors believe that the Clubs' success depends in part on the music played at the venue and the ambience it brings. The Group has reached an agreement with each of the three licensing bodies, namely Composers and Authors Society of Hong Kong, Phonographic Performance (South East Asia) Limited and Hong Kong Recording Industry Alliance Limited, and has settled licensing fees for the performance of music recordings until mid-2014. However, it is possible that the copyright owners of some sound recordings may not have licensed their musical work with those record labels that are covered under the three licensing bodies and the copyright owners of the sound recording, which are not members of the three licensing bodies, may claim against the Group if such sound recording is played at the Clubs. In

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## **RISK FACTORS**

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such circumstances, it may result in a material adverse effect on its business. The Group may be required to institute litigation, arbitration or other proceedings to defend itself, which would likely consume its management's time and attention. Such proceedings are likely to be expensive to resolve regardless of its outcome.

For further details on the agreement, please refer to the section headed "Business — Entertainment and music" in the Prospectus.

### **RISK FACTORS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for the Company's Shares and their liquidity and market price may be volatile**

Prior to the Global Offering, there has been no public market for the Company's Shares. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. The Directors cannot assure you that an active trading market for the Shares will develop or be sustained after the Global Offering. In addition, the Directors cannot assure you that the Shares will trade at or above the Offer Price in the public market subsequent to the Global Offering. The Offer Price of the Shares is expected to be fixed by agreement among the Sole Global Coordinator (on behalf of the Underwriters) and the Company, and may not be indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market does not develop or is not sustained for the Shares after the Global Offering, the market price and liquidity of the Shares could be materially and adversely affected.

#### **Control by the Controlling Shareholders of a substantial percentage of the Company's share capital after the completion of this Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders**

Upon the completion of the Global Offering, the Controlling Shareholders will continue to beneficially own in aggregate 72% of the Company's share capital, assuming that Over-allotment Option is not exercised. For additional information, please see the section headed "Relationship with Controlling Shareholders" in the Prospectus. Therefore, the Controlling Shareholders will have the ability to exercise significant influence over all matters requiring Shareholders' approval, including among other things, the approval of significant transactions and election of directors. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership may delay, prevent or deter a change in control of the Group that would otherwise be considered beneficial to the Shareholders.

The Controlling Shareholders' interests may not always be aligned with the Group's best interests. If the interests of the Controlling Shareholders conflict with the interests of the Group or the other Shareholders, the Shareholders may be disadvantaged as a result.

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## **RISK FACTORS**

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### **Sale, or perceived sale, of substantial amounts of the Shares in the public market could adversely affect the prevailing market price of the Shares**

Sales of substantial amounts of the Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of the Shares and could materially impair the Group's future ability to raise capital through offerings of the Shares.

The Shares held by the existing Controlling Shareholders are subject to certain lock-up periods. They may dispose of these Shares following the expiration of the lock-up period, or any Share they may come to own in the future. The Directors cannot predict what effect, if any, significant future sales or the perception of these sales may have on the market price of the Shares, and they could materially and adversely affect the prevailing market price of the Shares.

### **The Group's financial performance in 2014 may be adversely affected by the non-recurring listing expenses**

The total estimated non-recurring listing expenses (excluding underwriting fees and commissions) in connection with the Global Offering is approximately HK\$28.0 million, of which approximately HK\$7.8 million is directly attributable to the issue of new shares and to be accounted for as a deduction from the equity and approximately HK\$20.2 million is to be charged to the consolidated statement of comprehensive income. Listing expenses of HK\$2.6 million were charged to the consolidated statement of comprehensive income for the year ended 31st March, 2013, and approximately HK\$17.6 million are expected to be charged to the consolidated statement of comprehensive income for the year ending 31st March, 2014, representing 51.6% of the Group's profit before taxation of HK\$34.1 million for the year ended 31st March, 2013. The Directors expect that the financial performance of the Group for the year ending 31st March, 2014 would be materially and adversely affected by the estimated non-recurring listing expenses mentioned above, and may or may not be comparable to the financial performance of the Group in the past.

### **Shareholders' interest in the Company may be diluted in the future**

The Group may need to raise additional funds in the future to finance business expansion or fund investments chosen. If additional funds are raised by the Group by way of issue of new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, the percentage ownership of the existing Shareholders may be reduced and/or such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

### **There will be a gap of several days between the pricing and trading of the Shares, there is a chance that the price of the Shares could fall during the period before trading begins**

The Offer Price of the Shares is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be 5 business days after the pricing date. As a result, investors may not be

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## **RISK FACTORS**

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able to sell or otherwise deal in the Shares during that period. Accordingly, holders of the Shares are subject to the risk that the price of the Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins.

### **Facts and statistics in the Prospectus relating to the industry in which the Group operates may not be fully reliable**

Some of the facts and statistics in the Prospectus relating to the clubbing industry in which the Group operates, including those relating to the Hong Kong economy and alcohol consumption market, are derived from various publications of Hong Kong and foreign governmental departments and agencies and obtained in communication with various governmental departments and agencies that the Directors believe are reliable. However, the Directors cannot guarantee that the quality or reliability of such materials. The Directors believe that the sources of the information are appropriate have taken reasonable care in exacting and reproducing such information. They do not believe that such information is false or misleading in any material aspect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Group, the Sole Sponsor, any Underwriter or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

### **The laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong**

The Group's corporate affairs are governed by its Memorandum and Articles of Association and by the Cayman Islands Company Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent existing in Hong Kong. This may mean that the remedies available to the Company's minority Shareholders may be different from those that they would have under the laws of other jurisdictions. A summary of Cayman Islands law is set out in the paragraph headed "3. Cayman Islands Company Law" in Appendix III to the Prospectus.

### **Prospective investors should read the entire Prospectus carefully and are strongly cautioned against placing any reliance on the information in any press articles or other media coverage which contains information not being disclosed or which is inconsistent with the information included in the Prospectus**

You are strongly advised to carefully read the entire Prospectus and are cautioned against placing any reliance on the information in any press articles or any other media coverage which contains information not being disclosed or which is not consistent with the information included in the Prospectus.

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## **RISK FACTORS**

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Prior to the completion of the Global Offering, there may be press and media coverage regarding the Group and this Global Offering. The Directors would like to emphasise to the prospective investors that the Group does not accept any responsibility for the accuracy or completeness of such information and such information is not sourced from or authorised by the Directors or management. The Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Group or its Shares. Prospective investors are also cautioned that in making their decisions as to whether to purchase the Shares, they should rely only on the financial, operational and other information included in the Prospectus and the Application Forms.



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## **INFORMATION ABOUT THE PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS**

The Prospectus for which the Directors collectively and individually accept full responsibility contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information with regard to the Company. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in the Prospectus is accurate and complete in all material respects and not misleading or deceptive;
2. there are no other matters the omission of which would make any statement herein or the Prospectus misleading; and
3. all opinions expressed in the Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### **OFFER SHARES ARE FULLY UNDERWRITTEN**

The Global Offering will be fully underwritten by the Underwriters pursuant to the Underwriting Agreements subject to the Offer Price being fixed by agreement between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). Further information on the Underwriters and the Global Offering and underwriting arrangements is set forth in the section headed "Underwriting" in the Prospectus.

### **DETERMINATION OF OFFER PRICE**

The Offer Shares are being offered at the Offer Price which is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date. If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company are unable to reach agreement on the Offer Price on or before the Price Determination Date, the Global Offering will not become unconditional and will lapse. In such event, the Group will issue an announcement to be published on the website of the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk).

### **RESTRICTIONS ON SALE OF THE OFFER SHARES**

The Offer Shares are offered for subscription and purchase solely on the basis of the information contained and representations made in the Prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in the Prospectus, and any information or representation not contained in the Prospectus must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Underwriters or any of their respective directors or any other persons or parties involved in the Global Offering.

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## **INFORMATION ABOUT THE PROSPECTUS AND THE GLOBAL OFFERING**

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Each person acquiring the Offer Shares will be required, and is deemed by his/her/its acquisition of the Offer Shares, to confirm that he/she/it is aware of the restrictions on offers of the Offer Shares described in the Prospectus and that he/she/it is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit the offering of the Offer Shares or the distribution of the Prospectus in any jurisdiction other than Hong Kong. Accordingly, the Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of the Prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption there from. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the PRC, the United States of America or the Cayman Islands.

The following information is provided for guidance only. Prospective investors of the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective investors of the Offer Shares should inform themselves as to the relevant legal requirements of applying any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

#### **Over-allotment Option**

The Company has granted to International Underwriters the Over-allotment Option which if exercised, requires the Company to allot and issue up to an aggregate of 12,600,000 additional Offer Shares, representing 15% of the initial number of Offer Shares at the Offer Price to cover any over-allocations in the International Placing.

#### **Stabilisation**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price. In connection with the International Placing, Sole Global Coordinator and/or its affiliates and agents, may, to the extent permitted by applicable Laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising

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## **INFORMATION ABOUT THE PROSPECTUS AND THE GLOBAL OFFERING**

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or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the date of the last day of lodging application under the Hong Kong Public Offer. Any market purchases of Shares will be affected in compliance with all applicable laws and regulatory requirements.

However, there is no obligation on Sole Global Coordinator or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Sole Global Coordinator and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after the date of the last day of lodging application under the Hong Kong Public Offer. In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules under the SFO. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules. The Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

Further information on the above and the structure and conditions of the Global Offering is set forth in the section headed “Structure of the Global Offering” in the Prospectus.

### **APPLICATION FOR LISTING ON THE MAIN BOARD**

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares to be issued under the Capitalisation Issue, any Shares to be issued upon exercise of the Over-allotment Option and any Shares, up to 10% of the Shares in issue as at the Listing Date, which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought. Under Section 44B (1) of the Companies Ordinance, if the permission for the Shares offered under the Prospectus to be listed on the Main Board has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Listing Committee, then any allotment made on an application in pursuance of the Prospectus shall, whenever made, be void.

Pursuant to Rule 8.08 of the Listing Rules, at all times after the Listing, the Company must maintain the “minimum prescribed percentage” of 25% or such applicable percentage of the issued share capital of the Company in the hands of the public (as defined in the Listing Rules).

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If investors are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to, the Offer Shares, they should consult their professional advisers. It is emphasised that none of the Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole

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## **INFORMATION ABOUT THE PROSPECTUS AND THE GLOBAL OFFERING**

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Bookrunner, the Underwriters, any of their respective directors, agents or advisers or any other persons involved in the Global Offering accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares.

### **HONG KONG STAMP DUTY**

All the Offer Shares will be registered on the Hong Kong branch register of members of the Company in Hong Kong in order to enable them to be traded on the Main Board. Only Shares registered on the branch register of members maintained in Hong Kong may be traded on the Main Board. Dealings in the Shares registered on the branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

### **THE SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares on the Main Board and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect your rights and interests, they should seek the advice of their stockbroker or other professional adviser.

### **COMMENCEMENT OF DEALING IN THE SHARES**

Dealing in the Shares on the Main Board is expected to commence on 23rd January, 2014. Shares will be traded in board lots of 2,000 Shares each.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
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#### Chairman and non-executive Director

Mr. YIP Mow Lum (葉茂林)	House 6 2 Barker Road Hong Kong	Chinese
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#### Executive Directors

Mr. CHAN Chi Wah (陳志華)	Flat C, 20/F., Block 2 Verbena Heights, Tseung Kwan O New Territories Hong Kong	Chinese
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Ms. MOK Kung Yee (莫恭懿)	No.175, TPTL 161, Boulevard Du Lac The Beverly Hills Tai Po, New Territories Hong Kong	Chinese
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Ms. TSANG Kwok Shan, Sandy (曾國珊)	Block 59, G/F. No.600 The Wonderland Tai Po Tau Village Tai Po, New Territories Hong Kong	Chinese
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Mr. LAM Jhug Ching (林澤清)	Flat 1610, 16/F., Ming Toa Hse. Ming Tak Est., Tseung Kwan O New Territories Hong Kong	Chinese
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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<b>Independent non-executive Directors</b>		
Mr. YUNG Ha Kuk, Victor (容夏谷)	Flat A, 2/F., Albany Court 51 Bisney Road, Pok Fu Lam Hong Kong	Chinese
Mr. LEUNG Chun Kuen, Noel (梁振權)	Flat B3, 12/F., Greenfield Terr. 26 Ho Man Tin Hill Road Ho Man Tin, Kowloon Hong Kong	Chinese
Mr. LAM Kwok Fai, Osmond (林國輝)	Flat B, 8/F., Block 6 Harrison Court, Ho Man Tin 8-10 Man Wan Road Ho Man Tin, Kowloon Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED

#### Sole Sponsor

**Anglo Chinese Corporate Finance, Limited**  
40th Floor, Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

#### Sole Global Coordinator and Sole Bookrunner

**BOCOM International Securities Limited**  
9th Floor, Man Yee Building,  
68 Des Voeux Road,  
Central, Hong Kong

#### Joint Lead Managers

**Anglo Chinese Corporate Finance, Limited**  
40th Floor, Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

**BOCOM International Securities Limited**  
9th Floor, Man Yee Building,  
68 Des Voeux Road,  
Central, Hong Kong

**Kingston Securities Limited**  
Suite 2801, 28th Floor,  
One International Finance Centre,  
1 Harbour View Street,  
Central, Hong Kong

#### Legal advisers to the Company

*As to Hong Kong law*

**Li & Partners**  
22nd Floor, World-Wide House,  
Central, Hong Kong

*As to Cayman Islands law*

**Appleby**  
2206-19 Jardine House,  
1 Connaught Place,  
Central, Hong Kong

#### Legal adviser to the Sole Sponsor and the Underwriters

*As to Hong Kong law*  
**DLA Piper Hong Kong**  
17th Floor, Edinburgh Tower,  
The Landmark, 15 Queen's Road Central,  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Auditors and reporting accountants**

**KPMG**

Certified Public Accountants  
8th Floor,  
Prince's Building,  
10 Chater Road,  
Central,  
Hong Kong

**Independent market consultant**

**Euromonitor International Limited**

60-61 Briton Street,  
London,  
ECLM 5UX

**Receiving banks**

**Bank of Communications Co., Ltd. Hong Kong Branch**

20 Pedder Street,  
Central,  
Hong Kong

**The Bank of East Asia, Limited**

10 Des Voeux Road Central,  
Hong Kong

**Industrial and Commercial Bank of China (Asia) Limited**

33/F., ICBC Tower,  
3 Garden Road,  
Central,  
Hong Kong



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## CORPORATE INFORMATION

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<b>Registered Office</b>	Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman, KY1-1108, Cayman Islands
<b>Headquarter and principal place of business in Hong Kong</b>	22/F, Silver Fortune Plaza No. 1 Wellington Street Central Hong Kong
<b>Compliance adviser</b>	Anglo Chinese Corporate Finance, Limited
<b>Company secretary</b>	Ms. TSANG Kwok Shan, Sandy <i>FCCA</i>
<b>Authorised representatives</b>	Ms. MOK Kung Yee No.175, TPTL 161, Boulevard Du Lac The Beverly Hills Tai Po, New Territories Hong Kong  Ms. TSANG Kwok Shan, Sandy <i>FCCA</i> Block 59, G/F. No.600 The Wonderland Tai Po Tau Village Tai Po, New Territories Hong Kong
<b>Audit committee</b>	Mr. YUNG Ha Kuk, Victor (Chairman) Mr. LAM Kwok Fai, Osmond Mr. LEUNG Chun Kuen, Noel
<b>Remuneration committee</b>	Mr. LAM Kwok Fai, Osmond (Chairman) Mr. YUNG Ha Kuk, Victor Mr. LEUNG Chun Kuen, Noel Mr. YIP Mow Lum Mr. CHAN Chi Wah
<b>Nomination committee</b>	Mr. LEUNG Chun Kuen, Noel (Chairman) Mr. YUNG Ha Kuk, Victor Mr. LAM Kwok Fai, Osmond Mr. YIP Mow Lum Mr. CHAN Chi Wah

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## CORPORATE INFORMATION

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**Hong Kong branch share registrar and transfer office**

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

**Cayman Islands share registrar and transfer office**

Appleby Trust (Cayman) Ltd.  
Clifton House, 75 Fort Street, P.O. Box 1350  
Grand Cayman, KY1-1108, Cayman Islands

**Principal bankers**

WING HANG BANK, LIMITED  
161 Queen's Road Central  
Hong Kong

**Company website address\***

[www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk)

\* *The contents of the website do not form part of the Prospectus.*

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## INDUSTRY OVERVIEW

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*Certain information and statistics relating to the industry the Group operates in provided in this section have been derived from official government sources. The Directors believe that the sources of the information in this 'Industry Overview' section are appropriate sources for such information, and the Group has taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by the Directors, the Sole Sponsor or any other party involved in the Global Offering.*

*Certain information and statistics are extracted from the Euromonitor Report. The information extracted from the Euromonitor Report reflects an estimate of the market's size and performance from publicly available secondary sources and trade survey analysis of the opinions and perspectives of leading industry players, and is prepared primarily as a market research tool. The information extracted from the Euromonitor Report should not be viewed as a basis for investments provided by Euromonitor and references to the Euromonitor Report should not be considered as Euromonitor's opinion as to the value of any security or the advisability of investing in the Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics by the Company, none of the Sole Sponsor, the Sole Global Coordinator and the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective affiliates, directors or advisers, nor any party involved in the Global Offering have independently verified such information and statistics directly or indirectly derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information and statistics compiled by other parties.*

### SOURCE OF INFORMATION

#### **Report conducted by Euromonitor**

Euromonitor is a market research company with a focus on industry, country, company and consumer lifestyle research and is an Independent Third Party. Euromonitor was commissioned by the Group to prepare the Euromonitor Report in respect of the clubbing industry in Hong Kong for an aggregate fee of US\$40,000. Information disclosed in the Prospectus which is attributable to Euromonitor has been extracted from the Euromonitor Report, which was prepared in the ordinary course of business of Euromonitor, and published with the consent of Euromonitor. Euromonitor is not an official government source for such information, but the Sole Sponsor and the Directors have exercised reasonable care in reproducing such information and have no reasonable grounds to believe that any such information being included in the Prospectus is untrue.

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## INDUSTRY OVERVIEW

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### **Census and Statistics Department**

The Census and Statistics Department is an agency directly under the Government. Information disclosed in the Prospectus and attributed to the Census and Statistics Department is official public information prepared in the ordinary course of business of the Census and Statistics Department. The Group did not commission the Census and Statistics Department for the production or disclosure of such information.

### **Overview**

The Group derives most of its revenue from beverage sales. The alcohol consumption industry in Hong Kong has experienced rapid growth in recent years. Steady economic growth, increasing disposable income, changing consumption patterns along with strengthening tourism have led to the substantial growth in the alcohol consumption market in Hong Kong. According to a report published by the Department of Health of Hong Kong, consumption of pure alcohol per capita has remained steady with a slight increase from 2.5 litres in 2005, to 2.6 litres in 2010 with a peak of 3.00 litres in 2008 due to the increase in consumption in beer and wine. According to the Euromonitor Report as at the end of 2012, the number of clubs in the Lan Kwai Fong area was approximately 25, compared to 18 in 2010. With the finishing of the building and renovation of the new California Tower in the middle of the Lan Kwai Fong area, this number is expected to increase.

### **Characteristics of the economy relevant to the night entertainment and alcohol consumption industry**

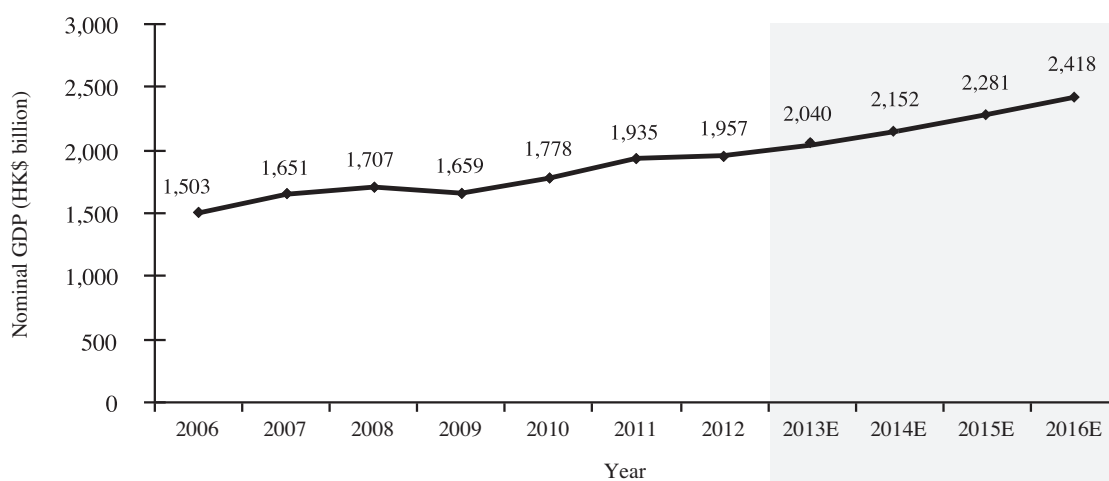
#### ***GDP***

Hong Kong's economy has maintained a steady growth since 2006 other than a slight downturn in 2009 due to the global financial crisis. Hong Kong's GDP grew 7.2% from 2009 to 2010 and 8.8% from 2010 to 2011. This is due to the general recovery of global economy and Hong Kong's ability to remain competitive in the external trade.

According to a report by the Census and Statistics Department of Hong Kong, the nominal GDP in Hong Kong grew from approximately HK\$1,659.2 billion in 2009 to HK\$1,957.1 billion in 2012. According to the 2013-14 budget report of the Government, nominal GDP of Hong Kong is expected to grow from HK\$2,040.1 billion in 2013 to HK\$2,418.3 billion in 2016, representing a compound annual growth rate of 6.0%.

## INDUSTRY OVERVIEW

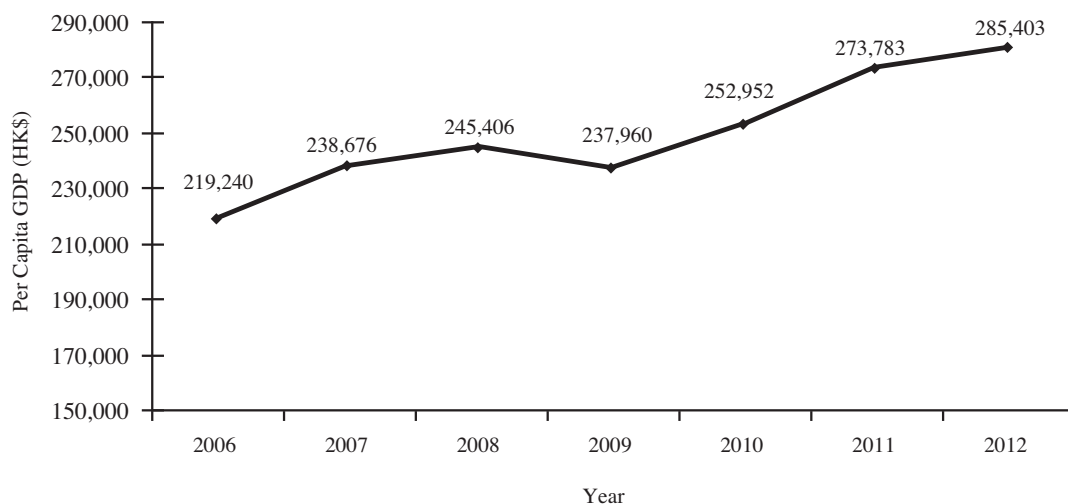
The following chart illustrates the growth trend of GDP in Hong Kong for the years 2006 to 2012 and the projected growth from 2013 to 2016:



Source: 2013-14 budget report of the Government

The per capita GDP increased from approximately HK\$219,240 in 2006 to approximately HK\$285,403 in 2012. Hong Kong's GDP per capita grew approximately at a rate of 8.2% and 4.2% per annum in 2011 and 2012, respectively, due to the strong rebound of the Hong Kong economy.

The following chart illustrates the growth trend of GDP per capita in Hong Kong for the years 2006 to 2012:



Source: Census and Statistics Department of the Government

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## INDUSTRY OVERVIEW

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### ***Disposable income, consumer confidence and consumption patterns***

Recovery from the international financial crisis in 2009/2010 and rapid economic growth for the past few years in Hong Kong has contributed to the improvements of living standards, reflected in the forms of increasing disposable income, consumer confidence and consumptions levels.

As a result of the increase in disposable income, the Directors believe that the number and frequency of consumers visiting clubbing venues and the amount of alcoholic beverages they consume have increased. The Lan Kwai Fong area is one of the prime choices when people choose to seek entertainment at night in Hong Kong. It has become a popular socialising activity for people who choose to relax and enjoy the atmosphere and experience with friends or business associates. According to a press release by Hong Kong Academy of Medicine, the percentage of adults who drank alcoholic beverage increased from 30.9% in 2005 to 34.9% in 2010.

The booming number of expatriates working in Hong Kong in the past few years also contributes to the increase in popularity in the clubbing industry. According to the Hong Kong Immigration Department, the number of overseas professionals that were admitted under the General Employment Policy increased rapidly from 20,988 in 2009, to 26,881 in 2010 after the financial crisis and further to 30,557 in 2011.<sup>1</sup> It is believed that this leads the Hong Kong alcohol consumption and night entertainment scene closer to the consumption patterns observed in western countries.

### **Analysis of the alcohol consumption segment**

According to a report published by the Department of Health of Hong Kong, average wine consumption more than doubled from 0.3 litres in 2004 to 0.6 litres in 2010 based on a measure of pure alcohol, with a 30% increase from 2007 to 2008 due to the duty of wine and liquor with an alcoholic strength of less than 30% being waived from February 2008. The waiver has made beer and wine more affordable which is believed to be a continuing factor leading to the increase of alcohol consumption in the population.

According to reports by the Census and Statistics Department of Hong Kong, the value of total restaurant receipts increased approximately 51.5% from 2006 to 2012. The value of bars receipts increased from approximately 42.6% from 2006 to 2012. The receipts from other eating and drinking places increased 33.2% during the same period.

According to the Hong Kong Annual Digest of Statistics 2012 edition by the Census and Statistics Department of Hong Kong, the consumption expenditure of goods and services in the domestic market at current price increased from HK\$874,057 million in 2006 to HK\$1,341,668

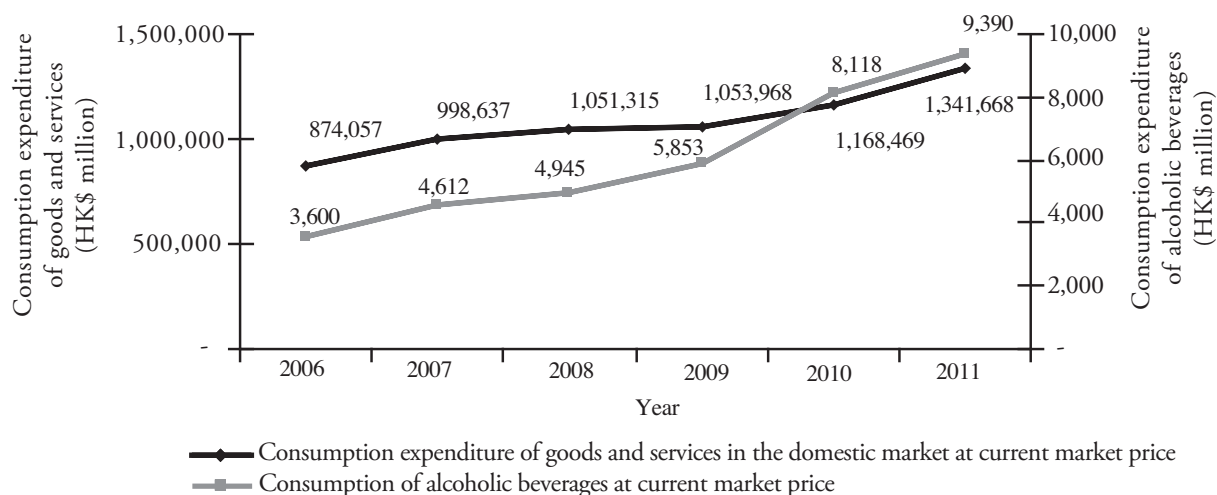
*Note:*

<sup>1</sup> The 2012 figure has not been published by the Immigration Department of Hong Kong.

## INDUSTRY OVERVIEW

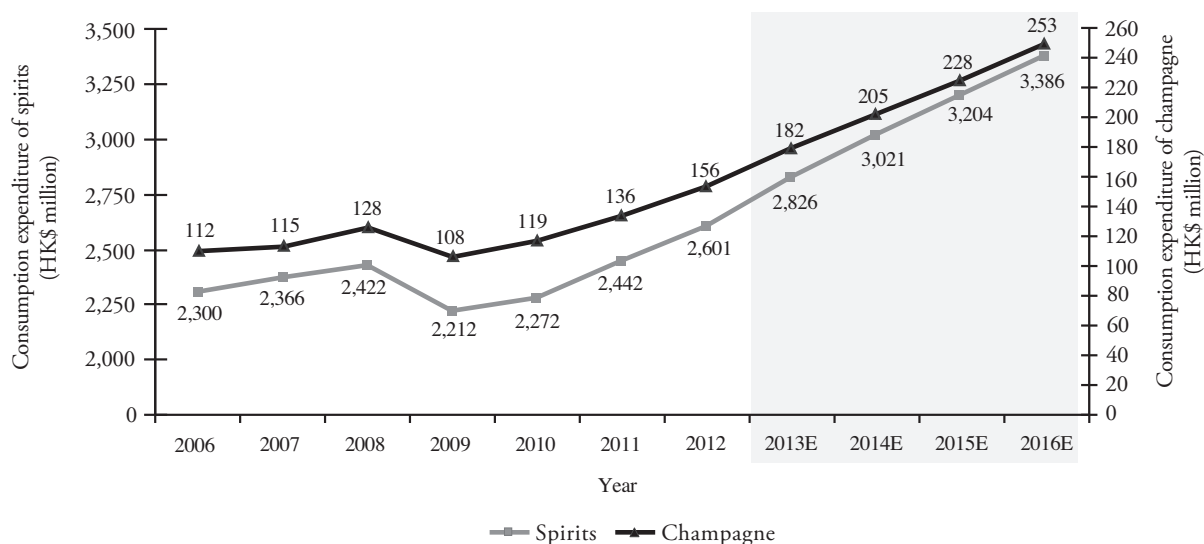
million in 2011, representing an increase of approximately 53.5%. The consumption of alcoholic beverages at current market price increased from HK\$3,600 million in 2006 to HK\$9,390 million in 2011, representing compound annual growth rate of 21.1%. As at the Latest Practicable Date, no updated statistics has been published.

As can be seen from the chart below, the consumption of alcoholic beverages at current market price increased more rapidly than the consumption expenditure of goods and services in the domestic market in the domestic market.



Source: Census and Statistics Department of the Government

The following chart illustrates the growth trend of the on-trade value of spirits and champagne in Hong Kong for the years 2006 to 2012 and estimation for years 2013 to 2015.



Source: Euromonitor has conducted independent research. The market size data reported above has been determined via a fieldwork programme consisting of desk research including online and published news research and trade interviews with certain industry operators, alcohol suppliers and trade associations. For avoidance of doubt, the market size estimates as contained in the table above is based on views of interviewed trade sources and not Euromonitor's view of the market sizes.

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## INDUSTRY OVERVIEW

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According to the Euromonitor Report, the total on-trade alcoholic beverages increased from HK\$8,889.7 million in 2006 to HK\$10,285.1 million in 2012, representing a 15.7% increase. It is estimated that this number will increase to HK\$11,182.9 million in 2013 and further to HK\$12,674.6 million in 2015, representing a year on year increase of 6.5%.

The Euromonitor Report further states that the on-trade value for spirits increased from HK\$2,300.4 million in 2006 to HK\$2,601.0 million in 2012, representing a 13.1% increase. It is estimated that this number will increase to HK\$2,826.3 million in 2013 and further to HK\$3,203.6 million in 2015, representing a year on year increase of 6.5%. Although the on-trade value for champagne is relatively small, it shows the highest growth rate. The on-trade value for champagne increased from HK\$111.8 million in 2006 to HK\$156.4 million in 2012, representing a 39.9% increase. It is estimated that this number will increase to HK\$181.9 million in 2013 and further to HK\$228.3 million in 2015, representing a year on year increase of 12%.

The consumption for the two major groups of alcoholic beverages the Group sells also exhibited strong growth trends.

### **Analysis of Hong Kong night entertainment industry**

#### ***Overview***

Hong Kong is an international financial centre during the day, after dark, it offers a wide variety of night entertainment to attract people working in Hong Kong and visiting tourists. Each geographic district has its own specialty. For example, on the Hong Kong Island, the Lan Kwai Fong area stands as the bar and clubbing centre and attracts crowds with stylish and chic bars, Causeway Bay offers chain and private Karaoke bars and Wan Chai lines the streets with numerous pubs and bars.

The Lan Kwai Fong area is around the corner from Hong Kong's central business district and is home to more than a hundred restaurants, clubs and bars. It is an ideal place for casual drinks, dinner and late night entertainment. According to the non-profit business organisation Lan Kwai Fong Association's website, they provide tailor-made decorations and organise events throughout the area for annual festivals, such as Halloween, Christmas, New Year's Eve, Lunar New Year and Valentine's Day. The association also helps with special traffic arrangements during key events such as the Rugby Sevens, Halloween, Christmas and New Year's Eve. The Lan Kwai Fong Association is founded by Dr. Allan Zeman (commonly known as "Father of Lan Kwai Fong") and being a non-profit making business chamber which groups together over 100 restaurants, bars, clubs, retailers and service providers in the Lan Kwai Fong area. According to the Euromonitor Report, Lan Kwai Fong Association and the Hong Kong Bar and Club Association are the recognised authorities in the clubbing industry.

According to the Euromonitor Report, with the Lan Kwai Fong area's high profile in the developed world as a clubbing/night life destination, with the anticipated increase of tourism to Hong Kong, more tourists are expected to visit the area.



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## INDUSTRY OVERVIEW

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### *Market Segments*

The night entertainment industry in Hong Kong can be categorised based on the operation models and types of services offered as below:

<b>Market Segment</b>	<b>Definition</b>
<b>Clubbing venues</b>	Clubs distinguish from the public houses, bars and other drinking establishments by including a dance floor and high-energy music. They are equipped with DJ booths where music that is intended to motivate customers to dance is played, and the volume of such music is usually high. Special lighting is also used at the premises.
<b>Public houses and bars</b>	Most public houses (also known as pubs) and bars offer beers, wine, spirits and soft drinks. Normally they serve lunch and dinner at tables in addition to snacks that can be purchased at the bar. Traditionally entertainments provided at the pubs may include darts, cards, snooker and table football. Bars range from cocktail lounges, wine bars, music bars, sports bars, dance bars, comedy bars and others. Live bands, comedians and dancers may be employed for performance on stage in some bars.
<b>Karaoke</b>	Karaoke is an activity that many local Hong Kong people enjoy. On top of the karaoke equipment, they typically provide alcoholic and non-alcoholic drinks, snacks, and food during a certain period of time. On top of a minimum charge based on headcount, alcoholic beverages can also be provided at a premium price. Normally one or two free non-alcoholic drinks are provided throughout the visit.
<b>Others</b>	Other night entertainment in Hong Kong may include live music performances at various venues, Mah Jong houses, cabarets, cinemas, and those establishments not otherwise described above.

### **Analysis of the Hong Kong Lan Kwai Fong clubbing market**

#### *Overview*

Clubs in the industry sell alcoholic beverages with some offering limited snack options. The most centralised and popular geographical area in Hong Kong for clubs is the Lan Kwai Fong area, where most of the well-known clubs are located. The total number of liquor licences in Hong Kong as at 31st October, 2013 was 6,379, 119 of which have been granted with the dancing endorsement. The 119 liquor licences with dancing endorsements comprise of a wide variety of

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## INDUSTRY OVERVIEW

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different venues, including bars, restaurants, hotels, and so forth. It should be recognised that having liquor licence with dancing endorsement does not necessarily represent a “club” or “clubbing venue” with a nature similar to those of the Group.

In the context of the Prospectus, the word “clubs” and “clubbing venues” (generally known as disco or discothèque) refer to the entertainment venues typically have night time operating hours and are differentiated from other bars, pubs, lounges and taverns by the existence of a dance floor and DJ booth.

Euromonitor has conducted independent research to obtain an estimate on the number of clubs in Hong Kong. The table below sets forth the number of clubs in Hong Kong as at the dates indicated:

(Unit)	As at 31st December,		
	2010	2011	2012
Number of clubs, Hong Kong	25	30	34
Number of clubs, the Lan Kwai Fong area	18	22	25
Number of clubs, others	7	8	9

*Source: Euromonitor has conducted independent research. The data reported above has been determined via a fieldwork programme consisting of desk research including online and published news research and trade interviews with certain industry operators, alcohol suppliers and trade associations. For avoidance of doubt, the market size estimates as contained in the table above is based on views of interviewed trade sources and not Euromonitor’s view of the market sizes.*

Disposable income and entertainment needs are the two important factors that drive demand in the market. To be successful in the industry, a club will need to have the ability to drive traffic, to attract and to maintain loyal clients and an experienced management team. Clubs in the Lan Kwai Fong area compete by offering good service, music and decoration to ensure the best customer experience, targeting at different types of customers, offering specially organised events or services and differentiated ambience from others. There has been a trend of “club-hopping” developing in Hong Kong in recent years which means customers have the tendency to visit multiple clubs in one night.

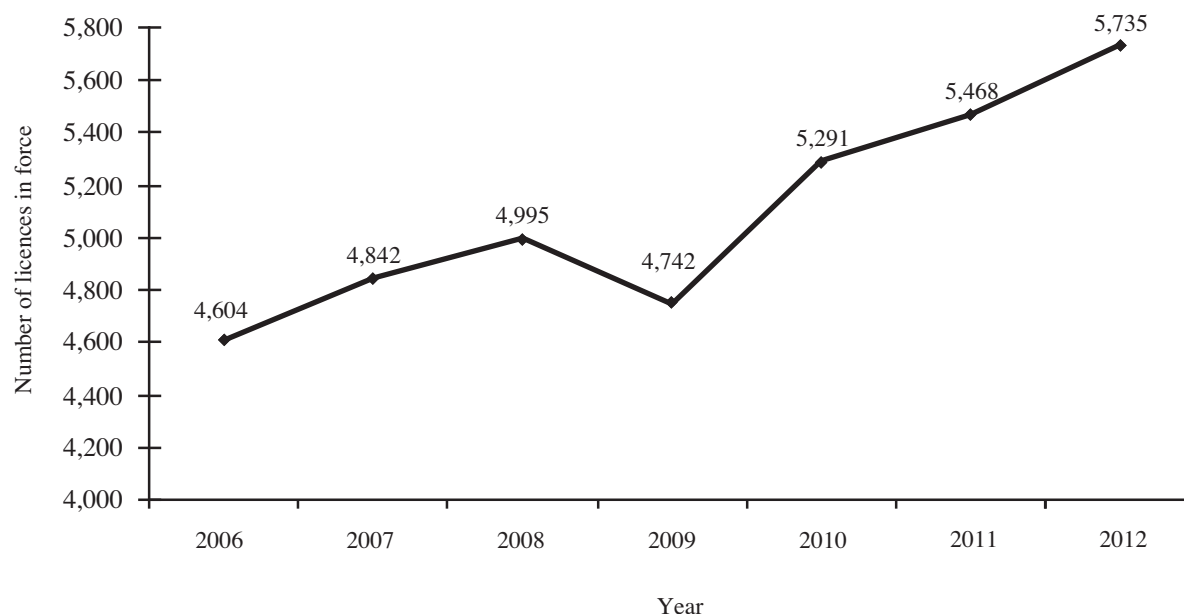
Clubs generally operate for a few days each week with customer traffic peaking from Thursday to Saturday.

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## INDUSTRY OVERVIEW

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According to reports by the Census and Statistics Department of Hong Kong, the number of liquor licences in issue increased steadily from 4,604 in 2006 to 5,735 in 2012, with the exception of 2009 which saw a reduction by approximately 5.0% due to the impact of the economy crisis. The number further increased to 5,807 as at the end of April 2013.



Source: Census and Statistics Department of the Government

The number of liquor licence in issue demonstrates the increasing size of the market serving alcoholic beverages in Hong Kong.

### ***Competitive landscape of clubbing venues***

According to the Euromonitor Report, the clubbing market in Hong Kong is fragmented with many operators of single clubs. The table below sets forth the clubs owned by major club operators in Hong Kong:

<b>Name of operator</b>	<b>Clubs operated</b>
The Group	Magnum Club, Beijing Club, Billion Club
Emperor Group	dragon-i, TAZMANIA BALLROOM
Buzz Concepts	VOLAR, FLY
Prive Group	Prive, LEVELS

Source: Euromonitor has conducted independent research. The information reported above has been determined via a fieldwork programme consisting of desk research including online and published news research and trade interviews with certain industry operators, alcohol suppliers and trade associations. For the avoidance of doubt, the market size estimates as contained in the table above is based on views of interviewed trade sources and not Euromonitor's view of the market sizes.

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## LAWS AND REGULATIONS OF THE INDUSTRY

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### **Hong Kong Regulatory Overview**

This section sets forth a summary of the major laws and regulations applicable to the business in Hong Kong.

#### ***(A) Licences Necessary For Business Operation***

##### *Liquor licence*

In Hong Kong, a person must obtain a liquor licence from the LLB under the DCR before commencement of sale of liquor for consumption on the premises. It is provided under Section 17(3B) of the DCO that, where regulations prohibit the sale or supply of any liquor except with a liquor licence, no person shall sell, or advertise or expose for sale, or supply, or possess for sale of supply, liquor except with a liquor licence. Regulation 25A of the DCR prohibits the sale of liquor at any premises for consumption on those premises or at a place of public entertainment or a public occasion for consumption at the place or occasion except with a liquor licence. A liquor licence will only be valid if the relevant premises remain licensed as a restaurant.

Application for endorsement on the licence such as bar business and dancing in the premises should be submitted to and granted by the LLB before commencement of such activities.

All applications for liquor licence are referred to the Commissioner of Police and the District Officer concerned for comments. A liquor licence is valid for a period of one year or a lesser period (usually 3-month, 6-month or 9-month period), subject to the continuing compliance with the requirements under the relevant legislation and regulations.

Selling liquor without a licence constitutes an offence punishable by a fine of HK\$1,000,000 and imprisonment of up to 2 years. The holder of the liquor licence commits an offence if he or she permits any person under the age of 18 to drink any intoxicating liquor on the licensed premises and will be liable on conviction to a maximum fine of HK\$50,000 and to imprisonment for 6 months. As at the Latest Practicable Date, the Group has obtained valid liquor licences for the Clubs' premises where liquor is sold for consumption.

A liquor licensee is required to ensure that all liquor regulations and licensing conditions are strictly and fully complied with in the licensed premises. Some of the major licensing conditions imposed by the LLB are set out below:-

- The licensee shall personally supervise the premises.
- The licensee shall display a warning notice at a conspicuous place inside the premises containing the words "NO LIQUOR FOR PERSON UNDER THE AGE OF 18". In the said notice, the size of each Chinese character shall not be less than 3 centimetre (height) x 3 centimetre (width) and the size of each English letter shall not be less than 2 centimetre (height) x 2 centimetre (width).

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## LAWS AND REGULATIONS OF THE INDUSTRY

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- No bar business shall be operated on the premises, except with the permission of the LLB endorsed therein.
  
- No dancing shall be permitted on the premises, except with the permission of the LLB endorsed therein.

Additional licensing conditions may also be imposed by the LLB depending on the circumstance of each application. Such additional licensing conditions may include specific liquor selling hours, endorsement on the licence, maximum persons (including staff) permitted on the premises at any one time and the hours of the duty of the licence holder. Hong Kong Police may conduct random inspections on venues with liquor licences such as bars and clubs from time to time.

Section 46(1) of the DCO provides that a person who contravenes a condition, given thereunder commits an offence and is liable on conviction to a maximum fine of HK\$100,000 and to imprisonment of 1 year.

All application, renewal, transfer and amendment of liquor licence shall be made in writing to the LLB in specified form. A liquor licence is granted to a natural person (not a company) and no licensee can hold more than one liquor licence. The LLB may grant a liquor licence with or without conditions as it thinks fit. Once conditions are imposed, the liquor licence and the licensee are subject to these conditions.

A liquor licence is transferrable by submitting the specified form FEHB106 to the LLB. Advertisement in any one local newspaper is also required. Until the application for transfer is allowed and a new liquor licence is granted by the LLB, the original licensee shall still shoulder all legal duties and liabilities under the DCO and the DCR.

For all application, renewal or transfer of liquor licence, the LLB shall consider the following matters as provided under Regulation 17(2) of the DCR:

- (1) Whether the applicant is a fit and proper person to hold the licence.
  
- (2) Whether the premises are suitable for selling or supplying liquors.
  
- (3) Whether the grant of licence is not contrary to public interest.

For any application for new grant, renewal, transfer of liquor licence, the LLB may grant the application with or without meeting open to public. Normally, if the application is opposed, for example by the Hong Kong Police or other public members, a public meeting will be held. During the meeting, applicant's and opponents' representations will be heard and considered by the LLB. The decision of the LLB will normally be made on the same day but after the meeting is closed.

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## LAWS AND REGULATIONS OF THE INDUSTRY

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The LLB has recently published a set of guidelines on assessing liquor licence applications with effect from 1st December, 2013 (“**Guidelines**”). The factors set out in the Guidelines have been developed from the above three criteria stipulated under Regulation 17(2) of the DCR, with a view to facilitating the public to understand the major factors that are taken into account by the LLB when assessing liquor licence applications. The Guidelines also set out, under each of the three major criteria, factors that the LLB would specifically take into account when vetting applications for Upstairs Bars in future. Such Guidelines are meant to provide transparency of the licensing criteria, enhance regulation of Upstairs Bars to address public concerns. Amongst others, in relation to one of the existing licensing conditions that the licensee shall personally supervise the premises, it is stated in the Guidelines that the applicant has to satisfy the LLB that he will be present to personally supervise the premises during the busiest part of the operating hours or in those periods as specified by the LLB.

Starting from 1st December, 2013, the LLB would impose a licensing condition on applications for Upstairs Bars requiring the licensee to attend a seminar on liquor licensing organised by the LLB before the licence is due for renewal. Regarding applications for Upstairs Bars, the LLB may take into account the factors including the adequate means of escape with two or more staircases, proper management of the building concerned. The LLB may consider, amongst others, imposing a safety margin (e.g. 90%) on the capacity limit for Upstairs Bars, with regards to the actual circumstances and the advice of the departments concerned. After the expiry of a six-month grace period (i.e. from 1st June, 2014), the LLB will impose such licensing condition when Upstairs Bars apply for renewal for the second time. After the grace period, for all new applications or renewals, the LLB may consider imposing licensing conditions regarding noise insulation which are more stringent than the existing ones in cases with serious noise problems. When assessing whether the grant of the licence is contrary to the public interest, the LLB may also consider, regarding applications of Upstairs Bars, the number, type, mode of operation, distribution of liquor-licensed premises already in the same building and in the neighbouring areas.

According to the definition of “Upstairs Bars” provided under the Guidelines, subject to the decision of the LLB, the Directors believe that the Clubs are Upstairs Bars and are subject to the Guidelines. For the impact on the Group, please refer to the sections headed “Business — Liquor licences for all the Clubs”, “Risk Factors — Any regulatory change may affect the Group’s business and results of operations” and “Risk Factors — Risk Factors relating to the Group’s Business and Industry — Various approvals, licences and permits are required to operate the Group’s business and the loss of or failure to obtain or renew any or all of these approvals, licences, and permits could materially and adversely affect its business and results of operations”.

### *Light Refreshment Restaurant Licence*

There are two types of restaurant licences, the general restaurant licence and the light refreshment restaurant licence. The light refreshment restaurant licence, which restricts the licensee to prepare and sell for consumption on the premises certain kinds of the food items, has to be obtained from the FEHD under the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) and the Food Business Regulation (Chapter 132X of the Laws of Hong Kong) (“**FBR**”) before commencing the restaurant business. It is provided under

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## LAWS AND REGULATIONS OF THE INDUSTRY

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Regulation 31(1) of the FBR that no person shall carry on or cause, permit or suffer to be carried on any restaurant business except with a restaurant licence. FEHD will consider whether certain requirements in respect of health, hygiene, ventilation, gas safety, building structure and means of escape are met before issuing a restaurant licence.

The FEHD will also consult the Buildings Department (the “**BD**”), the Fire Services Department (the “**FSD**”) and the Planning Department (the “**PD**”) in assessing the suitability of premises for use as a restaurant, for the purpose of which the fulfilment of the Buildings Department’s structural standard and the Fire Services Department’s fire safety requirement are considered. The FEHD may grant provisional restaurant licences to new applicants who have fulfilled the basic requirements in accordance with the FBR pending fulfilment of all outstanding requirements for the issue of a full restaurant licence. The FEHD will normally continue to process an application only when the premises are deemed to be safe and suitable for restaurant use by the FEHD, BD, FSD, PD and other departments concerned (for instance, the Lands Department). A provisional restaurant licence is valid for a period of six months or a lesser period and a full restaurant licence is generally valid for a period of one year, both subject to payment of the prescribed licence fees and continuous compliance with the requirements under the relevant legislation and regulations. A provisional restaurant licence is renewable on one occasion and a full restaurant licence is renewable annually.

Any person who is guilty of an offence carries on restaurant business without a valid licence shall be liable on summary conviction to a maximum fine of HK\$50,000 and imprisonment for 6 months and, where the offence is a continuing offence, to an additional fine of HK\$900 for each day during which it is proved to the satisfaction of the court that the offence has continued.

The demerit points system is a penalty system operated by the FEHD to sanction food businesses for repeated violations of relevant hygiene and food safety legislation. Under the system:

- (a) if within a period of 12 months, a total of 15 demerit points or more have been registered against a licensee in respect of any licensed premises, the licence in respect of such licensed premises will be subject to suspension for seven days (“**First Suspension**”);
- (b) if, within a period of 12 months from the date of the last offence leading to the First Suspension, a total of 15 demerit points or more have been registered against the licensee in respect of the same licensed premises, the licence will be subject to suspension for 14 days (“**Second Suspension**”);
- (c) thereafter, if within a period of 12 months from the date of the last offence leading to the Second Suspension, a total of 15 demerit points or more have been registered against the licensee in respect of the same licensed premises, the licence will be subject to cancellation;

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## LAWS AND REGULATIONS OF THE INDUSTRY

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- (d) for multiple offences found during any single inspection, the total number of demerit points registered against the licensee will be the sum of the demerit points for each of the offences;
- (e) the prescribed demerit points for a particular offence will be doubled and trebled if the same offence is committed for the second and the third time within a period of 12 months; and
- (f) any alleged offence pending, that is the subject of a hearing and not yet taken into account when a licence is suspended, will be carried over for consideration of a subsequent suspension if the licensee is subsequently found to have violated the relevant hygiene and food safety legislation upon the conclusion of the hearing at a later date.

The Company confirms that during the Track Record Period and up to the Latest Practicable Date, no demerit point was registered against the Clubs.

### *Place of Public Entertainment Licence*

Regulation 162 of the Places of Public Entertainment Regulations (Chapter 172A of the Laws of Hong Kong) provides that any person who desires to keep or use any place of public entertainment other than a theatre or cinema shall apply to the licensing authority for the grant of a licence in respect thereof before the commencement of the proposed entertainment and the definition of which is specified in the Places of Public Entertainment Ordinance (Chapter 172 of the Laws of Hong Kong).

A place of public entertainment is where any entertainment the general public is admitted with or without payment, which includes, amongst others, concert and stage performance including an exhibition of dancing.

A place of public entertainment licence will be valid for one year or such period as may be specified under the licence. If the public entertainment is to take place in a temporary structure in the premises, the validity of the licence (known as a temporary place of public entertainment licence) will be limited to one month or less as the FEHD may deem fit.

Any person found guilty of the offence by keeping or using a place of public entertainment without a licence granted therefor shall be liable on conviction to a maximum fine of HK\$25,000 and imprisonment for 6 months, and to a further fine of HK\$2,000 for every day during which the offence has continued. Any person holding a place of public entertainment licence who breaches the licensing conditions shall be liable on conviction to a maximum fine of HK\$5,000 and to imprisonment for 6 months.



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## LAWS AND REGULATIONS OF THE INDUSTRY

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### ***(B) Environmental Protection***

#### *Water Pollution Control*

The WPCO controls the effluent discharged from all types of industrial, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the Director of Environmental Protection.

All discharges, other than domestic sewage to communal foul sewers or unpolluted water to storm drains, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent and the general principle is that the effluent does not damage sewers or pollute inland or inshore marine water.

According to the WPCO, unless having obtained a licence granted thereunder, a person who discharges any waste or polluting matter into the water or discharges any matter into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for 6 months and (a) for first offence, a fine of HK\$200,000; (b) for each of the subsequent offences, a fine of HK\$400,000, and in addition, if the offence is a continuing offence, to a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

#### *Noise control*

The Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) (the “**NCO**”) controls, among others, the noise from construction, industrial and commercial activities. Control of noise emanating from places such as industrial, commercial, trade or business premises is subject to noise abatement notices which may be served on owners or occupiers of premises if the noise emitted does not comply with the acceptable noise levels or other criteria as stated by the Environmental Protection Department.

Section 13 of the NCO provides that the noise abatement notice may require the owner or occupier to bring his noise emissions into a state of compliance by a certain date and non-compliance with such a notice will be an offence. The Director of Environmental Protection may serve a noise abatement notice in the prescribed form on any or all of the following- (i) the person making the noise or causing or permitting the noise to be made; or (ii) the owner, tenant, occupier or person in charge of the place from which the noise emanates. There is no immediate requirement for industry in general to achieve the acceptable noise levels. The Director of Environmental Protection will, in practice, respond to complaints lodged by members of the public and compliance with the acceptable noise levels will be required only after a noise abatement notice has been served.

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## LAWS AND REGULATIONS OF THE INDUSTRY

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Any person on whom a noise abatement notice has been served fails to comply with any requirement therein commits an offence and will be liable to a fine of HK\$100,000 on first conviction, to a fine of HK\$200,000 on second or each of the subsequent convictions, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

### ***(C) Intellectual Property***

#### *Copyright Ordinance*

##### *Civil liability*

Under the Copyright Ordinance (Chapter 528 of the Laws of Hong Kong), a person would incur civil liability under Section 27 by infringing the exclusive right of the owner of a musical work when playing the work in public without the licence of the copyright owner. It is a “secondary infringement” under Section 31 of the Copyright Ordinance if that person exhibits in public, without the licence of the copyright owner, a copy of a work, which he knows or has reason to believe to be, an infringing copy of the work for the purposes of or in the course of any trade or business. However, the person will only be liable if he, at the time of committing the act, knew or had reason to believe that he was dealing with infringing copies.

It is also a “secondary infringement” which incurs civil liability under Section 33 of the Copyright Ordinance where the copyright in a work is infringed by a performance at a place of public entertainment, any person who gave permission for that place to be used for the performance is also liable for the infringement unless when he gave permission he believed on reasonable grounds that the performance would not infringe copyright. Places of public entertainment include premises which are occupied mainly for other purposes but are from time to time made available for hire for the purposes of public entertainment.

Section 34 of the Copyright Ordinance provides that where copyright in a work is infringed by a public performance of the work, or by the playing or showing of the work in public, by means of apparatus for playing sound recordings, the occupier of premises who gave permission for the apparatus to be brought onto the premises is liable for the infringement if when he gave permission he knew or had reason to believe that the apparatus was likely to be used for copyright infringement.

Under Section 168 of the Copyright Ordinance, where the licensing scheme does not specify the works to which it applies with such particularity as to enable licensees to determine whether a work falls within the scheme by inspection of the licence and the work, there is implied in every scheme to which this section applies (i.e. the scheme operated by the three licensing bodies) an undertaking by the licensing body to indemnify the licensee, against any liability incurred by the Group by reason of its having infringed copyright by making or authorising an act restricted by the copyright in a work in circumstances within the apparent scope of his licence. The circumstances of a case are within the apparent scope of a licence if it is not apparent from inspection of the licence and the work that it does not fall within the description of works to which the licence applies; and the licence does not expressly provide that it does not extend to copyright to the description infringed.

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## LAWS AND REGULATIONS OF THE INDUSTRY

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### *Criminal liability*

The Copyright Ordinance also imposes criminal liability under Section 118 which provides that a person commits an offence if he, without the consent of the copyright owner of a copyright work, exhibits in public an infringing copy of the work for the purpose of or in the course of any trade or business which consists of dealing in infringing copies of copyright works.

The Copyright Ordinance provides, among other defences, that it is a defence for the person charged to prove that he did not know and had no reason to believe that the copy of a copyright work in question was an infringing copy of the copyright work. The Copyright Ordinance provides any person who contravenes Section 118 of the Copyright Ordinance shall be guilty of an offence and shall be liable to a fine of HK\$50,000 and to imprisonment for 4 years.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BUSINESS HISTORY

- 2007 Mr. Yip, the Chairman of the Group, established Beijing Club in October 2007 which was financed by his own capital.
- 2008 Encouraged by the success of Beijing Club, the Group opened a new club with different theme and design, Billion Club, in October 2008. Although located in proximity to Beijing Club, Billion Club can offer its customers an alternative venue to enjoy their night in the Lan Kwai Fong area. Mr. Yip has also invested in a few other bars and clubs outside the Group before the opening of Beijing Club and Billion Club but they were all closed subsequently and did not constitute competition to the Group during the Track Record Period.
- 2009 In early 2009, after considering that the financial crisis might adversely affect the prospects of the clubbing industry, Mr. Yip decided to sell the businesses in connection with Beijing Club and another club<sup>1</sup> to Sure Wise, a company then ultimately owned by Mr. Hau Kwan Ngan, Charles (“**Mr. Hau**”), an Independent Third Party, for a net cash payment of HK\$6.0 million.
- 2010 Subsequently, Mr. Hau decided to dispose of Beijing Club. Mr. Yip saw this as an opportunity when the Hong Kong economy started to recover from the financial crisis and bought it back at a consideration of HK\$2.5 million on 1st September, 2010. Following the acquisition, the Group has expanded rapidly and, with the aid of effective marketing campaigns engaged, increased recognition in the market. Beijing Club was awarded with 休閒生活•潮人消閒點 (The IN spot) by the Metroinfo FM 99.7 Radio Station.
- 2011 On 21st December, 2011, the Group opened its third club, Magnum Club, which is the largest Club of the Group in terms of premise capacity. Utilising its multi-function facilities and luxurious decoration, in addition to its regular clubbing events, various cocktail parties and special events were held at Magnum Club, including annual cocktail parties by multinational corporations, press conferences and product launching events.
- Beijing Club was also awarded with “The Best Services Awards” by the Eastweek Magazine.
- 2012 Magnum Club was awarded with the “The Best & Finest Club” by the squarefoot.com.hk and all the Clubs received “Quality Bar Label” by the Hong Kong Bar & Club Association.
- 2013 All 3 Clubs were awarded with the “Quality Bar Label” by the Hong Kong Bar and Club Association.

*Note:*

<sup>1</sup> Such another club refers to Club No. 9, which was located at 3/F, No. 9 Queen’s Road Central, was closed in March 2010 and is not part of the Group.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### CORPORATE DEVELOPMENT

The following describes the corporate history of the Company and its subsidiaries.

#### **The Company**

The Company was incorporated in the Cayman Islands on 14th January, 2013 and is the holding company of its subsidiaries. As at the Latest Practicable Date, all allotted and issued Shares were held by Rainbow Key.

As a result of the Reorganisation, the Company indirectly holds all the interests in its subsidiaries which are principally engaged in operating clubbing business. Please refer to the paragraph “Reorganisation” below in this section for further details about the Reorganisation.

#### **The intermediate holding companies in the BVI**

##### ***New Pride***

New Pride was incorporated in the BVI on 2nd January, 2013 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 14th January, 2013, 1 share of New Pride was issued to the Company for a consideration of US\$1.0. Since 14th January, 2013, New Pride has been owned as to 100% directly by the Company.

New Pride serves as an intermediate holding company.

##### ***Coral Spring***

Coral Spring was incorporated in the BVI on 2nd January, 2013 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 14th January, 2013, 1 share of Coral Spring was issued to New Pride for a consideration of US\$1.0. Since 14th January, 2013, Coral Spring has been owned as to 100% directly by New Pride.

Coral Spring serves as an intermediate holding company.

##### ***Best Future***

Best Future was incorporated in the BVI on 19th February, 2009 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 3rd March, 2009, 100 shares of Best Future were issued to Mr. Hau, an Independent Third Party, for a consideration of US\$100 and served as the holding company of Sure Wise for the purpose of acquiring the businesses of Beijing Club and Club No. 9 from Mr. Yip on 4th March, 2009. Club No. 9 was subsequently closed in March 2010. On 1st September, 2010, Mr. Hau transferred the 100 shares in Best Future to Mr. Yip for a consideration of HK\$2.5 million which was based on arm’s length negotiations with reference to the net assets of Sure Wise, the then operating company of Beijing Club. Since then and immediately before the Reorganisation, Best Future had been owned as to 100% by Mr. Yip.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Best Future serves as an intermediate holding company.

### ***Double Reach***

Double Reach was incorporated in the BVI on 13th June, 2005 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. Since the time of its establishment and immediately before the Reorganisation, Double Reach had been owned as to 100% by Mr. Yip.

Double Reach serves as an intermediate holding company.

### ***Corporate Hero***

Corporate Hero was incorporated in the BVI on 21st May, 2012 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 27th May, 2012, 1 share of Corporate Hero was issued to Mr. Yip for a consideration of US\$1.0. Since the time of its establishment and immediately before the Reorganisation, Corporate Hero had been owned as to 100% by Mr. Yip.

Corporate Hero serves as an intermediate holding company.

### ***Prime Sunlight***

Prime Sunlight was incorporated in the BVI on 26th January, 2012 as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 21st February, 2012, 1 share of Prime Sunlight was issued to Mr. Yip for a consideration of US\$1.0. On the same date, Mr. Yip transferred the 1 issued share in Prime Sunlight to Mr. Wong for a nominal consideration of US\$1.0. Since then and immediately before the Reorganisation, Prime Sunlight had been owned as to 100% by Mr. Wong.

Prime Sunlight serves as an intermediate holding company.

### **The operating subsidiaries**

#### ***Honor Legend***

Honor Legend was incorporated in Hong Kong on 6th March, 2008 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period and immediately before the Reorganisation, Honor Legend had been owned as to 100% by Mr. LAM Jhug Ching, an executive Director.

Honor Legend provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### ***Kind Legend***

Kind Legend was incorporated in Hong Kong on 27th December, 2007 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period and immediately before the Reorganisation, Kind Legend had been owned as to 100% beneficially by Mr. Yip through Don Cheer Limited and Jethope Limited.

Kind Legend operates the clubbing business of Billion Club and holds the light refreshment restaurant licence and water pollution control licence for Billion Club.

### ***Sure Wise***

Sure Wise was incorporated in Hong Kong on 22nd January, 2009 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period and immediately before the Reorganisation, Sure Wise had been owned as to 100% by Best Future. Mr. Hau was the beneficial owner of Best Future who, through Sure Wise, acquired the businesses of Beijing Club and Club No.9 from Mr. Yip in 2009, for a net cash payment of HK\$6.0 million. Such payment was determined by arm's length negotiation, with reference to the investment costs on equipments, furniture and fixtures of these two clubs plus the costs of inventories less the prepaid membership fees received at the time of disposal. Best Future was subsequently acquired by Mr. Yip on 1st September, 2010. For details of the transfer, please refer to the paragraph headed "Best Future" above.

Sure Wise operates the clubbing business of Beijing Club and Magnum Club.

### ***Joyful Mercy***

Joyful Mercy was incorporated in Hong Kong on 6th July, 2007 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period and immediately before the Reorganisation, Joyful Mercy had been owned as to 100% by Mr. Wong.

Joyful Mercy provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services and human resources support.

### ***Easy Large***

Easy Large was incorporated in Hong Kong on 8th February, 2011 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 8th February, 2011, 1 share in Easy Large was issued to T & T Registrations Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 11th May, 2011, T & T Registrations Limited transferred the 1 issued share in Easy Large to Mr. Wong for a nominal consideration of HK\$1.0. Since then and immediately before the Reorganisation, Easy Large had been owned as to 100% by Mr. Wong.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Easy Large provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.

### ***Ease Goal***

Ease Goal was incorporated in Hong Kong on 2nd August, 2007 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period and immediately before the Reorganisation, Ease Goal had been owned as to 100% by Mr. Wong.

Ease Goal served as a service company to the Group for entering into a tenancy agreement of an office of the Group during the Track Record Period and currently provides administrative and business support services to the Clubs.

### ***Clubbing HK***

Clubbing HK was incorporated in Hong Kong on 7th December, 2012 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 7th December, 2012, 1 share in Clubbing HK was issued to Mr. Wong. Since the time of its establishment and immediately before the Reorganisation, Clubbing HK had been owned as to 100% by Mr. Wong.

Clubbing HK provides company secretarial services to the Group.

### ***Club Kingdom***

Club Kingdom was incorporated in Hong Kong on 3rd November, 2005 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. Since the commencement of the Track Record Period, it was wholly owned by Mr. Wong. On 29th May, 2012, Mr. Wong transferred the 1 issued share in Club Kingdom to Rainbow Key for a nominal consideration of HK\$1.0. Since then and immediately before the Reorganisation, Club Kingdom had been owned as to 100% by Rainbow Key, which is the corporate Controlling Shareholder of the Company.

Club Kingdom holds the trademarks of the Group.

### ***Dragon Praise***

Dragon Praise was incorporated in Hong Kong on 20th July, 2011 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 20th July, 2011, 1 share in Dragon Praise was issued to Topworld (Corporate Services) Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 21st February, 2012, Topworld (Corporate Services) Limited transferred the 1 issued share in Dragon Praise to Prime Sunlight for a nominal consideration of HK\$1.0. Since then and immediately before the Reorganisation, Dragon Praise was owned as to 100% by Prime Sunlight, which was then 100% owned by Mr. Wong.



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Dragon Praise serves as a service company to the Group for entering into the tenancy agreement of another office of the Group.

### ***Cheerful Raise***

Cheerful Raise was incorporated in Hong Kong on 17th July, 2006 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 17th July, 2006, 1 share in Cheerful Raise was issued to T & T Registrations Limited, a company secretarial service provider. Since the commencement of the Track Record Period and immediately before the Reorganisation, Cheerful Raise has been owned as to 100% by Best Treasure, which was 100% indirectly owned by Mr. Yip through Double Reach.

Cheerful Raise serves as a service company to the Group for entering into the tenancy agreement and holds the light refreshment restaurant licence and water pollution control licence for Beijing Club.

### ***Joyful Green***

Joyful Green was incorporated in Hong Kong on 2nd March, 2010 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 2nd March, 2010, 1 share in Joyful Green was issued to T & T Registrations Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 18th February, 2011, T & T Registrations Limited transferred the 1 issued share in Joyful Green to Mr. Wong for a nominal consideration of HK\$1.0. On 19th April, 2011, Mr. Wong transferred the 1 issued share in Joyful Green to Double Reach for a nominal consideration of HK\$1.0. Since then and immediately before the Reorganisation, Joyful Green has been owned as to 100% by Double Reach.

Joyful Green serves as a service company to the Group for entering into the tenancy agreement relating to Magnum Club.

### ***Asiatic Century***

Asiatic Century was incorporated in Hong Kong on 3rd December, 2010 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 3rd December, 2010, 1 share in Asiatic Century was issued to T & T Registrations Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 21st April, 2011, T & T Registrations Limited transferred the 1 issued share in Asiatic Century to Mr. Wong for a nominal consideration of HK\$1.0. Since then and immediately before the Reorganisation, Asiatic Century had been owned as to 100% by Mr. Wong.

Asiatic Century holds the light refreshment restaurant licence, water pollution control licence and place of public entertainment licence for Magnum Club.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### ***Best Season***

Best Season was incorporated in Hong Kong on 4th November, 2010 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 4th November, 2010, 1 share in Best Season was issued to Baililai Nominees Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 27th May, 2011, Baililai Nominees Limited transferred the 1 issued share in Best Season to Mr. Wong for a consideration of HK\$1.0. Since then and immediately before the Reorganisation, Best Season had been owned as to 100% by Mr. Wong.

Best Season serves as a service company to the Group for entering into the licence agreement relating to signage used for Magnum Club.

### ***Ocean Ample***

Ocean Ample was incorporated in Hong Kong on 29th June, 2011 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each. On 29th June, 2011, 1 share in Ocean Ample was issued to Smart Secretarial Limited, a company secretarial service provider, for a consideration of HK\$1.0. On 27th May, 2012, Smart Secretarial Limited transferred the 1 issued share in Ocean Ample to Corporate Hero for a nominal consideration of HK\$1.0. Since then, Ocean Ample has been owned as to 100% by Corporate Hero, which was 100% owned by Mr. Yip.

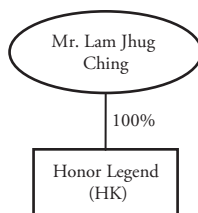
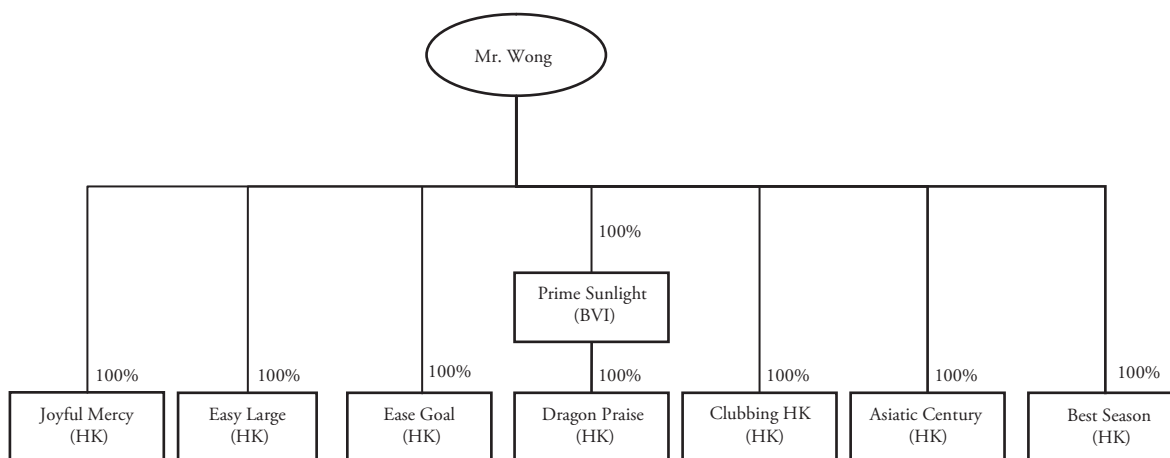
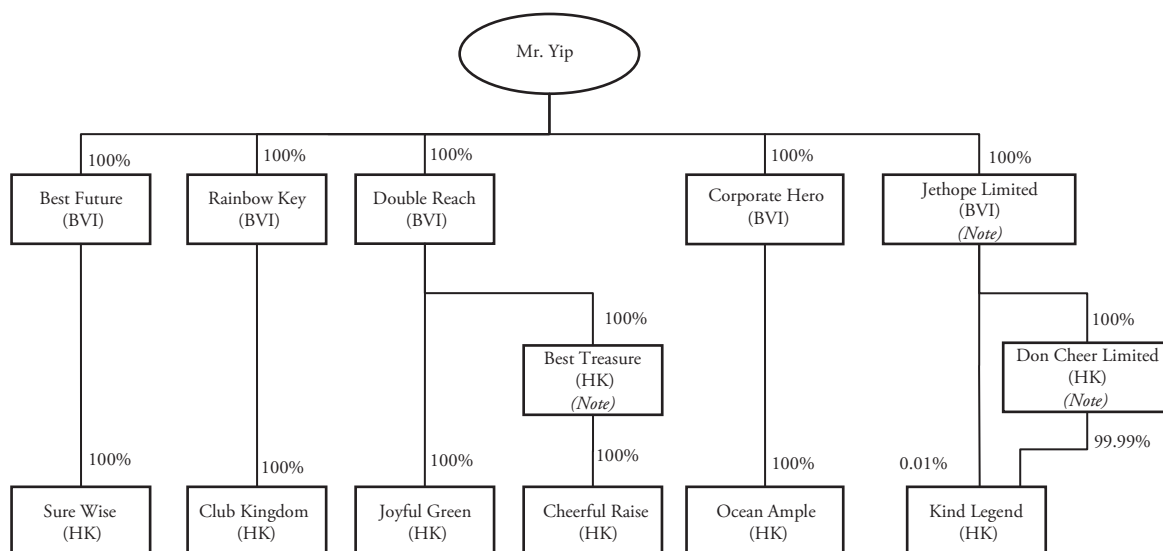
Ocean Ample serves as a service company to the Group for signing the binding letter with landlord for the new club, Zentral, as planned by the Group.

As a result of the Reorganisation, the Company currently wholly owns the above subsidiaries. Please refer to the paragraph “Reorganisation” below in this section for further details about the Reorganisation.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### REORGANISATION

Set out below is the shareholding and corporate structure of the Group immediately prior to the implementation of the Reorganisation:



*Note:* As Best Treasure, Jethope Limited and Don Cheer Limited were holding companies only and do not carry out actual operation of the business of the Group, they were excluded from the Group after the Reorganisation.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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In order to prepare for the Listing, the Company underwent the Reorganisation which involved the following steps:

### **(1) Incorporation of the Company**

On 14th January, 2013, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each. On 14th January, 2013, 1 Share of the Company was issued to Rainbow Key for a consideration of HK\$0.01. Accordingly, the Company was owned as to 100% by Rainbow Key since 14th January, 2013. On 19th April, 2013, 9,999 additional Shares were issued to Rainbow Key for a consideration of HK\$99.99.

### **(2) Incorporation of BVI companies**

On 2nd January, 2013, New Pride was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 14th January, 2013, 1 share of New Pride was issued to the Company for a consideration of US\$1.0. Accordingly, New Pride was owned as to 100% by the Company since 14th January, 2013.

On 2nd January, 2013, Coral Spring was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On 14th January, 2013, 1 share of Coral Spring was issued to New Pride for a consideration of US\$1.0. Accordingly, Coral Spring was owned as to 100% by New Pride since 14th January, 2013.

### **(3) Transfer of shares in Hong Kong operating subsidiaries or shares in their respective holding BVI companies to the BVI intermediate companies**

- (a) Transfer of shares in Joyful Mercy. On 28th March, 2013, Mr. Wong transferred 1 share in Joyful Mercy at par for a consideration of HK\$1.0 to Best Future. Accordingly, Joyful Mercy was owned as to 100% by Best Future since 28th March, 2013.
- (b) Transfer of shares in Easy Large. On 28th March, 2013, Mr. Wong transferred 1 share in Easy Large at par for a consideration of HK\$1.0 to Best Future. Accordingly, Easy Large was owned as to 100% by Best Future since 28th March, 2013.
- (c) Transfer of shares in Ease Goal. On 28th March, 2013, Mr. Wong transferred 1 share in Ease Goal at par for a consideration of HK\$1.0 to Best Future. Accordingly, Ease Goal was owned as to 100% by Best Future since 28th March, 2013.
- (d) Transfer of shares in Clubbing HK. On 28th March, 2013, Mr. Wong transferred 1 share in Clubbing HK at par for a consideration of HK\$1.0 to Best Future. Accordingly, Clubbing HK was owned as to 100% by Best Future since 28th March, 2013.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- (e) Transfer of shares in Asiatic Century. On 28th March, 2013, Mr. Wong transferred 1 share in Asiatic Century at par for a consideration of HK\$1.0 to Prime Sunlight. Accordingly, Asiatic Century was owned as to 100% by Prime Sunlight since 28th March, 2013.
- (f) Transfer of shares in Best Season. On 28th March, 2013, Mr. Wong transferred 1 share in Best Season at par for a consideration of HK\$1.0 to Prime Sunlight. Accordingly, Best Season was owned as to 100% by Prime Sunlight since 28th March, 2013.
- (g) Transfer of shares in Honor Legend. On 31st March, 2013, Mr. LAM Jhug Ching transferred 1 share in Honor Legend at par for a consideration of HK\$1.0 to Coral Spring. Accordingly, Honor Legend was owned as to 100% by Coral Spring since 31st March, 2013.
- (h) Transfer of shares in Kind Legend. On 15th April, 2013, Jethope Limited and Don Cheer Limited transferred 1 share and 9,999 shares in Kind Legend at par value of HK\$1.0 each for a consideration of HK\$1.0 and HK\$9,999 to Coral Spring respectively. Accordingly, Kind Legend was owned as to 100% by Coral Spring since 15th April, 2013.
- (i) Transfers of shares respectively in Cheerful Raise, Best Treasure and Joyful Green.
  - (1) On 15th April, 2013, Best Treasure transferred 1 share in Cheerful Raise at par for a consideration of HK\$1.0 to Double Reach. Accordingly, Cheerful Raise was owned as to 100% by Double Reach since 15th April, 2013.
  - (2) On 15th April, 2013, Double Reach transferred 1 share in Best Treasure at par for a consideration of HK\$1.0 to Jethope Limited. Accordingly, Best Treasure was owned as to 100% by Jethope Limited and now excluded from the Group since 15th April, 2013. Best Treasure is an investment holding company and does not carry on any substantive business.
  - (3) On 15th April, 2013, Double Reach transferred 1 share in Joyful Green at par for a consideration of HK\$1.0 to Prime Sunlight. Accordingly, Joyful Green was owned as to 100% by Prime Sunlight since 15th April, 2013.
- (j) Transfer of shares in Club Kingdom. On 15th April, 2013, Rainbow Key transferred 1 share in Club Kingdom at par for a consideration of HK\$1.0 to Best Future. Accordingly, Club Kingdom was owned as to 100% by Best Future since 15th April, 2013.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- (k) Transfer of shares in Dragon Praise. On 15th April, 2013, Prime Sunlight transferred 1 share in Dragon Praise at par for a consideration of HK\$1.0 to Best Future. Accordingly, Dragon Praise was owned as to 100% by Best Future since 15th April, 2013.
- (l) Transfer of shares in Best Future. On 15th April, 2013, Mr. Yip transferred 100 shares in Best Future at par value of US\$1.0 each for a consideration of US\$100 to New Pride. Accordingly, Best Future was owned as to 100% by New Pride since 15th April, 2013.
- (m) Transfer of shares in Double Reach. On 15th April, 2013, Mr. Yip transferred 50,000 shares in Double Reach at par value of US\$1.0 each for a consideration of US\$50,000 to New Pride. Accordingly, Double Reach was owned as to 100% by New Pride since 15th April, 2013.
- (n) Transfer of shares in Corporate Hero. On 15th April, 2013, Mr. Yip transferred 1 share in Corporate Hero at par for a consideration of US\$1.0 to New Pride. Accordingly, Corporate Hero was owned as to 100% by New Pride since 15th April, 2013.
- (o) Transfer of shares in Prime Sunlight. On 15th April, 2013, Mr. Wong transferred 1 share in Prime Sunlight at par for a consideration of US\$1.0 to New Pride. Accordingly, Prime Sunlight was owned as to 100% by New Pride since 15th April, 2013.

Mr. Wong and Mr. LAM Jhug Ching, being the members of the core management team, were requested by Mr. Yip, whom was not involved in the daily operation and management of the Group, to hold a number of subsidiaries with nominal registered capital (namely Joyful Mercy, Easy Large, Ease Goal, Prime Sunlight, Dragon Praise, Clubbing HK, Asiatic Century, Best Season and Honor Legend, collectively the “**Nine Subsidiaries**”) solely for the purpose of providing administrative services to the Group such as secretarial services and entering into tenancy agreements. Mr. Wong and Mr. Lam paid the issued share capital at nominal value for each of the Nine Subsidiaries and were the ultimate owners of the Nine Subsidiaries at the relevant time. The Nine Subsidiaries were not subject to any litigation, claims or material non-compliance prior to their acquisition by the Group. The Group believed that such arrangement had provided administrative convenience to facilitate the daily management and operation and minimise the risk exposure of the operating subsidiaries from any possible contractual dispute relating to the administrative services. Other than a minimal management fee charged by Asiatic Century for administrative services provided to the Group (as disclosed in note 23 to the Accountant’s Report in Appendix I to the Prospectus), none of the Nine Subsidiaries charged any fee to the Group during the Track Record Period. The Directors confirm that the transactions between the Group and the Nine Subsidiaries during the Track Record Period were conducted on normal commercial terms and there would not be of any significant tax implications on the Group as a result of these arrangements.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

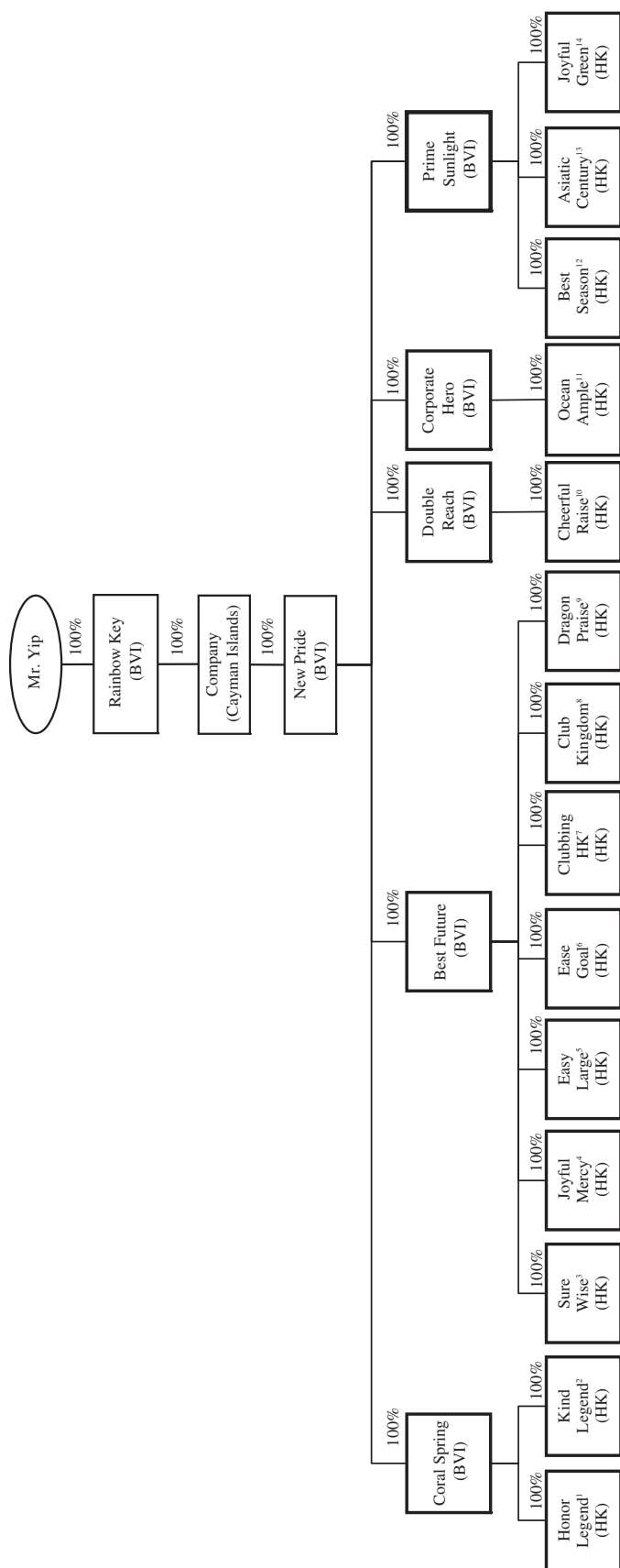
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Since all the Nine Subsidiaries are administrative services companies only, all their expenses and costs in relation to the provision of administrative services to the Group were borne and paid by the Group during the Track Record Period, pursuant to the agreements entered into between the Group and the Nine Subsidiaries. As part of the Reorganisation, the Nine Subsidiaries were acquired by the Group to ensure that all the operations (including the administrative services) is owned by the Company.

Upon completion of the above transfer of shares, the Company has become the ultimate holding company of the Group in anticipation of the Listing.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth the Group's shareholding structure immediately prior to the Global Offering and Capitalisation Issue:



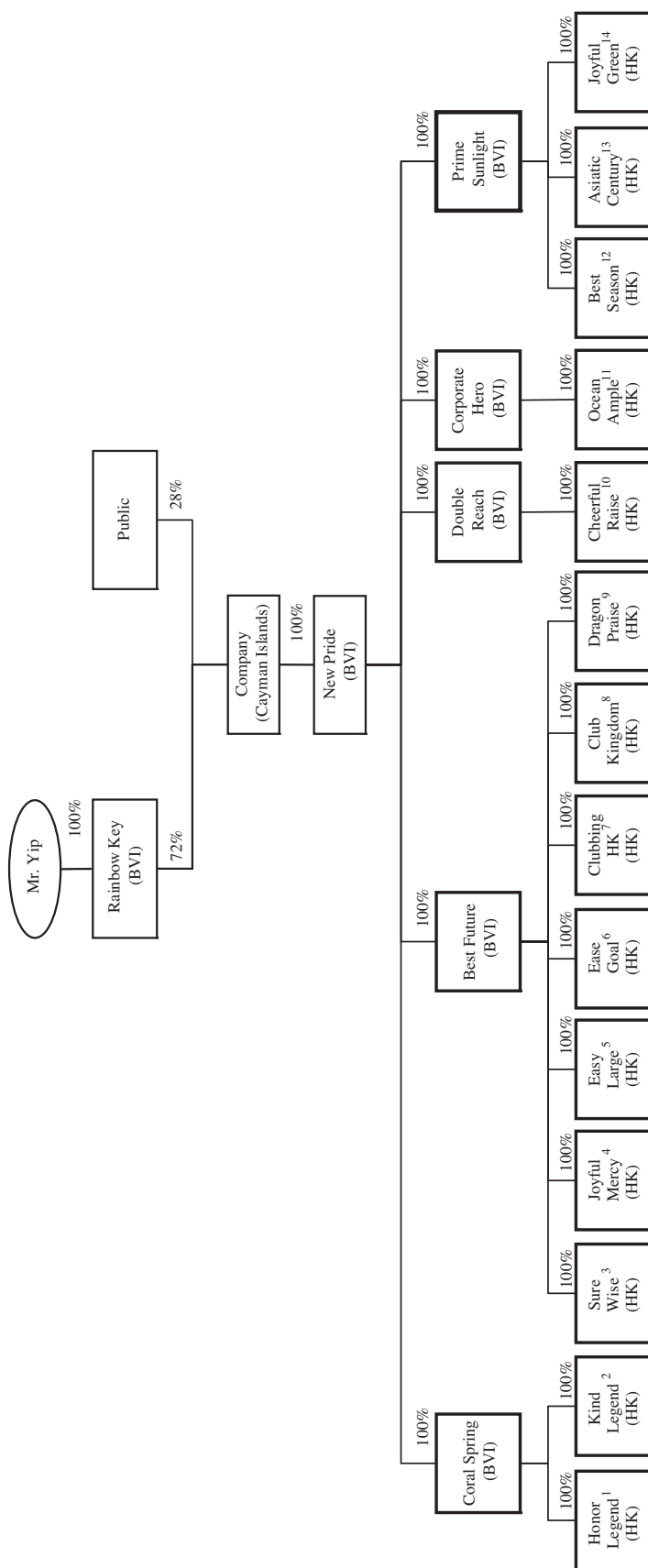
*Notes:*

1. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.
2. It operates the clubbing business of Billion Club and holds the light refreshment restaurant licence and water pollution control licence for Billion Club.
3. It operates the clubbing business of Beijing Club and Magnum Club.
4. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services and human resources support.
5. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.
6. It served as a service company to the Group for entering into tenancy agreement of an office of the Group during the Track Record Period and currently provides administrative and business support services to the Clubs.
7. It provides company secretarial services to the Group.
8. It holds the trademarks of the Group.
9. It serves as a service company to the Group for entering into the tenancy agreement and holds the light refreshment restaurant licence and water pollution control licence for Beijing Club.
10. It serves as a service company to the Group for entering into the tenancy agreement relating to signage used for Magnum Club.
11. It serves as a service company to the Group for entering into the licence agreement relating to signage used for Magnum Club.
12. It holds the light refreshment restaurant licence, water pollution control licence and place of public entertainment licence for Magnum Club.
14. It serves as a service company to the Group for entering into the tenancy agreement relating to Magnum Club.



**(4) Global Offering and Capitalisation Issue**

The following chart sets forth the Group's shareholding structure immediately following completion of the Global Offering and Capitalisation Issue (taking into no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme):



**Notes:**

1. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.
2. It operates the clubbing business of Billion Club and holds the light refreshment restaurant licence and water pollution control licence for Billion Club.
3. It operates the clubbing business of Beijing Club and Magnum Club.
4. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services and human resources support.
5. It provides administrative and business support services to the Clubs such as signing contracts for purchasing and internet services.
6. It served as a service company to the Group for entering into tenancy agreement of an office of the Group during the Track Record Period and currently provides administrative and business support services to the Clubs.
7. It provides company secretarial services to the Group.
8. It holds the trademarks of the Group.
9. It serves as a service company to the Group for entering into the tenancy agreement of an office of the Group.
10. It serves as a service company to the Group for entering into the tenancy agreement and holds the light refreshment restaurant licence and water pollution control licence for Beijing Club.
11. It serves as a service company to the Group for signing the binding letter with landlord for Zentral.
12. It serves as a service company to the Group for entering into the licence agreement relating to signage used for Magnum Club.
13. It holds the light refreshment restaurant licence, water pollution control licence and place of public entertainment licence for Magnum Club.
14. It serves as a service company to the Group for entering into the tenancy agreement relating to Magnum Club.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BACKGROUND OF OTHER CLUBS OPERATED

To the best knowledge of Mr. Yip and Mr. Wong, below is the relevant information in respect of the ownership and management of the clubs in respect of which Mr. Wong has been a member of senior management prior to the Track Record Period:

- (1) RED Discotheque was located at Basement, No. 12 Humphreys Avenue, Tsim Sha Tsui, Kowloon, Hong Kong. (“**RED**”), opened in 1998. Mr. Wong was a director and a shareholder of RED and Mr. Yip was a shareholder of RED. Mr. Yip sold his entire interest in 1999 and Mr. Wong ceased to be a shareholder and director in 1999 and 2000, respectively.
- (2) Queen’s Bar & Disco was located at 1st Floor, Queen’s Theatre Shopping Arcade, 31 Queen’s Road Central, Hong Kong (“**Queen’s Club**”), opened in 2000. Mr. Wong was the liquor licence holder and a director of Queen’s Club. Mr. Yip was one of the shareholders of Queen’s Club. Queen’s Club was closed in 2004 as the premise was vacant by the landlord for redevelopment.
- (3) Hei Hei Club was located at 3/F, On Hing Building, 1 On Hing Terence, Central (where Billion Club operates), opened in 2004. Mr. Wong was a director of the operating company of Hei Hei Club and Mr. Yip was the sole beneficial owner of Hei Hei Club. Hei Hei Club was closed in 2007 as it could not renew its liquor licence.
- (4) Ha Ha Club was located at Basement & Ground Floor (portion), 2 & 3 Lan Kwai Fong, Central, opened in 2006. The premise of Ha Ha Club was owned by Mr. Yip which was sold by Mr. Yip for a capital gain in 2008. The new buyer, an independent investor, requested the property be vacant and Ha Ha Club was then closed.
- (5) Club No. 9 was located at 3rd Floor, No. 9 Queen’s Road Central, opened in 2006. Mr. Wong was a director of the operating company of Club No. 9 and Mr. Yip was the sole beneficial owner before it was sold to Mr. Hau in March 2009. Club No. 9 was closed in March 2010 as it could not negotiate a lease term that was acceptable to the parties.

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## BUSINESS

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### OVERVIEW

Clubbing is a popular night time activity which has evolved from the discothèques of the 1970s into a modern form of social gathering with lively music, elaborate lighting and a dance floor, supplemented by both alcoholic and non-alcoholic beverages. The aura and atmosphere of the modern clubbing scene is filled with images of people moving in unison to the beat of synthesised remixed dance and electronic music spun out by a DJ perched upon an elevated stage.

The clubbing culture in Hong Kong has established itself over the years and the Group has become a leading operator among the various clubbing venues in Hong Kong. The Group operates the largest group of clubbing venues in Hong Kong, in terms of gross floor areas and premise capacity, according to the Euromonitor Report. In the view of the Lan Kwai Fong Association, the Group is a leader in the clubbing industry in Hong Kong and all the Clubs are highly successful, professionally operated and have developed strong reputation for quality service. The three Clubs of the Group are all located at the heart of the popular night entertainment area of Hong Kong known as the Lan Kwai Fong area. Each Club is individually branded to target a range of customers, and each offers a different but upscale atmosphere to cater for those customers or the mood of the customers on any given evening. Although the atmosphere and setting are differentiated at each Club of the Group, all of them endeavour to provide a high standard of customer service. The Directors believe that the high-end positioning and high level of customer service enable the Group to maintain attractive profit margins while also maintaining customer loyalty.

The Group has successfully operated the Clubs with a loyal customer base, and thus far no necessity to borrow debt to finance the initial capital expenditure or the operation of the Clubs.

	<b>As at 31st March,</b>		<b>As at</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
				<b>2013</b>
Number of Clubs	2	3	3	3
Total gross floor area including flat roof area (square feet)	19,722	30,507	30,507	30,507
Total maximum capacity	626	1,116	1,116	1,116
				<b>Five months ended</b>
				<b>31st August,</b>
				<b>2013</b>
Turnover (HK\$ million)	70.0	137.1	174.0	71.7
Profit for the year (HK\$ million)	16.1	29.2	28.0	5.6
Gross margin	84.0%	82.6%	81.7%	81.3%
Net profit margin	23.0%	21.3%	16.1%	7.8%

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## BUSINESS

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### COMPETITIVE STRENGTHS

#### **Upscale Clubs with established reputation**

The Group currently owns and operates Magnum Club, Beijing Club and Billion Club in leased premises. The Directors believe that the Group has successfully built its Clubs to attract customers, including local and foreign celebrities from time to time, looking for a high-quality clubbing experience in a safe environment. Each of the Clubs targets a different customer experience aiming to cover different segments of the upscale clubbing market. The Clubs are built on the Group's insistence in providing a quality clubbing experience for its customers, and its ability to consistently introduce new and innovative events, promotions and entertainment to deliver the excitement the Company believes its customers seek and to satisfy their expectations. The Group attributes the strength of its operations in part to its high quality club offerings and in part to its scalable and efficient operational infrastructure including centralised purchasing department, drinks preparation, ambience and service, quality control, marketing and promotion. In recognition of the Group's efforts, the Clubs have received various awards. In 2012 and 2013, all the Clubs were awarded "Quality Bar Label" by the Hong Kong Bar & Club Association. The Hong Kong Bar & Club Association, which was established in 2008, is a business chamber which groups together over 100 bars and liquor licence holders in Hong Kong. The Directors believe that its strong clubbing operation record and reputation help increase the Group's bargaining power with its suppliers, landlords and other service providers and increase its appeal to its customers as well as helping to expand its customer base.

#### **High quality music, entertainment and clubbing experience**

The Group endeavours constantly to keep abreast of the latest trends and developments in the clubbing business, evaluates new concepts globally and keeps the music, visual effects, design and decoration and sound equipment in the Clubs up to date.

The Group has entered into non-exclusive contracts with music production companies and individual DJs to provide the Clubs with music. The individual DJs are usually engaged on a self-employment basis. Fees payable to the music production companies and individual DJs are settled on a monthly, per session or per event basis, depending on the contracts. The Group collaborates with such musical talents to ensure the consistency of the quality of music performance at the Clubs. Although the Group outsources its DJ requirements, the marketing and entertainment department regularly meets and discusses the Clubs' music with the DJs to ensure the desired atmosphere and environment are supported through the music and to check that the music played in all the Clubs have been carefully selected and mixed to ensure an uninterrupted club atmosphere, without the highs and lows which might be experienced when music changes are abrupt or repetitive.

Well known DJs are often invited to perform at clubs and the Clubs are no exception. Many renowned international DJs have performed at the Clubs, such as Lil Jon (the United States of

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## BUSINESS

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America), DJs From Mars (Italy), DJ R-Wan (France) & MC Stik-e (the United States of America), RNK (Holland), and international DJs from Ministry of Sound and Hed Kandi. The Group believes that its large sized Clubs, its reputation and the marketing and entertainment department personnel are key attractions when inviting guest DJs to perform.

The Clubs also specialise in holding different types of social and corporate events for special occasions. They regularly hold ceremonies, theme parties, networking events, product launches and press conferences. The Clubs have also been featured in music videos and films. They have cooperated with numerous famous brands and organisations, including TVB, ATV, MANGO, D-MOP and AMusic amongst others.

### **Standardised operation and economies of scale enabled by large size of Clubs and number of Clubs**

The Directors believe that the standardised operations and size of operations have enabled the Group to achieve economies of scale and to ensure the standard of its service is consistent and at a high-level. According to the Euromonitor Report, the Group operates the largest group of clubbing venues in Hong Kong in terms of gross floor areas and premises capacity in comparison to most of the Hong Kong competitors which only operate one or two clubs.

The Group's standardised operations primarily consist of the following aspects:

- *Centralised purchasing department*

The Group has a centralised purchasing department which is in charge of purchasing the beverages and other inventories required by the Clubs. The Directors believe that such centralised purchasing system strengthens the Group's bargaining power with suppliers through bulk purchasing and reduces its costs of inventories.

- *Beverage preparation process*

The Group has standardised preparation processes for the beverages the Clubs serve to their customers. The Clubs have weekly training sessions for all bartenders employed by the Group to ensure the quality of the beverages they prepare. The Group also invites international mixologists regularly to inspire its bartenders and to provide training.

- *Club operation functions*

The Clubs have a set of standard operating procedures for their major operation functions upon which training is provided to the general manager, club managers, floor managers, serving staff, security team and cleaning staff to ensure that its operation procedures are properly implemented. Pursuant to the employment contracts for the operational staff, the Group has the right to deploy the staff to any Club of the Group. Therefore, the operational staff can be redeployed to different Clubs as required during the evening. Often one Club may be busier than another at various times throughout the evening and thus staff can be shifted over to accommodate.

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## BUSINESS

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- *Information technology*

The Group has employed information technology systems in the Clubs to standardise and centralise its management. The computerised point-of-sale system employed at the Clubs records consumer spending information, which can be closely monitored and analysed by the management.

### **In-house production of marketing materials and direct marketing**

Since the Group's establishment, it has amassed a marketing database of tens of thousands of individuals who have visited the Clubs or are interested in clubbing in general, including information such as telephone numbers and email addresses, and obtained their consents to use such information for its use in promotional activities.

The Group sends marketing materials to its customers by email, mobile phone messages and post to inform them of special events or other promotional activities that are being held. This direct marketing is done by the Group's marketing and entertainment department together with the creative department. By performing the direct marketing in-house, the Group can promote itself more efficiently and the events at the Clubs in a timely and cost effective manner while maintaining the integrity of its marketing database.

### **BUSINESS STRATEGIES**

The Group's objective is to maintain its status as a leading club owner and operator in Hong Kong. To achieve this, it intends to implement the following strategies:

#### **Focus on large upscale clubs**

The Group currently operates three Clubs, all of which are spacious in comparison to most of their competitors. According to the Euromonitor Report, Magnum Club and Beijing Club are the two largest clubs in Hong Kong. The Directors believe that the size of the clubs can impact the atmosphere, and the energy created by a large club full of customers is an attribute not only desired by club operators, but is also sought by customers. Furthermore, a large club also facilitates the Group to build on its advantage of economies of scale with larger capacity for customers and greater volumes of beverages sales.

#### **Continue to strengthen the quality of the Clubs' customer service**

The Group is in the night entertainment industry in which high quality and efficient customer services are essential. It relies on its management, bartenders and serving staff to perform consistently in its daily operations. It is committed to delivering superior service to every customer during every visit. The Directors believe that the quality of the Clubs' operational staff helps differentiate them from their competitors. The Group provides comprehensive training to all service personnel regarding the Group's standardised service procedures and its drinks offerings. Each Club is supervised by an experienced club manager to ensure consistent and

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## BUSINESS

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attentive customer service. The Group strives to ensure its frontline club personnel understand the importance of attentive customer interaction. For instance, the managers of the Clubs may assist VIP Customers to store their unfinished bottle of liquor or wine upon request. The club personnel also wear standardised uniforms to help create a consistent tone and image.

Speed of service is an important element of the clubbing experience. In relation to the table service, the Directors believe that the Clubs have maintained appropriate serving staff-to-table ratios and adopted a set of strict table service standards designed to meet the expectations of the customers. Additionally, the Clubs utilise a high number of registers to facilitate quick and efficient order processing and payment and endeavour to keep customer waiting time at minimum. The Group has introductory and continuous training programmes for its employees, including serving staff, bartenders, floor managers and club managers to ensure the consistency of its high quality customer services.

The Group intends to continue to strengthen these measures in order to motivate its employees and attract new talent, in turn strengthening its customer services.

### **Promote club image and status to maintain customers' positive perceptions of the Clubs**

The popularity of the Clubs is an important aspect which the Group actively manages. There are many factors including those which are definable and those which are abstract. The Directors believe that part of the attractiveness of a club is derived from the customers who visit the club, and hence popular clubs attract popular people and popular people like to be seen in popular clubs. It is a situation where image and attractiveness are transferred to and from the people to the place. The Group recognises this balance and through its experience and ongoing customer relationships, builds and maintains the Clubs' popular images which are supported by the high level of clubbing experience on offer and their customer service.

The Group will continue promoting its Clubs through its marketing, promotional initiatives and customer relationships.

### **Continue to strengthen operational infrastructure to take advantage of economies of scale**

The Group currently has a scalable operational infrastructure that has successfully operated and expanded its network. It will continue to strengthen its operational infrastructure to cultivate on economies of scales with the help of the following key aspects:

- *Central purchasing and supply chain.* The Group seeks authentic beverage providers at best commercial terms. To achieve this objective, it will continue to strengthen its relationship with existing suppliers and distributors.

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## BUSINESS

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- *Standardised and centralised operations.* The Group currently has standardised operation procedures for all major functions and will continue to refine such operation procedures. The Group has operational manuals for all the major functions and provides continuous professional training and performance assessments to ensure the thorough implementation of its standardised operation procedures.
- *Human resources.* The Group has always welcomed talented individuals to join and contribute to its operations and development. Frontline operational staff can be deployed at any of the Clubs. Human resources are thus utilised more efficiently as staff can be rotated to any Club which requires additional resources.
- *Information technology.* Modern information technology is used by the Group. Point of sale information, membership data and direct marketing are enabled through the use of information technology. The Group intends to continue investing in information technology to facilitate its daily business operations and to provide timely and relevant information to facilitate effective managerial decision making.

### **Expansion in Hong Kong**

According to the Euromonitor Report, the Group is one of the leading club owners and operators in Hong Kong based on gross floor area and premise capacity and it intends to continue to increase its market share and broaden its customer base. The Directors believe that the Group can further expand and increase its market share through opening of new clubs, and rebranding or upgrading of the existing Clubs.

A club's life cycle is usually limited and clubs are commonly rebranded and upgraded into new or relaunched clubs. During the Track Record Period, the Group regularly refurbished the Clubs and has spent approximately HK\$1.1 million, HK\$1 million and HK\$0.5 million for Magnum Club, Beijing Club and Billion Club, respectively. The Group recognises the occasional need to provide fresh concepts to avoid a club becoming stale and losing its allure. Hence, rebranding and upgrading are options the Group will consider in its pursuit to expand market share or if the Club has fallen out of favour with customers.

### **CLUBS AND BRANDS**

Since the Group commenced operations, its management team has successfully developed the three Clubs which now comprise of Magnum Club, Beijing Club and Billion Club. The Clubs are licensed to provide customers with music, beverages, snacks and entertainment until well after midnight.

The three Clubs have an aggregate gross floor area of over 30,000 square feet, which is the largest among the clubbing operators in Hong Kong and Beijing Club is the largest club in Hong Kong, in terms of gross floor area, according to the Euromonitor Report.



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## BUSINESS

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The Group continues to monitor changing trends and tastes and tailors its branded Clubs and marketing activities to compete effectively with other operators in the market for the disposable income of the Group's target customers. The Group takes seriously its corporate responsibility on a range of issues including responsible retailing, underage drinking, health and safety and drug awareness.

The Group aims to provide its customers a fun and safe clubbing experience. It strives to achieve the highest levels of safety within its venues. It aims to achieve a high standard of clubbing experience and customer service in the leisure and entertainment sector by offering value for money within its venues.

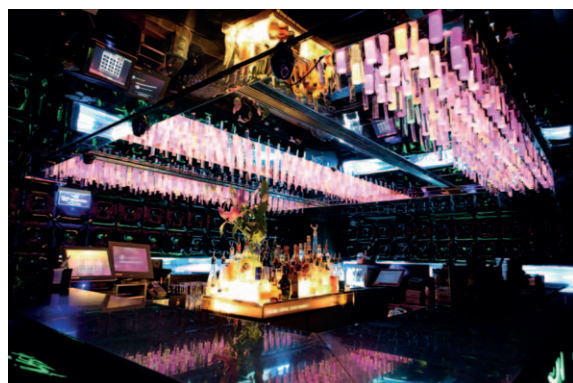
As part of the branding and positioning, each Club has its own character, style and design particular to its theme. Whilst all the Clubs are targeted at adults aged between 18 to 45 in general, some are created to provide a more energetic environment while others provide a relatively chic relaxed atmosphere.

Each of the Clubs is targeted to attract a different set of clientele. Billion Club targets at young professionals and provides a more relaxing place to gather. Beijing Club aims to attract mid-range income professionals and is targeted at more mature customers than Billion Club. Magnum Club targets at a higher income group with its luxurious design, while Zentral will intend to target dining customers and high income group with its lavish and extravagant decoration. The Directors believe it is able to charge higher margins on its offerings than the other clubs. Together the Clubs cover a wide range of customers, including locals and tourists, that are seeking night entertainment in the Lan Kwai Fong area. Although the Clubs are targeted at different customers, the Group recognises and welcomes that customers will be attracted to more than one Club. Customers may choose a Club based on their mood on a particular evening, and may "club hop" from club to club which is common. The Directors believe that although the Clubs may compete with each other, they are also complementary by providing different "flavours" to customers to help keep their tastes with the Clubs. The Clubs normally operate from 11:00 p.m. to 5:00 a.m., with the customer traffic peaking from 12:00 a.m. to 3:00 a.m.. For non-VIP Customers, an admission fee may be charged at the door.

All of the Clubs are equipped with professional music and lighting systems. As at the Latest Practicable Date, the Group has engaged seven part-time contracted DJs as service providers and they take shifts in the Clubs to provide quality music for customers.

The Directors believe that the Group has built its Clubs to represent the celebration and enjoyment of life, and has become one of the leading clubbing groups in Hong Kong.

### **Beijing Club**



Beijing Club has been providing a premium nightlife experience since its inception in October 2007 and the Group acquired Beijing Club on 1st September, 2010 from an Independent Third Party<sup>1</sup>. It is one of the longest standing clubs in the Lan Kwai Fong area. Beijing Club was designed to be the largest club of its type in Hong Kong with gross floor area over 12,000 square feet. Beijing Club has an outdoor terrace area where smoking is permitted. Beijing Club is fully licensed to serve alcohol and light refreshments, with bar and dancing endorsements in its liquor licence.

It has been the chosen venue for a number of press conferences by TVB and fashion brands' product launch parties.

Beijing Club generally operates six days a week from Monday to Saturday.

*Note:*

<sup>1</sup> For further details, please refer to the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

**Billion Club**

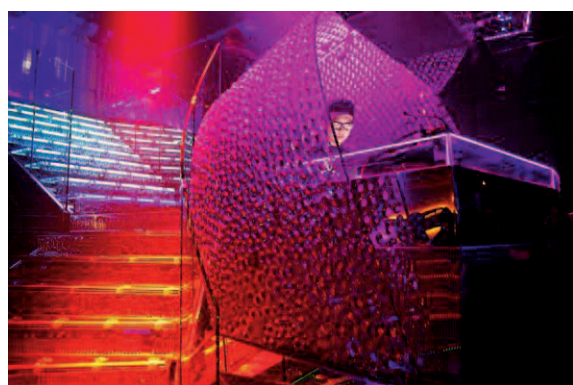


Billion Club has a gross floor area of over 7,000 square feet and had its grand opening soon after Beijing Club in October 2008. Billion Club's design stems from the common theme of a hidden paradise amidst the busy streets in Central with luxurious fixtures such as crystal cascades, life-size Bronze Bulls on the inviting yet spacious terrace area, the signature golden toilets, imported leather upholstery and private VIP booths.

The Group's initial strategy was for Billion Club with its relatively small gross floor area and close proximity to Beijing Club to provide a different night entertainment experience. With its high seating to floor space ratio, it provides a venue and the ambiance where customers can relax. Its design is more akin to a lounge than a full sized club, but still maintains a club vibe with a DJ spinning out music. Billion Club has an outdoor terrace area where smoking is permitted. As at the Latest Practicable Date, Billion Club is fully licensed to serve alcohol and light refreshments, with bar and dancing endorsements.

Billion Club usually operates three days a week from Thursday to Saturday.

### **Magnum Club**



Located in the heart of Central, according to the Euromonitor Report, Magnum Club stands as the largest club in terms of premise capacity and the second largest club in terms of gross floor area in Hong Kong with approximately 11,000 square feet. The Club has installed giant programmable hi-resolution three sided light-emitting diode (“**LED**”) walls that vibrantly reflect the tempo of music. It is tastefully and luxuriously decorated with the aim of satisfying the demanding requirements of its clientele. The Club is decorated with crystal and is equipped with two expansive terraces where it is permissible to smoke.

Since its inception in December 2011, Magnum Club has quickly become a sought after venue for not only night entertainment, but also corporate and special events. In 2012, it held three special events per month on average including press conferences, corporate parties, music video shootings, brand anniversary parties, networking events, fashion shows, launch parties, awards presentations, film shootings and film premieres among others.

As at the Latest Practicable Date, Magnum Club is fully licensed to serve alcohol and light refreshments, with bar and dancing endorsements. A unique feature among the Clubs is that Magnum Club has been designed with an integrated stage and holds a place of public entertainment licence. Such licence allows the Club to hold stage performances, including inviting live bands to perform on stage.

Magnum Club generally operates five days a week from Tuesday to Saturday.

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## BUSINESS

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### Zentral

Zentral is the Group's key development project as the Group intends to increase its market penetration by replicating the success of its existing Clubs. It is designed to be a high-end exclusive club that includes a full service dining area which the Group plans to open in the new California Tower in the Lan Kwai Fong area in 2014 to capture the target in both segments. The Directors believe that it will offer the customers a different experience from the existing Clubs and thereby expand the income stream of the Group. The Group also considers the risk of potential cannibalisation between Zentral and the existing three Clubs to be low as the Clubs target at different segments of the market respectively. In addition, the Directors expect Zentral to further capture the 'club-hopping' crowd together with the other Clubs.

On 28th May, 2012, the Group entered into a binding letter with the project company, which is ultimately owned by Lan Kwai Fong Properties Limited and Dr. Allan Zeman, and the Group will enter into a formal lease agreement upon completion of the construction of the building. The Group intends to enter into a lease agreement with the landlord for three years with an option to renew. The management of the Group has developed a preliminary business plan, including a marketing plan and positioning strategy. The building plan has been approved by the Buildings Department of the Government and an interior design firm has been engaged to develop the project. Given the building is still under construction, the internal control committee of the Company will engage competent professional consultants to handle the licensing matters in due course.

The Company expects Zentral will commence operation in the second half of 2014, though the exact opening date will be subject to the construction progress of the new California Tower in the Lan Kwai Fong area.

### Summary of club details

	Beijing Club	Billion Club	Magnum Club	Zentral (planned) (Note 8)
Address	2/F, 3/F & 5/F., Wellington Place, 2-8 Wellington Street, Central, Hong Kong	3/F, On Hing Building, No.1 On Hing Terrace, Central, Hong Kong	3-4/F., Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong	4/F & 5/F, new California Tower, 30-36 D'Aguilar Street, Central, Hong Kong
Commencement	October 2007	October 2008	December 2011	Opening in 2014
Gross floor area (including flat roof area)	12,403 square feet	7,319 square feet	10,785 square feet	12,000 square feet (estimate)
Number of floors	3	1	2	2
Maximum capacity (Note 1)	454 people	172 people	490 people	N/A
Expected maximum capacity in the future (Note 2)	408 people	154 people	441 people	N/A

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## BUSINESS

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	<b>Beijing Club</b>	<b>Billion Club</b>	<b>Magnum Club</b>	<b>Zentral</b> (planned) (Note 8)
Terms of leased property	1st March, 2013 - 29th February, 2016	15th March, 2013 - 14th March, 2014 (Note 3)	20th August, 2011 - 19th August, 2015	N/A
Aggregate rental cost during the Track Record Period (Note 4)	approximately HK\$25,900,000	approximately HK\$13,670,000	approximately HK\$17,704,000	N/A
Alcohol service	Liquor licence	Liquor licence	Liquor licence	N/A
Food service	Licence to serve light refreshments	Licence to serve light refreshments	Licence to serve light refreshments	N/A
Validity of the licences (Note 5)				
- Water Pollution Control Licence	11th July, 2013 - 31st July, 2018	4th July, 2013 - 31st July, 2018	30th July, 2012 - 31st July, 2017	N/A
- Light Refreshment Restaurant Licence (Note 6)	25th February, 2013 - 24th February, 2014	28th May, 2013 - 27th May, 2014	5th June, 2013 - 4th June, 2014	N/A
- Liquor Licence (Note 7)	16th October, 2013 - 15th October, 2014	14th October, 2013 - 13th October, 2014	8th November, 2013 - 7th November, 2014	N/A
- Place of Public Entertainment Licence	N/A	N/A	14th December, 2013 - 13th December, 2014	N/A

*Notes:*

1. The maximum capacity is the maximum number of people allowed (including 5 to 50 staff in each Club) by the current liquor licence of each Club at any given time.
2. The figures represent 90% of the maximum capacity of the Clubs under its current liquor licence. According to the guidelines published by the LLB, the LLB may consider to impose a safety margin (90%) on the capacity limit for Upstairs Bars in future. For further details, please refer to the section headed "Laws and Regulations of the Industry" of the Prospectus.
3. The Group entered into an agreement with the landlord to renew the lease term of Billion Club to 14th March, 2016.
4. The amounts represent the aggregate rental cost for each Club charged to profit or loss during the Track Record Period, which comprised of 36 months for Beijing Club, 41 months for Billion Club and 25 months for Magnum Club.
5. Light refreshment restaurant licence and liquor licence are subject to renewal every year.
6. As at the Latest Practicable Date, the Group is in the process of renewing the light refreshment restaurant licence of Beijing Club.
7. The dancing endorsements have the same duration as their respective liquor licences.
8. The Group entered into a binding letter with the landlord on 28th May, 2012. Zentral will be located at the new California Tower in the Lan Kwai Fong area which is still under construction and expected to be completed in 2014. The Group will apply for the relevant licences as and when appropriate.

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## BUSINESS

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### AWARDS

The Clubs under the Group have received various awards throughout recent years. During the Track Record Period, the Clubs received the following awards:

	Club	Award	Awarded by	Year
1	Beijing Club	休閒生活•潮人消閒點 (The IN spot)	Metroinfo FM 99.7 Radio Station	2010
2	Beijing Club	The Best Services Awards	Eastweek Magazine	2011
3	Beijing Club	Quality Bar Label	Hong Kong Bar & Club Association	2012, 2013
4	Billion Club	Quality Bar Label	Hong Kong Bar & Club Association	2012, 2013
5	Magnum Club	Quality Bar Label	Hong Kong Bar & Club Association	2012, 2013
6	Magnum Club	The Best & Finest Club	Squarefoot.com.hk	2012

### EXPANSION PLANS, SITE SELECTION AND DEVELOPMENT

As part of its strategy, the Group intends to continue expanding its club network to strengthen its presence in the Hong Kong market and further leverages on its operational and marketing economies of scale. The Directors are involved in implementing the expansion plans and new club development. The Company may also consider expansion in regions other than Hong Kong, including China.

In connection with the expansion plan in China, the Group is under discussion with Dr. Allan Zeman to explore the opportunity in expanding the Group's operation via the platform of Lan Kwai Fong Group such as the current potential opportunities in Chengdu, Haikou and Wuxi, among other cities in China.

#### Recent and planned expansion

The Group currently operates three Clubs. With the success of the Clubs and to further benefit from the economies of scale of its operations, the Group intends to increase its market penetration and to open additional venues. The cost of opening a new club could vary considerably depending on, among other things, the club design, the location, the size of the premises and the target clientele.

Capital expenditure for a club will vary based on numerous factors including size, complexity of design, materials used and whether the venue is opened at a new location or a refurbishment of an existing club. The Directors expect Zentral to require a capital expenditure of approximately HK\$5.0 million, HK\$24.0 million and HK\$0.6 million for the years ending 31st March, 2014, 2015 and 2016, respectively.

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## BUSINESS

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Since the inception of each Club, the payback period of Magnum Club, Beijing Club and Billion Club was 1.1 years, 1.7 years and 0.9 year, respectively. Although the Directors believe the payback period of Zentral will be subject to the future economic condition, it is expected the payback period of Magnum Club can be served as a reference, as the management has accumulated extensive experience in club operation and due to economies of scale. Payback period is defined as the amount of time taken for the accumulated net profit (excluding depreciation and amortisation) from a club to cover its cost of opening.

### **Site selection process**

The Directors consider the locations of the Clubs are crucial to the Group's success and its profit. The ability to identify suitable locations for the new clubs is important. All of the Clubs the Group currently owns are situated on low levels in buildings in the Lan Kwai Fong area, which is around the corner from the central business district of the city — Central. The factors that are taken into consideration while selecting a new club site include the accessibility of the potential site for potential customers, size and structure of the premises, any restrictions on the opening hours of the premises and the rental price.

The Board and the management team are involved in the site selection process, including the selection, evaluation, inspection and approval of each new club site prior to development. The Group's finance department evaluates its committed capital expenditure and its estimated return on investment carefully and thoroughly. The Group chooses each site strategically and intends to keep them geographically closely together to maximise the capture of the 'club-hopping' crowd between them. It intends to increase its market penetration, differentiates itself from its competitors while avoiding dilution of customer traffic among the Clubs. For risks associated with opening of new clubs, please see "Risk Factors — Risk Relating to the Group's Business and Industry — Competition from other entertainment operators may adversely affect the Group's market share and profit margins. The establishment of new clubs in existing market may negatively affect the results of its existing Clubs" in the Prospectus.

### **New club development procedure**

The typical lead time from the commencement of the site selection process to the opening of a club is approximately nine months. Key steps in the development process of a new club include the following:

#### *Lease negotiation and execution*

Upon the management team and the Directors' approval on a potential site, and after the relevant staff have completed investigation of the site and the feasibility of converting it from its existing structure into a club, lease negotiations with the landlord will commence. The Group generally requires its leases to have a term of approximately three years. Some leases may have a rent-free period of approximately three months to allow time for renovation and decoration.



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## BUSINESS

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### *Club concept, renovation and decoration*

Upon signing a tenancy agreement, a professional third party service provider commences the design of the club under the theme the management has chosen for all the Clubs. The design and renovation generally require 3 to 6 months. Internal staff with engineering and architecture knowledge are involved to ensure the premises are designed and renovated suitably for the operations.

### *Licensing and permits*

As renovation and decoration commences, the Group engages a professional third party consultant to provide consultancy service and assists it in applying for various licences necessary for the operation of the club.

### *Staffing and equipment*

Upon completion of renovation and decoration and successfully obtaining all necessary licences and permits required for the operation of the club, the human resources department relocates experienced staff from existing sites, and recruits and trains new staff in preparation of the launch of the new club.

## ENTERTAINMENT AND MUSIC

The Clubs play a variety of recorded music. Music is often mixed and matched by DJs and hence the scope of music played in the Clubs premises is extensive. The broadcast of recorded music and videos in commercial venues is subject to payment of licensing fees. Under the Laws of Hong Kong, a licensing body may grant licences for performing the musical recordings in public. As at the Latest Practicable Date, the only licensing bodies for performance of musical recordings registered in the Copyright Licensing Bodies Registry of the Intellectual Property Department are Composers and Authors Society of Hong Kong Ltd., Phonographic Performance (South East Asia) Limited and Hong Kong Recording Industry Alliance Limited. Whilst there are only three licensing bodies registered in the Copyright Licensing Bodies Registry of the Intellectual Property Department, there are possibilities that the copyright owners of some sound recordings may not have licensed their musical work with those record labels that are covered under the three licensing bodies. Under the Copyright Ordinance, the copyright owners of the sound recordings which are not members of the three licensing bodies may claim against the Group if such sound recording is played at the Clubs without the licence of the copyright owner. Previously, the management had met with representatives of the three licensing bodies referred to above but no licensing fees had been determined and agreed to be payable at that time. In around June 2013, the Group has reached agreement with the licensing bodies as to the amounts of the licensing fees and has paid an aggregate of approximately HK\$440,000 as the agreed licensing fees for the performance of music recordings at all three Clubs from the establishment of each until mid-2014. The total annual licensing fees for three Clubs are approximately HK\$350,000 and expected to be at a similar level in future years, subject to adjustment by reference to the inflation rate.

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## BUSINESS

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As advised by Benny Kong & Yeung (a Hong Kong solicitors' firm founded in 1996, which specialises in advising on intellectual property laws), there is an implied undertaking given by each of the licensing bodies under section 168 of the Copyright Ordinance to indemnify the Group, being the licensee, from loss against any claim for infringement of copyright from other copyright owner due to the Group's performance of sound recordings which are within the apparent scope of licences at the Clubs. As such, as advised by Benny Kong & Yeung, the performance of sound recordings since the establishments of the Clubs are unlikely to attract any civil or criminal liabilities, even though it is possible that certain sound recordings may not be covered by the three licensing bodies referred to the above.

### MEMBERSHIP PROGRAMME

The Group utilises a membership programme to market the Clubs to its customers. The memberships offered are Club specific and provide customers with VIP Customer status and various benefits and privileges, including, free entry to the Club, complimentary bottle of alcohol at the time of joining or recharging, extra promotional offers during birthday and priority table booking. The membership programme enables the Group to offer benefits to the VIP Customers and obtain prepayments from the VIP Customers to be used for future purchases. To join the membership programme, customers are required to provide personal details and pay a joining fee ranging from HK\$13,800 to HK\$18,800 depending on the Club. The amount of initial joining fee, entry fee charged per customer was made reference to that of the Group's competitors. Such joining fee is made available to the member as credit to be used in settling his/her bill at the respective Club, which essentially allows members to use their membership cards as a debit card or a prepaid card. Each VIP Customer may join membership programme multiple times and may have multiple membership accounts, the Company did not capture the identification card details of all VIP Customers during the Track Record Period, therefore the particular identity and the precise number of distinct VIP Customers cannot be ascertained. Consequently, the number of VIP Customers has not been disclosed.

By offering the membership programme, the Group can realise the following benefits:

#### *Customer retention*

By having customers pay a joining fee which essentially is a credit deposit, the Clubs can ensure that the customer will return to the Clubs in the future as he/she is not only affiliated with the Clubs as a VIP Customer, but he/she will also want to utilise his/her credit balance.

#### *Prepaid revenue*

The member credit deposits are prepaid revenues of the Group. The Group records the revenue when it is incurred by the member. Starting from 15th December, 2012, member credit amounts have an expiry term of 12 months, after the expiry date the remaining credit amounts will be forfeited and recognised as the Group's income. No forfeiture would be applied to the membership registered before 15th December, 2012.

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## BUSINESS

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The issuance of “pre-paid” membership cards and the forfeiture of the cards’ remaining balances have been agreed with customers. The Legal Counsel confirms that the above arrangement is not prohibited by the relevant laws and regulations.

### *Membership database*

The Group regularly promotes the Clubs through direct marketing. The membership database represents a high quality targeted database of customers for the advertisement of all the three Club events and the cross marketing to members of one Club to attend and join the other Clubs. This membership database is, moreover, an effective tool to market and launch new clubs.

The Legal Counsel confirms that the Group’s current personal data policy does not breach the laws of Hong Kong.

### *Membership spending profile*

The membership database records transaction billings and credit deposits when a member recharges his/her account. The Group can review the database to gain insight on visit frequency and spending habits, which not only assists the Group in managing the operations but also aids, in providing customer satisfaction, if spending patterns increase or decrease unusually.

### *Employee membership sales and other commission*

The membership programme is part of an employee benefit scheme. Employees earn commission on the sale of memberships which incentivises them to promote the Clubs and offer high levels of customer service. Commissions are available to all employees regardless of their positions in the Group. Operational staff may also be rewarded with commission based on the amount of sales of alcoholic beverage.

The following table sets forth information regarding the year/period end balance of membership prepayment received for each Club as at the dates indicated:

<b>Name of Club</b>	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
Magnum Club	—	2,456	7,429	7,852
Beijing Club	4,600	6,270	5,786	4,950
Billion Club	603	536	485	402

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## BUSINESS

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The membership prepayment utilisation ratio for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013 was 82.0%, 80.8%, 82.3% and 67.2% respectively, which is calculated by dividing the amount of membership prepayment recognised as revenue by the sum of the balance of membership prepayment brought forward and the membership prepayment received for the respective period. As at the Latest Practicable Date, the balance of membership prepayment received by the Clubs was HK\$13.7 million.

### BEVERAGE SALES PROFILE

The Clubs are presented as, and are marketed as, upscale clubbing venues. Customers of the Clubs tend to order higher priced items such as spirits, champagne and cocktails rather than beer and soft drinks.

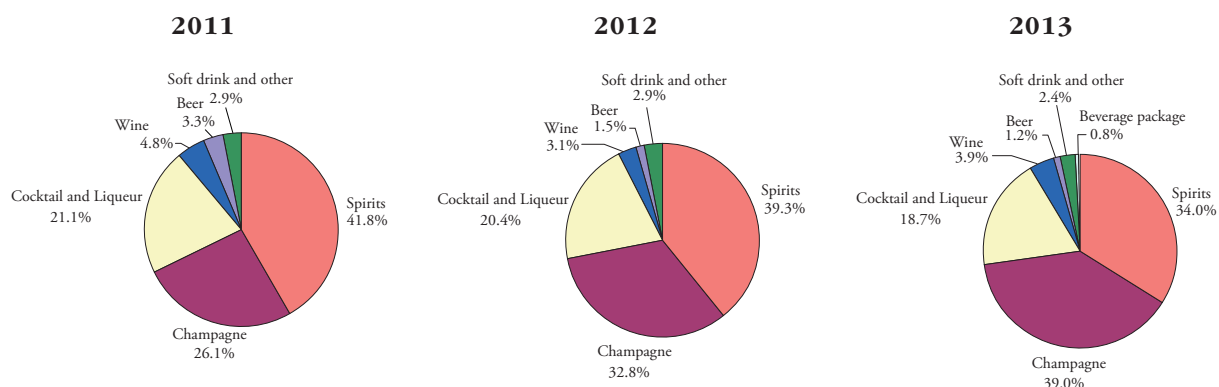
Type of beverage	Year ended 31st March,			Five months ended 31st August,	
	2011	2012	2013	2012	2013
Spirits <sup>(Note 1)</sup>	41.8%	39.3%	34.0%	34.5%	31.4%
Champagne	26.1%	32.8%	39.0%	40.4%	40.7%
Cocktails and liqueurs <sup>(Note 2)</sup>	21.1%	20.4%	18.7%	19.1%	17.1%
Wine	4.8%	3.1%	3.9%	1.8%	1.0%
Beer	3.3%	1.5%	1.2%	1.3%	1.3%
Soft drinks and others	2.9%	2.9%	2.4%	2.6%	2.3%
Beverage package <sup>(Note 3)</sup>	—	—	0.8%	0.3%	6.2%
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Notes:

1. Popular spirits include mainly whisky, vodka, brandy, etc..
2. Generally known as alcoholic beverage served by glass and prepared by bartenders mixing different alcohol and ingredients.
3. A package of assorted alcoholic beverage are sold at discounted price.

## BUSINESS

### Sales by beverage category



As can be seen from the charts above, spirits and champagne are the bestselling categories of beverages, together contributing to approximately 70% of the revenue with cocktails and liqueur following behind.

For further analysis of the revenue contributed by various beverage items, please refer to “Financial information — Factors affecting results of operations and financial condition” in the Prospectus.

In addition to beverage sales, the revenue is contributed by various service categories. Below is a breakdown of the turnover in terms of service categories of the Clubs:

	Year ended 31st March,			Five months ended 31st August,	
	2011	2012	2013	2012	2013
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
<b>Turnover</b>					
Sales of beverage and tobacco products <sup>(Note 1)</sup>	48,052	101,466	135,485	54,475	56,971
Cloakroom <sup>(Note 2)</sup>	1,449	2,564	2,610	955	1,025
Entry fee <sup>(Note 3)</sup>	17,291	26,849	22,415	10,005	5,768
Event rental <sup>(Note 4)</sup>	124	461	1,776	787	1,821
Sponsorship income <sup>(Note 5)</sup>	1,714	2,877	8,727	2,173	5,238
Tips <sup>(Note 6)</sup>	1,356	2,931	2,982	1,586	925
<b>Total</b>	<u>69,986</u>	<u>137,148</u>	<u>173,995</u>	<u>69,981</u>	<u>71,748</u>

Notes:

- As advised by the Legal Counsel, no specific licence is required for the sale of tobacco in the Clubs.

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## BUSINESS

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2. Cloakroom income represents the personal belongings storage service for customers charged at HK\$30 for each item of belongings.
3. Entry fee represents entry ticket income (inclusive of one drink) received from non-member customers. The VIP Customers and their guests can enjoy free entry to the respective Clubs.
4. Event rental represents the rental income from leasing the Clubs for events and activities, such as filming and festival party.
5. Sponsorship income is recognised in accordance with Hong Kong Accounting Standard (“HKAS”) 18, Revenue. As the sponsorship income is generated from rendering of various services in the course of the ordinary activities of the Group to certain businesses that also happen to be the Group’s suppliers and is not dependent on the purchase of the suppliers’ products, the presentation of sponsorship income as part of revenue is appropriate to reflect the substance of the transactions pursuant to HKAS 1, Presentation of Financial Statements.
6. Tips represent cash and credit card tips from customers, which will be allocated to the Club’s staff and recognised as staff costs.

For further analysis of the turnover, contributed by various service categories, please refer to “Financial Information — Discussion of certain consolidated statement of comprehensive income items” in the Prospectus.

### MARKETING AND PROMOTION

As the owner of multiple Clubs, the Group has a large and targeted customer base. The revenue derived from its five largest customers, all being individual retail VIP Customers, accounted for less than 2% in aggregate of its total turnover for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013.

The Group’s marketing and entertainment department aims to help the Group increase sales by attracting new customers, increasing the frequency and length of visits of existing customers, promoting the image and recognition of the Clubs among target customers. The Group uses direct marketing to inform customers of upcoming events and activities. The direct marketing through mobile phone messages and email leverages on the Group’s member and customer database with over 180,000 email accounts. Such regular communication keeps potential customers updated on the Clubs’ activities, and also serves to promote a clubbing community atmosphere by giving members a sense of belonging.

The Directors believe that the Clubs are well-renowned in Hong Kong. The Group utilises various marketing strategies including ladies’ night and members night. From time to time, celebrities, promotional staff, and dancers are engaged to support the marketing and promotional activities of the Group.

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## BUSINESS

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As part of the operational team, promotional staff is employed to support the marketing and promotional activities of the Clubs. The Group regularly promotes a range of different brands of wines and spirits at the Clubs. Promotional staff who is responsible for sales and marketing activities may also be entitled to a commission which is rewarded based on the amount of sales of alcoholic beverages. Since late November 2013, all staff involved in sales and marketing activities are required to be dressed in uniform when they are on duty.

The Group has also implemented a membership programme which encourages customer loyalty by offering benefits to members including free entry and a complimentary bottle of alcohol upon joining. Please see the section headed “Business — Membership Programme” for further details.

During the Track Record Period, the Group held various events, marketing programmes and campaigns:

- *Collaboration with internationally famous performers*

The Clubs invited international renowned DJs to energise the atmosphere. In 2012, the Group held over 30 DJ shows at the Clubs, attracting performers including Lil Jon, DJs From Mars, DJs from Ministry of Sound and Hed Kandi among others. The international DJs or organisations providing the DJs are generally well known to frequent customers of the Clubs.

- *Collaboration with brands*

The Clubs collaborate with brands globally through product launch parties, after-parties and press conferences.

- *Traditional promotional campaigns*

Part of the marketing campaigns is accomplished through traditional and print-based media, including advertisement in newspapers and magazines.

In addition, the senior management appears on television programmes and interviews to introduce the Clubs from time to time.

- *Themed parties*

The Clubs hold themed parties to attract customers. Each year, the Clubs hold Christmas and Halloween parties. Other examples include Lady Gaga Fever Night, Belvedere Beat Party and Full Moon Party. The Clubs, directly or through third party agency, engage promotional staff and dancers for the theme parties organised by the Group, such as ‘Halloween Party’, ‘Bollywood Bash’, ‘Fashion Shows’ and ‘Models Night’, and to distribute flyers for promoting different events held by the Clubs.

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## BUSINESS

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- *Others*

Other than the above mentioned marketing and promotional campaigns, the marketing team consistently seeks innovative activities to increase the public awareness of the Clubs and attract customers to the venues, such as collaborating with ATV to produce a show about Hong Kong nightlife — Magnum Music Station; collaborating with different rising fashion brands to hold Fashion Nights; and collaborating with artists and television stations in various forms from holding press conferences to the use of the Clubs for film/music video shootings. The Group also uses social online media such as Facebook, Youtube and Instagram to promote the Clubs.

The Clubs have held events with many internationally known firms and artists. In 2012, Magnum Club and Beijing Club successfully held numerous events including a press conference for a television drama of TVB, the movie “Lan Kwai Fong 2” (“喜愛夜蒲2”) press conference and after-party, Fujifilm Instax Mini 8 Launch Party, Miss Asia 2012 Campaign Launch Party, the Chippendale Meet and Greet Party and Belvedere (RED) Kickoff Party amongst others. The Directors believe such strategy is key in promoting the Clubs, and the marketing and entertainment department will continue to enhance the Clubs’ positive image in the future. The Group also engages professional marketing and public relations consulting firms to assist its marketing campaigns from time to time.

### **OPERATIONS AND MANAGEMENT**

The Clubs provide dancing venues with music and DJs, and sell beverages at premium prices. The core revenues from a clubbing operation come from beverage sales.

#### **Purchasing**

Purchasing is centralised so as to take advantage of volume discounts, the principal agreement being one with the Group’s main alcoholic beverages supplier. Cost of beverages sold accounts for over 98.1% of the cost of inventories sold. For further information on purchasing, please refer to section headed “Business — Purchasing and Major Suppliers” in the Prospectus.

#### **Pricing**

The Clubs adjust their pricing based primarily on the relative pricing of their competitors and the spending power of the target customers.

The admission fee for all the Clubs, if charged, ranges from HK\$100 to HK\$450 during the Track Record Period. The Group adjusts its admission fee based on, including but not limited to, the market price, seasonality and event promotion.

The Directors believe that the Group is able to charge a premium on the beverages offered at the Clubs as they are positioned as upscale clubs. A service fee is also charged on all orders.



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## BUSINESS

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The Group has been able to maintain a relatively stable gross profit margin on beverage sales of around 80% during the Track Record Period. The Directors believe that the Group is able to maintain such gross profit margin as the Group reviews the beverage purchase prices with its major beverage suppliers on an annual basis under the master purchase agreements, and usually internally reviews and adjusts the Club's retail beverage prices on a semi-annual basis. The Group will adjust its menu based on the beverage purchase prices, market trends and pricing by competitors.

### **Settlement and cash management**

The Group provides continuous employee training to its bartenders and serving staff on operation procedures. It has implemented guidelines on the uses of its point-of-sale system through its user manual which illustrates in detail procedures with respect to collection of payment. The majority of payment made by customers are processed through credit cards. For the payment that are settled in cash by customers, the Group has adopted a cash management and delivery system in each of the Clubs. Cash received at a Club pending delivery to the banks is kept in the safe located in each Club. After the closing of each Club, an executive Director and the club managers will check the cash received of each Club against the total amount recorded in the point-of-sale system to ensure cash reconciliation with the sale record. After that, the executive Director or a member of the senior management collects and transports the cash from each Club to the bank in the morning of the following business day. Before operating hours of the Clubs, the finance department will double check the last day sale records from the point-of-sale system and the bank deposit slip and prepare internal accounting records. A small amount of cash is kept at the safe in each Club at the commencement of business each day for daily operation purpose.

In case of any discrepancy between the sales record and cash received, the respective club manager will investigate the cause for the discrepancy. If the amount of cash received exceeds the cash sales record, the extra cash will be deposited into the bank as extra income and if the amount of cash received is less than the cash sales record, the respective cashier will be accountable for the discrepancy.

The Directors confirmed that the 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 during the Track Record Period and up to the Latest Practicable Date.

### **Operation standardisation**

The Group has established a scalable business model in its industry by developing and implementing standardised operations, which the Directors believe distinguishes it from other clubs in the Lan Kwai Fong area and in Hong Kong, and allow the Group to benefit from economies of scales and ensure its standards of operation. The Group has implemented a set of standard operating procedures for each of the major operating and administrative functions with the use of a regular employee training programme.

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## BUSINESS

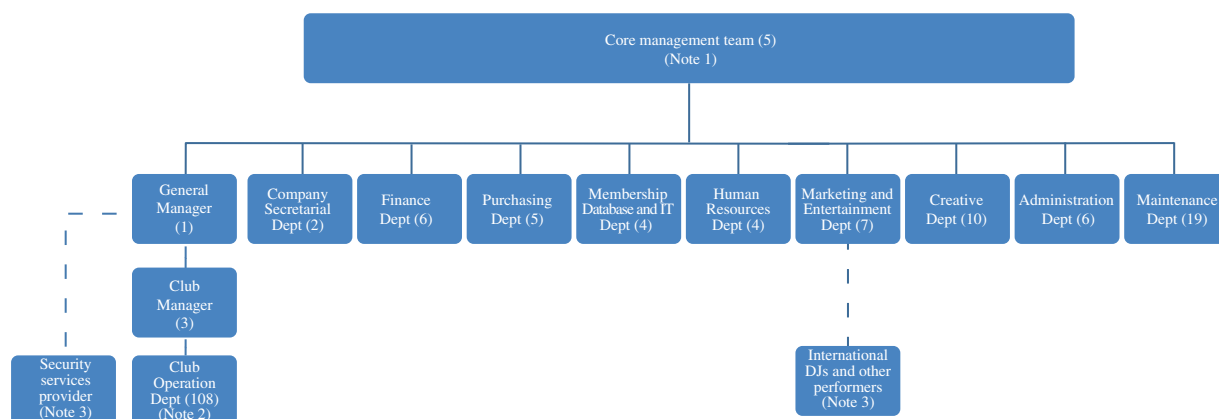
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The Directors believe that such standardisation and continuous training provided by the Group in relation to the operation system improves operational efficiency and ensures the quality consistency of its service.

### Management structure

Since the Group's inception, it has developed a management structure that is efficient in supervising, directing and supporting of its operations, quality control systems, recruitment processes and training programmes.

The organisation chart below illustrates the management structure of the Group together with the number of personnel in each respective department as at 31st August, 2013.



#### Notes:

1. The core management team comprising four executive Directors, and the chief executive officer as a whole is responsible for the overall business development and operation of the Group.
2. The club operation department employs full time and part time operational staff such as waiters, bar tenders, sales and marketing staff, the total number of such staff may fluctuate from time to time due to various factors, such as seasonality and the schedule of promotion activities and events.
3. Services provided by external service providers.

- *Overall management*

The overall management of the business and operation is conducted at the Group's headquarter. The headquarter is responsible for the corporate business and finance administration of the organisation, operational management and supervision of all aspects of the business, such as financial planning, management level recruitment, marketing strategies of the Group and each of the Clubs.

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## BUSINESS

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- *Club operation department*

Each Club is operated and managed by the club manager who is supervised by the general manager of the club operation department. The general manager and club managers are responsible for the daily operation and maintaining order at each Club.

- *Company secretarial department*

The company secretarial department is responsible for the company secretarial and compliance matters in relation to the Inland Revenue Ordinance, the Companies Ordinance, Listing Rules and the SFO.

- *Finance department*

The finance department is responsible for the accounting system and handles other accounting related matters.

- *Purchasing department*

The purchasing department is responsible for the centralised purchasing for all of the Clubs and to control the level of inventories.

- *Human resources department*

The human resources department is responsible for recruiting and training the Group's employees.

- *Membership database and IT department*

The membership database and IT department is responsible for tracking of membership programme, managing and maintaining the membership database, the Clubs' websites and developing smartphone applications as well as providing information technology support to the Group.

- *Marketing and entertainment department*

The marketing and entertainment department is responsible for the advertisements and promotional campaigns. It is also responsible for liaising with international DJs and other performers the Group engages.

- *Creative department*

The creative department is responsible for all graphic design materials and digital promotion materials used in promoting the Clubs' images and events.

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## BUSINESS

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- *Administration department*

The administration department is responsible for providing administrative support to the headquarter.

- *Maintenance department*

The maintenance department is made up by the technical engineer team and the cleaning team. Together they are responsible for keeping the Clubs in proper operational condition.

### **Safe environment for staff and customers**

The Group strives to provide the safest environment for its staff and customers. The Group engages an external security service provider to provide professional security and crowd control services to the Clubs. Each Club has its crowd control team which is supervised by the respective club manager. Security officers, who are required to dress in uniforms with a LED name tag and possess the requisite security personnel permit issued by the Hong Kong Police Force, are generally placed at reception entrance, lobby entrance, dance floor and stairs in each Club. The job duties of the security officers are as follows:

- (i) to maintain order and prevent any potential illegal activities by customers, such as fighting, theft, drugs abuse and sexual harassment;
- (ii) to check the identity document of each customer at the reception entrance and to ensure all customers inside the Clubs are or above 18 years old; and
- (iii) to control the total number of customers in the Clubs to adhere to the maximum number permissible.

Through years of experience in the clubbing industry, the management team has maintained a blacklist system which aids the frontline staff of the Clubs to identify individuals with a record of unwelcoming behaviour and deny their entry into the Clubs. Any disorderly behaviour occurs inside the Club premises will be reported to the Club manager and if the customer appears to be intoxicated, the Club staff will cease to supply any alcoholic beverages and request the customer to leave the Club premises.

To ensure each Club adhere to its maximum capacity permissible in the premises under the liquor licence, the security officers count the number of customers entering and leaving the Clubs at the entrance and the number of customers inside the Clubs. When the number of customers in the Club approaches the respective maximum capacity of that premise, the security officers at the reception entrance will promptly inform the responsible club manager through the intercom device and stop the queuing customers from entering into the Club temporarily. Subject to the general manager's instruction, the security officers may suggest queuing customers to enter other Clubs which have not reached the maximum capacity.

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## BUSINESS

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After closing time at each Club, the administration team including the general manager of the club operation department and all the club managers, will gather all the information from the security officers, including the operational report of each Clubs, and will report the overall operational information to the internal control committee and the internal compliance officer on a daily basis.

The Group strives to prevent injuries and accidents in the Clubs and to ensure a clean and safe clubbing environment for the staff and customers. During the Track Record Period, the Group did not receive any general liabilities claims from customers.

The Group strives to create a drug free environment. All the staff of the Group are subject to drug tests which are carried out prior to their employment and at regular interval thereafter. A drug inspection dog is also deployed twice a week to check for any illegal substances in the Clubs before they open.

The Group considers that it has maintained good relationships with the regulators, including the Hong Kong Police Force, Hong Kong Fire Service Department and Independent Commission Against Corruption (“**ICAC**”). During the Track Record Period, the management of the Group has conducted meetings with the Hong Kong Police Force to review and to ensure the Group’s security standards adhere to their expectation. Several staff have received acknowledgements from Government departments. For instance, some of the club managers have received appointment certificates and are appointed as Fire Safety Ambassador by the Director of Fire Services from the Hong Kong Fire Services Department. In addition, one of the security officers received a compliment letter from the Commissioner of Police as he assisted the Hong Kong Police Force to prevent and detect crime and made the Clubs a safer place for the customers.

In addition to regular training on the operation procedures, the Group invited officials from Government departments to provide ethical training for its staff, such as an ICAC talk in 2012. The Group also provided professional safety training to its staff, including the First Aid Certificate training from the Hong Kong St. John Ambulance.

During the Track Record Period and up to the Latest Practicable Date, according to the Group’s internal records, the police and the Fire Service Department have conducted random inspections of the Clubs for a total of approximately 134 and 11 times, respectively. Save for the non-compliance in relation to licences as disclosed in the section headed “Business — Non-compliance of the Group during the Track Record Period” of the Prospectus, the Company confirms that the Clubs received satisfactory results from all inspections.

### **Customer suggestions and complaints**

During the Track Record Period and up to the Latest Practicable Date, the Clubs occasionally received customer suggestions and complaints, in oral or written form, with respect to the operations according to the internal records.

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## BUSINESS

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The complaints received from customers directly during the Track Record Period generally concerned the service quality of the Clubs. The Directors consider good customer relations crucial to the Group's success and treat customer complaints seriously. Upon receiving a complaint, the managers on scene offer remedial proposals to the customer immediately and record the complaints for internal uses. If such complaints are related to compliance matters, the manager will immediately report to the administration team and subsequently report to the internal control committee after closing time of the Clubs by email. If such complaints are not related to daily operation nor compliance matters, the managers will direct such complaints to the human resource department for further handling. The club operation department reviews such internally recorded complaints regularly and provides employee training to consistently improve the operations in order to better satisfy the customers' expectations.

### **Licensing**

The Group requires certain licences in relation to its Club operations in Hong Kong. For details, please refer to the section headed "Laws and Regulations of the Industry — Hong Kong Regulatory Overview — (A) Licences Necessary for Business Operation" in the Prospectus.

Save as disclosed in the paragraph "Non-Compliance of the Group during the Track Record Period" in this section, the Directors confirm that all the Clubs are operated under valid alcohol and light refreshment restaurant licences and permits, and all other licences required have also been obtained during the Track Record Period and up to the Latest Practicable Date.

### **PURCHASING AND MAJOR SUPPLIERS**

The Group has established centralised purchase procedures for all purchase orders from the Clubs. Most of the suppliers of the Group are established and have longstanding relationships with the Group. The Group does not necessarily purchase the same brand of beverage from one specific supplier, but places great emphasis on sourcing supplies from reliable suppliers to ensure the quality of beverages and to prevent the purchase and sale of counterfeit beverages. Over 90% of the Group's beverage purchases were sourced from the top 5 beverage suppliers which are the official suppliers for the respective products. The Group has entered into master purchase and sponsorship agreements with its major beverage suppliers based on arm's-length negotiation and prevailing market conditions, governing the annual purchase price, sponsorship income and incentive programme such as the amount of cash rebate. The sponsorship income represents sponsorship from suppliers in return for brand displaying and promotions through different events held at the Clubs. The Group's credit period with its major beverage suppliers is normally within 30 days. During the Track Record Period, the amount of volume rebates, in the form of free goods and cash, from the suppliers amounted to approximately HK\$1.8 million. The Group manages its suppliers based on the categories of beverages, which include the following major categories:

- champagne and wine;
- liquor and spirits;

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## BUSINESS

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- cocktail ingredient and mixed drinks; and
- beer and soft drinks.

The Group minimises the inventory kept in storage and makes orders for all Clubs on a weekly basis through the centralised purchasing department. The club operational department and the purchasing department work closely on a daily basis to monitor the inventory level of the Clubs and give delivery instructions to the suppliers based on the Club's estimated sales volume. In the event that extra inventory is needed at one Club on a certain night, a request is put through to headquarter and it redistributes inventory from another Club and thereafter makes a new order to the suppliers.

During the Track Record Period, the Group's largest beverage supplier was Moët Hennessy Diageo Hong Kong Limited, which is a joint venture between the LVMH Group and the Diageo Group, and is the Hong Kong wine and spirits distributor of the LVMH Group. Its brands include Moët & Chandon, Veuve Cliquot, Dom Perignon champagne, Hennessy cognac and Belvedere vodka, for which it is the exclusive official distributor in Hong Kong. The Group was one of its top 10 customers (in terms of overall purchase) and top 3 customers (in terms of its categorisation as an on-premise channel customer which including clubs, bars and public houses but excludes restaurants, hotels, wine shops and supermarkets) for the calendar years ended 31st December, 2010, 2011, 2012 and the quarter ended 31st March, 2013, respectively.

During the Track Record Period, the Group's second largest beverage supplier was Telford International Company Limited, which is a Hong Kong distribution company supplying a diversified range of beverages including soft drinks, beer, wine and spirits. The Group mainly purchased Red Bull, Jägermeister and Patron Tequila from it. The Group was its top customer (in terms of its relevant on-premise channel customer in the wine and spirit category) for the years ended 31st March, 2011, 2012 and 2013.

The Group's purchase from its largest supplier accounted for approximately 59.0%, 62.7%, 61.6% and 65.7% of the total purchase for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group's purchase from its five largest suppliers accounted for approximately 93.2%, 92.5%, 93.3% and 95.0% of the total purchases for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. None of the Directors, their associates or any Shareholder, which to the knowledge of the Directors, owns more than 5% of the share capital of the Company has any interest in any of the five largest suppliers for each of the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013.

The Group has not experienced any shortage or severe delay in the materials supply that had any material adverse impact on its business during the Track Record Period. The Directors believe that the concentration risk of suppliers is not material and the Group's practices are in line with the industry standards and they believe that the Group will be able to pass on most of the price fluctuations onto its customers.

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## BUSINESS

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### SUPPLY CHAIN AND INVENTORY CONTROL

The major beverage suppliers, such as Moët Hennessy Diageo Hong Kong Limited and Telford International Company Limited, are designated distributors of various brands. The Group conducts regular reviews of the amount and pricing of purchases from each supplier.

The inventory of the Group mainly comprises of beverages. All purchase orders and delivery instructions are made based on an estimated sales volume and the level of inventory is monitored constantly by the management of the Company to minimise the storage time of the stock.

### INFORMATION TECHNOLOGY

The Group seeks to employ the most advanced information technology relevant in its industry to distinguish its Clubs and support its development. The Group owns a set of management information system to standardise and centralise its management. The management information systems include the following:

- *Point-of-sale system*

All of the Clubs use a computerised point-of-sale system that is designed to provide management centralised control and improve operating efficiency. It provides centralised collection of financial data which facilitates regular analysis.

- *Membership database*

The Group maintains a centralised membership database which contains information of each VIP Customer for marketing purposes.

- *Fingerprint system*

This system records the starting and ending working time of the club staff.

### EMPLOYEES

The Group had a total of 112, 186, 263 and 180 employees as at 31st March, 2011, 2012, 2013 and as at 31st August, 2013, respectively. Below table presents a breakdown of the number of the employees as at the dates indicated:

	As at 31st March,		As at 31st August,	
	2011	2012	2013	2013
Management	4	4	5	5
Headquarter staff	25	31	72	63
Club operational staff	83	151	186	112
Total	<u>112</u>	<u>186</u>	<u>263</u>	<u>180</u>



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## BUSINESS

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The Group's success to a certain extent depends on its ability to attract, motivate and retain talented employees, including club managers and bartenders. High-quality and efficient customer service attributes to the success of the Clubs. The Directors believe that employee attribution is more important in the industry the Group operates than in many other industries. The Group offers competitive wages and other benefits to its Clubs' employees to manage employee attribution. The staff costs include all salaries and benefits payable to all employees and staff, including executive Directors and headquarter staff. The staff costs, in the percentage of turnover, represented 11.3%, 11.9%, 17.9% and 24.5% of the Group's turnover in the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. As the average salary level of employees in the industry the Group operates in has been steadily increasing in the recent years in Hong Kong due to changes in labour laws and other market trends, the Group reduced a number of club operational staff starting from 2013 in order to maintain its overall profitability.

The Group considers providing its employees a safe working environment very important. It has implemented work safety guidelines for all of its employees which sets its work safety policies and promotes safety on premises. The engineers and technicians are required to follow an additional set of work safety guidelines to ensure work safety at all steps of any maintenance work. Furthermore, the senior engineers must possess the relevant qualifications for their relevant work field. The Group encourages its employees to adhere to the work safety procedures. The Directors believe that such measures help reduce the number and seriousness of work injuries of the Group's employees and are adequate and effective in preventing serious work injuries.

### **Staff training**

The human resources department at the headquarter is responsible for employees' training. Regular training is provided for employees at all Clubs, including bar training, staff briefings, operation courses, guest relationship ambassador training and receptionist training and first aid course among others. The Directors believe that the employees receive relevant training which help maintain a high level of customer service.

### **Recruiting & Retention**


Recruitment in the industry the Group operates in is highly competitive, especially with respect to the recruiting of club staff, including serving staff, bartenders and DJs. The Directors believe that the Group hires some of the best available employees in the market by offering competitive wages and benefits, focused training and internal promotion opportunities. The Group has adopted various initiatives to facilitate recruitment of its staff, such as discretionary bonus system.

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## BUSINESS

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### INTELLECTUAL PROPERTY

The Group's principal intellectual property rights include the trademark of  registered under classes 41 and 43. The Group takes appropriate steps to protect its intellectual property rights. The Group has registered the principal trademark that is necessarily for the Group to carry out the business operation and internet domain names. The Group may take necessary legal actions if any infringement of trademarks is discovered or any misappropriation of the Group's brand names.

During the Track Record Period, the Group was not aware of any infringement of its intellectual property rights and the Directors believe that they have taken all reasonable measures to deter such infringement.

For further details of the Group's intellectual property rights, see Appendix IV to the Prospectus.

### FIXED ASSETS AND PROPERTY

#### Overview of property interests

The Group does not own any real property and it leases all of the premises which its Clubs and office are located from Independent Third Parties. The Directors believe that the leasing strategy reduces the Group's capital investment requirements significantly. Currently, the Group does not intend to acquire any real property for its club sites. The Group's property rentals and related expenses for its Clubs and office premises were approximately HK\$8.9 million, HK\$20.6 million, HK\$30.3 million and HK\$13.8 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

The leases typically have an initial term of 1 to 4 years and a rent-free period for approximately three months at the beginning of the lease term. The current leases of the Clubs have expiration dates between 2014 and 2016.

#### Leased properties

As at the Latest Practicable Date, the Group leased 4 properties in Hong Kong, 3 of which were for the Clubs. The aggregate gross floor area of these Clubs is over 30,000 square feet.

Leased properties	Address	Term
Magnum Club	3/F and flat roof on 4/F of Silver Fortune Plaza, No.1 Wellington Street; Wall of UG of Silver Fortune Plaza; Wall of Lower G/F, Upper G/F, 1/F, 2/F, 3/F and flat roof on 4/F of Silver Fortune Plaza, No.1 Wellington Street	20th August, 2011 - 19th August, 2015 (Note 1)
Beijing Club	2/F, 3/F & 5/F of Wellington Place, No. 2 - 8 Wellington Street	1st March, 2013 - 29th February, 2016 (Note 2)

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## BUSINESS

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<b>Leased properties</b>	<b>Address</b>	<b>Term</b>
Billion Club	3/F., On Hing Building; Flat roof on 3/F, On Hing Building; No. 1 - 4 Signage spaces of On Hing Building	15th March, 2013 - 14th March, 2014 (Note 3)
Office	22/F., Silver Fortune Plaza, No. 1 Wellington Street, Central	15th March, 2012 - 14th March, 2015
Zentral	4/F & 5/F of new California Tower, 30-36 D'Aguilar Street, Central	(Note 4)

*Notes:*

1. Magnum Club signed its first and current lease on 20th August, 2011.
2. Beijing Club has renewed its lease two times.
3. Billion Club has renewed its lease four times. As at the Latest Practicable Date, the Group entered into an agreement with the landlord to renew the lease term of Billion Club up to 14th March, 2016.
4. The Group entered into a binding letter with the landlord on 28th May, 2012.

As at the Latest Practicable Date, the Group did not own any property in connection with its business operations. The properties leased by the Group are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The terms of each lease agreement have been negotiated on an arm's length basis and on normal commercial terms.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all the Group's interests in land or buildings.

### **Music and lighting equipment**

The Group has installed the latest audio and lighting equipment in the Clubs to seek to differentiate itself from its competitors, and has established a reputation for the lively atmosphere at the Clubs. The Group employs state-of-the-art and quality speakers and amplifiers. The layout of the Clubs and the placement of audio equipment have been carefully designed to enhance its acoustic quality and improve the overall experience of the customers.

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## BUSINESS

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Lighting is arguably one of the most important parts of clubbing as it sets the overall atmosphere of the dance floor and complements the music played in the Clubs. The Group employs various visual and lighting equipment to create an inviting environment, for instance by the use of stage lights, beamers, strobe lights, LED screens and lasers. The Group strives to engage the best available professionals to exercise their skills and experience together with the application of various visual and lighting equipment to create an energetic and lively atmosphere across the dance floor.

### INSURANCE

The Directors consider the Group's insurance coverage to be customary for businesses of its size and type and in line with the standard commercial practice in Hong Kong.

The Group primarily maintains (i) insurance for employees' compensation for injuries or death in the course of employment; (ii) fire insurance; and (iii) public liability insurance to cover itself against, among other things, claims of food and drink poisoning by customers, claims in respect of bodily injury by any person or loss of or damage to property of the Group, and claims in respect of fire or other damages to the venues leased by the Group.

### LEGAL AND REGULATORY COMPLIANCE

#### Hong Kong Regulatory Compliance

##### Overview

Certain licences are required to be obtained and maintained for the operation of the Clubs, including (i) light refreshment restaurant licence issued by the FEHD; (ii) liquor licence issued by the LLB; and (iii) water pollution control licence issued by the EPD.

Light refreshment restaurant licence is generally granted for a term of 1 year and is subject to annual renewal. Liquor licence is generally granted for a valid period of 1 year or less and is subject to renewal. Water pollution control licence is generally granted for a period of 5 years and is subject to renewal.

The FEHD operates the demerit points system which is a penalty system to sanction food businesses for repeated violations of relevant hygiene and food safety legislation. The penalty includes suspension of business of the licensed premises and cancellation of licence. The Company confirms that during the Track Record Period and up to the Latest Practicable Date, no demerit point was registered against the Clubs.

The Clubs have acquired all the requisite licences as at the Latest Practicable Date. During the Track Record Period and as at the Latest Practicable Date, save as disclosed below in the paragraph headed "Non-compliance of the Group during the Track Record Period", the Group has been in compliance in all material aspects with the major applicable laws and regulations in Hong Kong and has obtained all necessary permits, licences, approvals and certificates that are material to its business operations from the relevant Government authorities.

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## BUSINESS

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### Major qualifications and licences required for the Group's operation

The following table sets forth the major licences of the Group<sup>(Note 1)</sup> as at the Latest Practicable Date.

Name of Club	Address of the Club	Duration of validity of licence		
		Light Refreshment Restaurant Licence	Liquor Licence <sup>(Note 3)</sup>	Water Pollution Control Licence
Beijing Club (Note 2)	2/F, 3/F & 5/F., Wellington Place, 2-8 Wellington Street, Central, Hong Kong	25th February, 2013 – 24th February, 2014	16th October, 2013 – 15th October, 2014	11th July, 2013 – 31st July, 2018
Billion Club (Note 2)	3/F., On Hing Building, No.1 On Hing Terrace, Central, Hong Kong	28th May, 2013 – 27th May, 2014	14th October, 2013 – 13th October, 2014	4th July, 2013 – 31st July, 2018
Magnum Club (Note 2)	3-4/F., Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong	5th June, 2013 – 4th June, 2014	8th November, 2013 – 7th November, 2014	30th July, 2012 – 31st July, 2017

*Notes:*

1. Save for the liquor licence holders of whom are the employees directed by the Group to hold the relevant liquor licences, the other licences are held by the Group.
2. Magnum Club has an area that may provide stage performance and separately obtained a place of public entertainment licence. The validity period of such licence is from 14th December, 2013 to 13th December, 2014. The place of public entertainment licence is only granted for 1 year. As advised by the Legal Counsel, a place of public entertainment licence is not required at Billion Club and Beijing Club primarily because there is no stage, stage performance or any party ever having been organised of which the primary activity is dancing.
3. The dancing endorsements have the same duration as their respective liquor licences.

### ***Liquor licences for all the Clubs***

Each of the Clubs requires the relevant liquor licence from the LLB to operate. Under the laws of Hong Kong, the liquor licence shall only be issued to an individual and the licence generally requires such individual to be present during the operating hours of the Clubs. For details, see “Laws and Regulations of the Industry — Hong Kong Regulatory Overview — (A) Licences Necessary for Business Operation” in the Prospectus.

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## BUSINESS

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### *Background*

In respect of all three Clubs, the Group requested certain employees to apply for the relevant liquor licences on behalf of the Group. The relevant licences are held by the managers of the respective Clubs, who are responsible for the daily operation and maintaining order of each Club, and are normally present during operating hours. The managers of the Clubs have been working for the Group throughout the Track Record Period and up to the Latest Practicable Date. For further details, please refer to “Risk Factors — Liquor Licences of the Clubs are held by individual employees” in the Prospectus.

The Group has successfully renewed the relevant light refreshment restaurant licences and liquor licences every year since the relevant individuals first obtained such licences on behalf of the Clubs. The relevant liquor licence holders are long-serving employees of the Group. In addition, the Group has entered into licence holder agreements with these liquor licence holders as detailed below to ensure the operation of the Clubs is not affected if these employees leave the Group in future. Their main duties are to supervise the respective club premises and maintain the Club’s orders during operating hours. These employees have been holding the relevant liquor licences for no additional consideration other than their employee salary, on behalf of the Group during the Track Record Period. The Group has not experienced any licence-related disputes with the relevant liquor licence holders arising from such arrangement in the past.

The LLB has recently published a set of guidelines on assessing liquor licence applications with effect from 1st December, 2013 (“**Guidelines**”). After the expiry of a six-month grace period (i.e. from 1st June, 2014), the LLB may consider imposing tightened licensing conditions on Upstairs Bars such as, amongst others, the capacity limit, noise management, fire safety and means of escape. For details of the Guidelines, please refer to “Laws and Regulations of the Industry — Hong Kong Regulatory Overview — (A) Licences Necessary for Business Operation — Liquor Licence” in the Prospectus. In view of the internal control measures adopted by the Group, the Directors believe that the Guidelines would unlikely have a material adverse effect on the Group’s operations.

### *Liquor licence holder agreements*

The Group has entered into licence holder agreements for no additional consideration other than their employee salary, with each of the relevant liquor licence holders which provide that, among other things, the licence holder (i) will use his/her best endeavour to maintain the liquor licence and comply with the licensing conditions to the liquor licence; (ii) will refrain from doing anything which may result in the revocation of the liquor licence; (iii) acknowledges that the relevant operational subsidiary of the Group is the sole operator of the relevant Club; (iv) waives any right to claim any profit or asset in the relevant Club; (v) undertakes to transfer the relevant liquor licence upon request by the Group without any additional consideration; and (vi) acknowledges that the Group shall be responsible for any liability incurred during the operation of the relevant Club. Under the licence holder agreements, the Group is entitled to use or transfer the relevant licence and the licence holders do not have the option to refuse such use or transfer. Any refusal for such use or transfer will amount to a breach of the licence holder agreement.

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## BUSINESS

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Based on the Group's past experience, it usually takes the LLB around three months to complete the transfer process of the liquor licence and the Clubs can continue to operate during such process. Billion Club has applied for, and been granted by the LLB, the transfer of liquor licence twice during the Track Record Period and such transfer did not affect the operation of the Group and financial performance.

To further minimise the risks of liquor licence transfer, the Group required its existing liquor licence holders, under the terms and conditions of their employment agreements, to undertake that they will remain employed by the Group until all the transfer procedures have been successfully completed and their role has been completely subrogated to their successors before they resign or leave the Group.

The liquor licence holder of each Club is normally the Club manager or the bar manager of each respective Club.

The liquor licence holders of the Clubs are required to be present at the Club premises during the operating hours. In the event that the liquor licence holders are unable to be present at the respective Club, the LLB will be informed, if practicable, and the general manager of the club operation department will assign an appropriate personnel prior to the opening of the respective Club so as to ensure the operation comply with the relevant conditions of the liquor licence.

The table below lists out the name of liquor licence holders of each Club during the Track Record Period:

	<b>Magnum Club</b>	<b>Beijing Club</b>	<b>Billion Club</b>
Liquor licence holder during the Track Record Period (Note 1)	Mr. Gurung Sudeep	Ms. Gurung Tika Maya	Mr. Gurung Dhabindra Mr. Gurung Anil Mr. Ghale Binod (Note 2)

*Notes:*

1. Throughout the Track Record Period, none of the liquor licence holders of the Clubs has been suspended by the LLB.
2. During the Track Record Period, the liquor licence of Billion Club had been transferred twice due to the resignation or job rotation of the relevant personnel. As advised by the Legal Counsel, the relevant Club may continue to operate pending the transfer of liquor licence and there is no material legal impediment for the transfer of the liquor licence holder.

## BUSINESS

### NON-COMPLIANCE OF THE GROUP DURING THE TRACK RECORD PERIOD

During the Track Record Period and as at the Latest Practicable Date, the Group had been or is involved in a number of non-compliance matters which can broadly be classified into: (i) non-compliance in relation to licences; (ii) non-compliance in relation to the Inland Revenue Ordinance; and (iii) non-compliance in relation to the Companies Ordinance. Set out below is a summary of the major non-compliance matters of the Group during the Track Record Period up to the Latest Practicable Date:

#### Non-compliance in relation to licences

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to the liquor licensing condition (exceeding the permitted capacity at the relevant Club)	Regulations 17(1) and 21 of the DCR and Sections 46(1) and 46(3) of the DCO	There were respectively three occasions at Billion Club and one occasion at Beijing Club where the relevant liquor licence holders committed breach of condition of liquor licence by exceeding the maximum persons permitted on the relevant Clubs.	The Group did not adequately implement the crowd control measures and there were miscommunications between frontline staff and their supervisors.	A person, who being the licensee contravenes a condition given under DCO is liable on conviction to a maximum fine of HK\$100,000 and to imprisonment of 1 year.	HK\$19,000	No, since all the fines relating to the convictions were settled.	The Group has strengthened the crowd control management system and the internal compliance officer is responsible for ensuring all internal control policies and procedures can be fully implemented. There is no breach in relation to the permitted capacity in the Clubs since May 2012. The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

Convictions in relation to the breach of licensing conditions of the liquor licence against the relevant holders of liquor licence of the relevant Clubs during the Track Record Period and up to the Latest Practicable Date are set out below:

Nature	Name of the relevant Club	Name of the relevant liquor licence holder	No. of convictions	Time of breach	Amount of fine imposed (HK\$)
Breach of condition of liquor licence by exceeding the maximum persons permitted on the club premises	Billion Club	Mr. Ghale Binod	3	27th November, 2011,	5,000
				7th April, 2012,	5,000
				25th May, 2012	7,000
	Beijing Club	Ms. Gurung Maya	1	24th December, 2011	2,000
Total			4		19,000



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## BUSINESS

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The penalties imposed by the court as a result of the convictions were all monetary penalties and such convictions were against the holders of liquor licence of the relevant Clubs but not against the Directors. Those holders of the liquor licence were indemnified by the Group.

As the fines were paid and their amounts were insignificant, the Directors consider that the fines had no significant impact on the financial information of the Group and no additional provisions are required to be made.

Save as disclosed above, there were no other non-compliance records on the liquor licence holders during the period in which they held the liquor licences of the relevant Clubs during the Track Record Period. On the basis that the LLB has granted full liquor licences for both Clubs and there are no further breaches thereafter, the Legal Counsel advises that these breaches and convictions had not adversely affected and will not affect the renewal of licences necessary for operation of the Group's business.

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to liquor licensing condition (dancing endorsement)	Section 46 of the DCO	Please see below.	Please see below.	A person, who being the licensee contravenes a condition given under DCO is liable on conviction to a maximum fine of HK\$100,000 and up to imprisonment of 1 year.	N/A	No. Please see below.	The Group has obtained the dancing endorsements on the liquor licences of Magnum Club and Billion Club in June 2012 and June 2013, respectively. The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

The liquor licence of Billion Club did not contain a dancing endorsement from October 2008 up until the granting of the dancing endorsement in June 2013, as the Group's initial strategy for Billion Club with its relatively small gross floor area and higher seating to floor space ratio, was more akin to a lounge than a full sized club. The Group has accepted the advice from the professional advisers and rectification actions were taken immediately. The Group has obtained such dancing endorsement in June 2013.

The liquor licence of Magnum Club did not contain a dancing endorsement from December 2011 up until the granting of the dancing endorsement in June 2012. Such omission was unintended and inadvertent due to oversight by the administrative personnel. Rectification actions were taken immediately, the Group filed an application in December 2011 and has obtained such dancing endorsement six months later.

The Group understands from the Legal Counsel that prosecution is a matter within the discretion of the police and the Department of Justice. However, since: (i) the Group has already taken positive steps in applying for the dancing endorsements on liquor licences at Magnum Club and Billion Club and such endorsements have been granted in June 2012 and June 2013, respectively; (ii) no prosecution against nor complaint about such breach of this condition of

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## BUSINESS

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liquor licence has been made against the relevant licence holders at Magnum Club and Billion Club during the Track Record Period; and (iii) it is believed that the relevant authorities may consider that the standard of proof is high, the chance of prosecution against the relevant licence holders is relatively low. The Group understands from the Legal Counsel that even if the prosecution chooses to prosecute the relevant licence holders for the past breach, the amount of fine is unlikely to exceed HK\$10,000 for each offence and imprisonment is remote.

Therefore, the Directors consider such amount is not material to the Group's consolidated financial information. No provisions have been made.

Since it was the first offence (not prosecuted before), and the dancing endorsement has since been granted and hence there was no chance of re-offending, the Legal Counsel advises that any adverse effect would be minimal and considers that the aforesaid potential breach would not adversely affect the renewal of licences necessary for operation of the Group's business.

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to the place of public entertainment licence	Section 4 of the Places of Public Entertainment Ordinance	There were certain stage performances in Magnum Club before it obtained the place of public entertainment licence in December 2012.	The Group did not have a special committee with relevant personnel with sufficient legal knowledge to ensure and monitor compliance with this legal requirement.	A person who keeps or uses any place of public entertainment without a licence shall be guilty of an offence and shall be liable on conviction to a maximum fine of HK\$25,000 and imprisonment for 6 months. If it is a continuing offence, an additional daily maximum fine of HK\$2,000.	N/A	No. Please see below.	The Group has obtained the place of public entertainment licence for Magnum Club in December 2012. The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

The Group understands from the Legal Counsel that given (i) Magnum Club only committed the breach for the first time; and (ii) a valid place of public entertainment licence has since been granted that there was no chance of re-offending, the chance of prosecution is relatively low and that imprisonment is remote.

Therefore, the Directors consider that in the event of being held liable pursuant to the Places of Public Entertainment Ordinance, the prescribed maximum penalty is not material to the Group's consolidated financial information. No provisions have been made.

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## BUSINESS

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Since it was the first offence (not prosecuted before), and the relevant place of public entertainment licence has since been granted and hence there was no chance of re-offending, the Legal Counsel advises that any adverse effect would be minimal and considers that the aforesaid potential breach would not adversely affect the renewal of licences necessary for operation of the Group's business.

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to the licences for discharge of effluent	Section 9 of the WPCO	The Group has discharged effluent into the sewer for a period from October 2008 to July 2013 in Billion Club, from October 2007 to July 2013 in Beijing Club and from December 2011 to July 2012 in Magnum Club without water pollution control licence issued by the EPD as required under the WPCO.	The Group did not have a special committee with relevant personnel with sufficient legal knowledge to ensure and monitor compliance with this legal requirement.	The relevant subsidiaries shall be liable (a) for the first offence, a maximum fine of HK\$200,000; (b) for the second or subsequent offence, a maximum fine of HK\$400,000. If it is a continuing offence, an additional maximum daily fine of HK\$10,000. The Responsible Officers (as defined below) of the relevant subsidiaries may also be held liable and imprisoned for 6 months.	N/A	No. Please see below.	The Group has obtained the water pollution control licences for Magnum Club in July 2012, Billion Club in July 2013 and Beijing Club in July 2013, respectively. The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

Under Section 10A of the WPCO, any director, manager, secretary or other person (the "**Responsible Officer(s)**") of the relevant subsidiaries concerned in their management who consented, connived, or was attributable to any neglect or omission commits the offence, and may also be liable and imprisoned for six months.

The Group understands from the Legal Counsel that

- (i) prosecution is a matter within the discretion of the EPD and Department of Justice. However, since (a) the Group has already taken positive steps in applying for the outstanding water pollution control licences in May 2012 for Magnum Club and May 2013 for Beijing Club and Billion Club and those licences have all been obtained in July 2012 and July 2013, respectively; and (b) the Group has not received any notice that the EPD has commenced any investigation against the relevant Clubs, the chance of prosecution against the Group or the Responsible Officers is relatively low;

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## BUSINESS

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(ii) with reference to the statistics from the EPD of the average and highest fine imposed for commercial premises, the potential fine, if levied on the Group, with respect to the outstanding water pollution control licences is very likely below HK\$15,000 for each Club; and

(iii) the chance of imprisonment for the Responsible Officers is very remote.

The Legal Counsel advises that, since it was the first offence (not prosecuted before) and the relevant water pollution control licences have been granted to all Clubs and hence there would not be any further breach, the aforesaid potential breach would not adversely affect the renewal of licences necessary for operation of the Group's business.

### Non-compliance in relation to the Inland Revenue Ordinance

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to under-reporting of commission paid to employees and other third-party service providers (e.g. DJs) in the returns to the Inland Revenue Department	Section 82A of the Inland Revenue Ordinance	Two of the Group's subsidiaries, namely Sure Wise and Kind Legend, under-reported certain commission awarded to their employees in addition to their regular compensation and other third-party service providers (e.g. DJs) in their returns to the Inland Revenue Department during the years of assessment from 2008/2009 to 2011/2012.	The commission paid was recorded as other operating expenses rather than as staff costs in the books and records of the Group and therefore not included in the returns.	According to Section 82A of the Inland Revenue Ordinance, the offending person, without reasonable excuse, makes an incorrect return by omitting or understating anything in respect of which he/she is required by the Inland Revenue Ordinance to make a return, shall be liable to be assessed to additional tax of an amount not exceeding three times the amount of tax undercharged.	Please see below.	Please see below.	The Group has made a voluntary disclosure of the matter with the Inland Revenue Department in May 2013 and has reached settlement with the Inland Revenue Department in July 2013. <sup>1</sup> The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

*Note:*

- Although it is not the Group's policy to pay salaries tax on behalf of the employees and other third-party service providers, the Company settled the under-paid tax on behalf of the employees and other third-party service providers in July 2013 in order to facilitate the rectification of this matter.

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## BUSINESS

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The Group understands from the Legal Counsel that the Inland Revenue Department has discretion on whether to prosecute but does not prosecute in each and every case. It is an explicit policy of the department that “offences which do not involve any wilful intent to evade tax are generally dealt with administratively by the imposition of monetary penalties in the form of additional tax under section 82A of the Inland Revenue Ordinance”.

During the years of assessment from 2008/2009-2011/2012, the relevant tax under-paid by the employees and other third-party service providers (e.g. DJs) was approximately HK\$451,000. The Group has reached settlement with the Inland Revenue Department in July 2013 and paid the tax settlement of HK\$489,000 on 26th July, 2013.

The Legal Counsel advises that, since it was the first offence (not prosecuted before); the companies had voluntarily disclosed to the Inland Revenue Department and paid the tax settlement; the breach was only committed inadvertently; and the breach was not directly related to the management of the licences necessary for the operation of the Group’s business, the aforesaid breach would not adversely affect the renewal of licences necessary for operation of the Group’s business.

### Non-compliance in relation to the Companies Ordinance

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to accounts and annual general meeting	Sections 111 and 122 of the Companies Ordinance	All the Hong Kong subsidiaries (except Clubbing HK, Sure Wise and Kind Legend) of the Group had for certain periods failed to convene their annual general meetings, lay their profit and loss accounts and balance sheets at their respective annual general meeting within the prescribed time limit	The omission was not wilful due to absence of timely and professional advice to relevant subsidiaries to ensure compliance with the Companies Ordinance.	The relevant subsidiaries and its officers, and each director of the relevant Hong Kong subsidiaries, who fails to take all reasonable steps to comply with this duty, shall be liable to maximum fines of respectively HK\$50,000 under section 111 and HK\$300,000 and 12-month imprisonment under section 122.	N/A	No. Please see below.	Each of the Hong Kong subsidiaries (except Clubbing HK, Sure Wise and Kind Legend) had laid the audited profit and loss accounts at the annual general meetings held after the specified period which was not extended by the court. The court was not satisfied that the breaches arose from what can fairly be characterised as “inadvertence”. In addition, the court also pointed out, among other things, that similar applications have become increasingly frequent recently and these types of applications should not be assumed to be a formality. The Group has adopted the internal control measures set out in the paragraph headed “Internal Control Measures” below to prevent recurrence of non-compliance.

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## BUSINESS

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The Company has made a voluntary submission to the Companies Registry in November 2013, disclosing the past defaults of the relevant Hong Kong subsidiaries (“**11 Subsidiaries**”) in relation to the Companies Ordinance and the result of the court applications. The Companies Registry is looking into the matters. The Companies Registry has not yet taken any action or levied any penalty up to the Latest Practicable Date. However, it is possible that the Companies Registry may prosecute the Group and the relevant Directors in the future. For details, please refer to the risk factor “Risk factors — The Group has had certain compliance irregularities which may lead to enforcement actions being taken”.

The Directors understand and the Legal Counsel advised that if the Group and the Directors are prosecuted for possible offences arising from past defaults, the amount of fine is unlikely to exceed HK\$10,000 for each company and for each director in respect of each company and the chance of imprisonment on the Directors is remote given, amongst other things, that (i) it was the first offence (not prosecuted before) of the relevant subsidiaries and the directors; (ii) the breaches were not committed wilfully; and (iii) remedial action had been taken by the relevant subsidiaries. Accordingly, no provision has been made in the Group’s financial information.

According to the Legal Counsel’s advice, based on pure mathematical summation, if all 11 Subsidiaries are prosecuted and convicted, the estimated probable penalty to be imposed on (i) each of Mr. Lam, Ms. Mok and Mr. Chan, being the Company’s executive Directors, would be a total fine of HK\$10,000, HK\$10,000 and HK\$10,000, respectively; (ii) Mr. Wong, being the Company’s chief executive officer, would be a total fine of HK\$100,000; and (iii) the 11 Subsidiaries, on company level under section 111 of the Companies Ordinance, would be a total fine of HK\$110,000.

Dr. Gerard McCoy SBS QC SC was engaged to issue a second legal opinion on the issue relating to non-compliance with sections 111 and 122 of the Companies Ordinance. Dr. Gerard McCoy SBS QC SC advised that the breaches of sections 111 and 122 of the Companies Ordinance are very minor in terms of gravity; in the event of conviction, the likelihood of the imposition of a maximum sentence would be extremely remote; it would be extremely unlikely that custodial sentences would be imposed on any directors of the subsidiaries; and there are mitigating factors in favour of the subsidiaries and the directors which would reduce any fines which may be imposed by the sentencing magistrate.

In addition, the Controlling Shareholders have entered into a Deed of Indemnity with and in favour of Mr. Lam, Ms. Mok, Mr. Chan and Mr. Wong to provide indemnities in respect of monetary fines, settlements payments and any associated costs and expenses which would be incurred or suffered by them in connection with the aforesaid non-compliance occurred on or before the Listing Date.

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## BUSINESS

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The Legal Counsel advises that, since it was the first offence (not prosecuted before); the companies had voluntarily disclosed to the Inland Revenue Department and paid the tax settlement; the breach was only committed inadvertently; and the breach was not directly related to the management of the licences necessary for the operation of the Group's business, the aforesaid breach would not adversely affect the renewal of licences necessary for operation of the Group's business.

Type of non-compliance	Relevant section(s) of the ordinance /regulation	Brief summary of the non-compliance	Cause of the non-compliance	Maximum legal consequences and financial impacts	Total amount of fine imposed (if any)	Whether provisions have been made	Rectification actions
Non-compliance in relation to filing at the Companies Registry	Section 109 of the Companies Ordinance	Joyful Mercy had inadvertently breached the regulatory requirements in relation to the filing of the annual return with the Companies Registry within the prescribed time limit	The Group did not realise the company secretarial service provider had not filed the relevant annual return when the Group purchased the shelf company.	For breach of the regulatory requirements to file the notifications in relation to the annual return, a maximum fine of HK\$50,000 and a maximum daily default fine of HK\$700 for continued default will be imposed on the company and every officer of the company.	N/A	No. Please see below.	Relevant filing at the Companies Registry has been made and the Companies Registry confirmed no prosecution will be made against Joyful Mercy. The Group has adopted the internal control measures set out in the paragraph headed "Internal Control Measures" below to prevent recurrence of non-compliance.

The Companies Registry has confirmed in writing no prosecution will be brought against Joyful Mercy in respect to the above non-compliance incident. Accordingly, no provision has been made.

The Legal Counsel advises that, since it was the first offence (not prosecuted before); the breach was only committed inadvertently but not wilfully; remedial action had been taken; the Companies Registry has confirmed in writing that no prosecution will be brought; and the breach was not directly related to the management of the licences necessary for the operation of the Group's business, the aforesaid breach would not adversely affect the renewal of licences necessary for operation of the Group's business.

Save as disclosed above, the Company confirmed that it had complied with all major applicable laws and regulations in material respects during the Track Record Period. The Legal Counsel advises that none of the above historical non-compliance matters will adversely affect the renewal of the licences necessary for the operation of the Group's business.

### Deed of Indemnity

The Controlling Shareholders have entered into the Deed of Indemnity with and in favour of the Group to provide indemnities in respect of, among other matters, all claims, payments, damages, which would be incurred or suffered by the Group as a result of any litigation, arbitration and/or legal proceedings against any member of the Group which was issued and/or

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## BUSINESS

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accrued and/or arising from any act, non-performance, omission or otherwise of any member of the Group on or before the Listing Date. This further protects the Group from any material adverse consequence due to any claims incurred on or before the Listing Date. Further details of the Deed of Indemnity are set out in the paragraph titled “Estate duty, tax and other indemnity” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus.

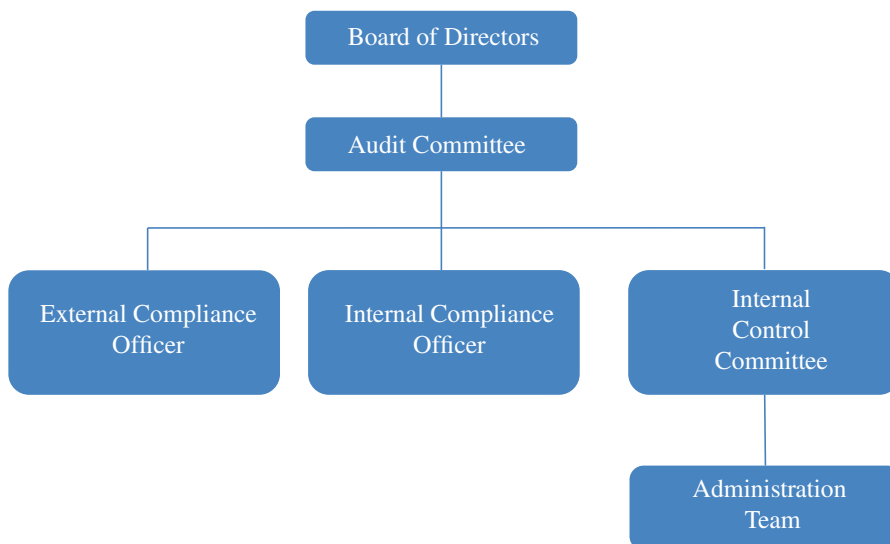
The Directors are satisfied that the Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid outstanding claim against the Group under the Deed of Indemnity.

The Directors, after carrying out enquiries on the facts and circumstances leading to the non-compliances and having considered that the aforesaid non-compliances have no material financial and operational impact on the Group, are of the view that, of which the Sole Sponsor concurs with this view, the non-compliances do not affect the suitability of the Directors and the Company’s suitability for listing under the Listing Rules.

### INTERNAL CONTROL MEASURES

In order to prevent recurrence of non-compliance in future and to ensure the ongoing compliance with relevant regulatory requirements upon Listing, the Group has adopted and implemented the following measures to strengthen the control environment at the monitoring level and broaden its knowledge base to avoid inadvertent non-compliances.

The organisation chart below illustrates the internal control structure of the Group upon Listing:





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## BUSINESS

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### **Audit committee**

The Group has established an audit committee comprising three independent non-executive Directors, one of whom, namely Mr. YUNG Ha Kuk Victor, has extensive accounting and financial management experience and has held independent directorships in four listed companies in Hong Kong, to oversee the internal control procedures, accounting, financial, tax and reporting matters. The Board has also adopted the terms of reference of the audit committee which set out clearly its duties and obligations for ensuring compliances with relevant regulatory requirements. The audit committee is responsible for reviewing: i) the monthly compliance report prepared by the internal control committee; ii) the monthly implementation report prepared by the internal compliance officer; and iii) the semi-annual report prepared by the external compliance officer and at least four physical meetings will be held annually for detailed discussion. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters to engage professional advisers with the relevant expertise and experience to assist the Group to meet the relevant compliance requirements.

### **External compliance officer**

The Group has engaged Baker Tilly Hong Kong Risk Assurance Limited<sup>1</sup> in August 2013 as an external compliance officer, initially for a term of one year, to conduct regular internal control review of the Group and to oversee the functions of the internal compliance officer and internal control committee. The external compliance officer also provides observations of operational efficiencies and recommendations on how to improve the overall structure and practices of the Group. The duties of the external compliance officer are as follows:

- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Group;
- evaluating the effectiveness and efficiency with which resources are employed;
- evaluating operations to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned; and
- evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

*Note:*

<sup>1</sup> Baker Tilly Hong Kong Risk Assurance Limited is part of Baker Tilly Hong Kong which is an affiliate of Baker Tilly International. Baker Tilly Hong Kong Risk Assurance Limited mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its clients including listed companies and companies preparing for listing in Hong Kong. The key members of the engagement team from Baker Tilly Hong Kong Risk Assurance Limited are qualified accountants and internal auditors.

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## BUSINESS

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- evaluating the effectiveness of the Group's risk management processes;
- reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board; and
- evaluating specific operations at the request of the Board or senior management, as appropriate.

The external compliance officer reports to the audit committee on a semi-annual basis.

### **Internal compliance officer**

The Group has engaged Mr. LEE Wing Ke<sup>1</sup> in July 2013 as an internal compliance officer, who is responsible for the daily implementation of the internal control policies and procedures pursuant to the guidelines suggested by the internal control adviser. The internal control policies and procedures will be updated from time to time according to the recommendations given by the external compliance officer.

His other duties are as follows:

- implementing appropriate compliance infrastructure and controls;
- assisting in development and maintenance of compliance policies and procedures;
- assisting in compliance training to all the staffs of the Group;
- assisting in risk assessments and providing efficient and practical advice;
- assisting in risk identification of regulatory changes or business developments;
- taking charge of investigation or handling actual and potential compliance breaches;
- promoting compliance awareness; and
- keeping relevant parties updated on relevant new or revised laws and regulations.

The internal compliance officer reports to the audit committee on a monthly basis.

*Note:*

<sup>1</sup> Prior to joining the Group, Mr. LEE Wing Ke worked as an internal auditor in Grand Cathay Securities (Hong Kong) Limited and was responsible for performing regular review of implementation of internal control policies and procedures. He also worked as a deputy officer in the financial accounting department of Wing Lung Bank Limited in the past.

Mr. LEE has been admitted as a fellow of the Association of Chartered Certified Accountants since July 2012. He obtained a master degree in international corporate and financial law from the University of Wolverhampton in November 2012.

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## BUSINESS

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### **Internal control committee**

The Group has established an internal control committee in August 2013 comprising of four members, including the chief executive officer, the chief operating officer, Mr. LAM Kai Pun and Mr. CHAN Nim Leung, Leon. The primary duty of the internal control committee is to oversee compliance related issues during the daily operation of the Group.

Mr. LAM Kai Pun, aged 36, is a consultant of Tung, Ng, Tse & Heung Solicitors, a solicitors' firm in Hong Kong, and is not an employee of the Company. He was admitted as a solicitor in Hong Kong. Mr. LAM acquired extensive experience in handling licence matters with the LLB.

Mr. CHAN Nim Leung, Leon, aged 58, is the principal partner of Messrs. Y.T. Chan & Co., a solicitors' firm in Hong Kong, and is not an employee of the Company. He was admitted as a solicitor in Hong Kong, England and Wales as well as Victoria, Australia. Mr. CHAN acquired extensive experience in his 31 years of practice as a solicitor. Mr. CHAN holds a master's degree in business administration from Birmingham University. He was a member of the Solicitors Disciplinary Tribunal Panel from May 1993 to May 2008. He is the non-executive director of three listed companies in Hong Kong, namely Hongkong Chinese Limited, Lippo China Resources Limited and Lippo Limited and he is the independent non-executive director of two listed companies in Hong Kong, namely PanAsialum Holdings Company Limited and Midland Holdings Limited. He also serves as the chairman of the supervisory board of the Macau Chinese Bank, S.A., a licensed bank in Macau.

The internal control committee meets regularly at least once a month. The internal control committee can invite internal compliance officer and external professionals, including legal advisers, external compliance officers, Anglo Chinese and other advisers with relevant expertise and experience to join the internal control committee meeting to render professional advice as to compliance with statutory requirements as applicable to the Group from time to time. All members are given an opportunity to include matters in the agenda for the internal control meetings. If any compliance-related incident occurs in the Clubs, a special meeting may be held. All members may attend a meeting in person or may participate by means of a conference telephone or similar communication equipments.

The internal control committee supervises the administration team and reports to the audit committee on a monthly basis.

### **Administration team**

The Group has established an administration team comprising four members, including the general manager of club operation department and all the club managers of each Club. All the members in the administration team possess at least 5 years of relevant experience in the clubbing industry and are experienced in the daily operation of the Clubs. The general manager of the Clubs, Mr. Bayl Gurung, has extensive experience in the operation of clubs. The job duties of the administration team are as follows:

- (a) supervising the daily operation of each Club;

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## BUSINESS

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- (b) supervising the renewal of all required licences, permits and approvals by monitoring the pending expiration dates of all licences, permits and approvals and coordinating the timely preparation and submission of relevant licences renewal applications;
- (c) supervising the crowd control system in coordination with the external security service provider to ensure crowd safety controls across the Clubs; and
- (d) suggesting new internal control policies or guidelines to the internal control committee, based on their daily operation, licensing and crowd control experience.

The administration team reports to the internal control committee on a daily basis.

### **Measures to ensure compliance with the DCO**

The non-compliance with the DCO during the Track Record Period was a result of (i) inadequate implementation of the crowd control measures; (ii) miscommunication among Club's frontline staff and their supervisors; and (iii) unintended and inadvertent administration oversight.

In response to the non-compliance in relation to the liquor licensing condition of exceeding the permitted capacity at the relevant Clubs and to ensure the ongoing compliance with the DCO, the Group has strengthened the crowd control management system, after taking the recommendations given by the internal control adviser, to enhance the standards of the entire operational process in an effort to minimise the possibility of exceeding allowed capacity. For further details, please refer to "Business — Safe environment for staff and customers" in the Prospectus.

To further enhance the internal control system, the Group will (i) establish the internal control committee to oversee compliance related issues of the Group so that the possibility of exceeding the permitted capacity at the Clubs will be minimised and a special internal control meeting will be held if any compliances-related incident occurs in the Clubs; and (ii) engage an internal compliance officer which is responsible for ensuring implementation of the internal control policies and procedures, so that the crowd control management system can be fully implemented by the frontline staff. In addition, the Group has strengthened the internal reporting policies so that all the communication between the security officers, club managers and internal control committee are documented in order to minimise miscommunication between frontline staff and their supervisors.

In response to the non-compliance in relation to the lack of dancing endorsement on the relevant liquor licence and to ensure the ongoing compliance with the DCO, the Group has adopted an operation management manual on 7th May, 2013 in order to monitor the Group's ongoing compliance and maintenance matters of all liquor licences. In addition, the Group will invite Mr. LAM Kai Pun, a consultant of Tung, Ng, Tse & Heung Solicitors with extensive experience in handling licence matters with the LLB, to join the internal control committee, who can provide prompt professional advice to the administration team and ensure the operation management manual is fully implemented.

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## BUSINESS

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The administration team and senior management members will be required to attend legal training on the DCO on a regular basis.

### **Measures to ensure compliance with the Places of Public Entertainment Ordinance and WPCO**

The non-compliance with the Places of Public Entertainment Ordinance and WPCO were a result of lack of relevant personnel with sufficient legal knowledge to ensure and monitor compliance with the relevant legal requirements. In response to such matter and to ensure the ongoing compliance with the Places of Public Entertainment Ordinance and WPCO, the Group has invited Mr. CHAN Nim Leung, Leon, a principal partner of Messrs. Y.T. Chan & Co. with over 31 years of practice as a solicitor, to join the internal control committee, which can ensure the daily operation of the Group is fully complied with all the statutory requirements applicable to the Group from time to time.

The administration team and senior management members will be required to attend legal training on the Places of Public Entertainment Ordinance and WPCO on a regular basis.

### **Measures to ensure compliance with Inland Revenue Ordinance and Companies Ordinance**

The non-compliance with the Inland Revenue Ordinance and Companies Ordinance were a result of lack of relevant personnel with sufficient legal and company secretarial knowledge during the Track Record Period. In response to such matter and to ensure the ongoing compliance with the Inland Revenue Ordinance and Companies Ordinance, the Group has (i) set up a company secretarial department; and (ii) hired Ms. TSANG Kwok Shan, Sandy in September 2012, as the chief financial officer and company secretary of the Group, who is responsible for handling secretarial, financial, tax reporting and accounts matters including the Group's compliance with the Inland Revenue Ordinance and Companies Ordinance.

Ms. Tsang is responsible for reviewing and ensuring all accounting records are completely, adequately and timely filed as required by the Inland Revenue Ordinance. She will discuss with the auditors of the Company on a regular basis to ensure the Company complies with the latest tax law and provides accurate tax provision and calculation.

She is also responsible for reviewing and ensuring all relevant company documents to be filed with the Companies Registry in a timely manner and maintaining a list recording the status, progress and deadline of Companies Registry's filings of each of the companies comprising the Group as well as regularly updating the list and reporting to the Board.

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## BUSINESS

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She is responsible for regularly updating the latest compliance and regulatory requirement development, including those on Inland Revenue Ordinance and Companies Ordinance. She will make recommendations to the Board to approve and adopt any latest update on Inland Revenue Ordinance and Companies Ordinance which are considered applicable to the Company.

She will discuss with Anglo Chinese, the compliance adviser to the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules, on a regular basis.

Any potential non-compliance issue identified by her will be reported to the Board on a timely basis, if applicable, and corresponding remedial action will be suggested to address the potential issue and she will consult external professionals, if necessary.

### **Other measures**

The Group will appoint Anglo Chinese as a compliance adviser to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules.

The Group will also engage external legal adviser and other advisers to render professional advice as to compliances with the statutory requirements as applicable to the Group from time to time.

The Directors and the senior management of the Group have attended trainings conducted by the Group's Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Securities and Futures Ordinance and the Listing Rules.

The Directors consider that the composition of the internal control measures are effective in reporting and monitoring the daily implementation of internal control policies as well as identifying deficiencies in the internal control policies on the basis that:

1. In order to further enhance the effectiveness of the internal control system, the Group has implemented a new set of internal control policies and engaged procedures since 7th May, 2013. The Group engaged an internal control adviser in January 2013 to perform agreed-upon procedures in relation to the internal control measures, including the Group's management over compliance with licensing requirements for daily operations and crowd control management, and to provide recommendations on improving the internal control measures before Listing. The Group has taken actions in response to the internal control adviser's recommended measures and all of these measures have been implemented by the Group according to the internal control adviser's recommendation;
2. The Board has adopted the terms of references of the audit committee, comprising three independent non-executive Directors which set out clearly its duties and obligations to supervise and to ensure compliances with the relevant regulatory requirements;

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## **BUSINESS**

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3. The Group has engaged Baker Tilly Hong Kong Risk Assurance Limited in August 2013 as an external compliance officer to conduct regular internal control review of the Group and shall independently report any deficiencies in relation to the Group's internal control system or non-compliance matters and provide recommendations to the audit committee on the design and implementation of any remedial actions;
4. The Group has engaged Mr. LEE Wing Ke in July 2013 as an internal compliance officer who is responsible for the daily implementation of the Group's internal control policies and procedures pursuant to the guideline suggested by the internal control adviser; and
5. Mr. LAM Kai Pun, who is a consultant of Tung, Ng, Tse & Heung Solicitors, a solicitors' firm, and Mr. CHAN Nim Leung, Leon, who has been acting as independent non-executive director of three listed companies in Hong Kong with more than 30 years of practice as a solicitor, will join the internal control committee and oversee any compliance related issues during the daily operation of the Group.

The Directors are of the view that the above measures will strengthen the understanding of the relevant laws and regulations by the Group's employees and the internal control measures currently adopted by the Group are adequate and effective in significantly reducing the risk of future non-compliance with legal and regulatory requirements in Hong Kong and this provides a reasonable basis to enable the Directors to make a proper assessment of the financial position and prospects of the Group, both immediately before and after the Listing.

### **ENVIRONMENTAL MATTERS**

The Group is subject to environmental protection laws and regulations promulgated by the Government. The Group will devote operating and financial resources to environmental compliance whenever it is required by the Hong Kong laws to do so in the future.

During the Track Record Period, the Group only recorded insignificant amount of expenses in compliance with applicable rules and regulations for environmental matters. The Directors expect the cost of compliance with such rules and regulations to be approximately HK\$3,900 for the year ending 31st March, 2014.

### **LEGAL PROCEEDINGS AND DISPUTES**

From time to time the Group has been, and may in the future be occasionally, involved in routine legal proceedings or disputes in the ordinary course of business that are common for its industry, including minor employment disputes, customer and contract disputes with its suppliers or service providers. During the Track Record Period, the Group was subject to two employment related legal proceedings, which have all been settled. One legal proceeding involved an ex-employee of the Group claiming insufficient payment of wages in lieu of notice at termination of employment contract and the claim was settled for a sum of HK\$3,000 in September 2011. The other legal proceeding was an employees' compensation claim against Sure Wise whereby the

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## **BUSINESS**

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claimant fell and sustained left hand injuries when his hand landed on broken glass in an accident in the course of employment in October 2011 and it has been settled in the sum of HK\$100,000 in September 2012. The settlement amount has been fully covered by the relevant insurance policy taken out by the Group.

As at the Latest Practicable Date, the Group is not involved in any litigation or arbitration proceedings pending or, to the best of the Director's knowledge, threatened against it or any of the Directors that could have a material adverse effect on the Group's business, financial condition or results of operations.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

The Board consists of eight members, three of whom are independent non-executive Directors. The power and duties of the Board include convening Shareholders' meetings and reporting the Board's work at Shareholders' meetings, implementing resolutions passed at Shareholders' meetings, determining the Group's business plans and investment plans, formulating the Group's annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of share capital as well as exercising other powers, functions and duties as conferred by the Memorandum and Articles and other applicable laws such as the Companies Law. All the executive Directors have entered into service contracts with the Group.

The following table sets forth information regarding the current Directors:

Name	Age	Position	Date of Appointment	Responsibilities
Mr. YIP Mow Lum (葉茂林)	61	Chairman and non-executive Director	14th November, 2013	Overall strategic planning of the Group, but not participating in the day-to-day management of the Group's business operation; member of the remuneration committee and nomination committee
Mr. CHAN Chi Wah (陳志華)	50	Executive Director and chief operating officer	27th June, 2013	Overall administration, strategic planning and business development of the Group and participating in the day-to-day management of the Group's business operations; member of the remuneration committee, nomination committee and internal control committee
Ms. MOK Kung Yee (莫恭懿)	51	Executive Director and membership database and IT manager	27th June, 2013	Strategic planning, business development, managing and maintaining the membership database system of the Group, and participating in the day-to-day management of the Group's business operations
Ms. TSANG Kwok Shan, Sandy (曾國珊)	39	Executive Director, chief financial officer and company secretary	14th November, 2013	Overseeing the management of the Group's finance, accounting and company secretarial matters
Mr. LAM Jhug Ching (林澤清)	61	Executive Director and human resources manager	27th June, 2013	Overseeing the human resources matters of the Group, and participating in the day-to-day management of the Group's business operations
Mr. YUNG Ha Kuk, Victor (容夏谷)	60	Independent non-executive Director	14th November, 2013	Chairman of the audit committee, overseeing the Group's compliance, internal control, corporate governance, but not participating in the day-to-day management of the Group's business operation
Mr. LEUNG Chun Kuen, Noel (梁振權)	51	Independent non-executive Director	14th November, 2013	Chairman of the nomination committee, overseeing the Group's compliance, internal control, corporate governance, but not participating in the day-to-day management of the Group's business operation
Mr. LAM Kwok Fai, Osmond (林國輝)	49	Independent non-executive Director	14th November, 2013	Chairman of the remuneration committee, overseeing the Group's compliance, internal control, corporate governance, but not participating in the day-to-day management of the Group's business operation

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Chairman and non-executive Director

**Mr. YIP Mow Lum (葉茂林)**, aged 61, is the Controlling Shareholder. Mr. Yip was appointed as the Chairman of the Board and a non-executive Director on 14th November, 2013 and is responsible for advising on overall strategic planning of the Group.

Mr. Yip started his career as a trader for textile quotas on the amount of textile and clothing imports in Hong Kong. Mr. Yip was an entrepreneur and earned his first fortune from investing in textile quotas. Later he shifted his focus from textile quotas investment to investing in the property market, securities services and clubbing business in Hong Kong.

Mr. Yip has served as a director of Bright Smart Futures & Commodities Company Limited since November 1995 and Bright Smart Securities International (H.K.) Limited (formerly known as “Super International Company Limited”) (“**BSSI**”) since August 1998. Mr. Yip is currently the chairman, executive director and controlling shareholder of Bright Smart Securities & Commodities Group Limited (stock code: 1428), a company listed on the Main Board.

In November 2004, SFC reprimanded and fined BSSI and Mr. Yip (who was at all material times the managing director of BSSI) for HK\$50,000 each for breach of the General Principle 2, paragraphs 2.3 and 12.1 of the then Code of Conduct for Persons Licensed by or Registered with the SFC (“**Code**”). Such breach arose as a result of publishing false and misleading advertisements which stated incorrectly that clients of BSSI could make direct payment to the CCASS under HKSCC for settlement. Mr. Yip continued to cause BSSI to publish the misleading statements despite the warnings from the SFC and HKSCC. The SFC concluded that the fitness and properness of BSSI and Mr. Yip had been called into question and was in breach of the Code. Such breach by Mr. Yip was unintentional and was largely due to the unfamiliarity of the operation of CCASS by Mr. Yip which did not reflect negatively on Mr. Yip’s character.

### Executive Directors

**Mr. CHAN Chi Wah (陳志華)**, aged 50, is the executive Director and the chief operating officer and joined the Group since March 2009. He is responsible for the overall administration, strategic planning and business development of the Group. He is acting as directors of a number of major subsidiaries of the Group, including Sure Wise (the operating company of Beijing Club and Magnum Club) and Kind Legend (the operating company of Billion Club). He has over 4 years of experience dealing with all the licensing matters with the LLB, the FEHD and the EPD. Prior to joining the Group, he worked as an accountant in a hotel from November 1980 to March 2005 and an accountant in a club from June 2005 to March 2009. Mr. Chan was awarded a diploma in computer studies from Hong Kong Productivity Council in September 2001 and a certificate for passing accounting (third level) examination from the London Chamber of Commerce and Industry Examinations Board.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Ms. MOK Kung Yee (莫恭懿)** (with former name MOK Po Chun (莫寶珍)), aged 51, is the executive Director and membership database and IT manager and joined the Group since October 2008. She is responsible for strategic planning, business development, managing and maintaining the membership database system of the Group. She is acting as one of the directors of Club Kingdom. She has over 8 years of experience working in the clubbing industry. Ms. Mok is the spouse of Mr. Wong.

**Ms. TSANG Kwok Shan, Sandy (曾國珊)**, aged 39, is the executive Director, chief financial officer and company secretary and joined the Group since September 2012. She is responsible for overseeing the financial, accounting and secretarial affairs of the Group. She is acting as directors of a number of major subsidiaries of the Group, including Sure Wise (the operating company of Beijing Club and Magnum Club) and Kind Legend (the operating company of Billion Club).

Prior to joining the Group, she was the head of company secretarial department in Midland Holdings Limited (stock code: 1200) from November 2011 to July 2012, during which she was responsible for handling all secretarial matters relating to the compliance with Listing Rules and Companies Ordinance. From November 2010 to November 2011, she was the finance vice president of mReferral Corporation (Hong Kong) Limited, a joint venture of Cheung Kong (Holdings) Limited (stock code: 0001) and Midland Holdings Limited (stock code: 1200). From June 2009 to November 2010, she was the accounting manager in Top Union Logistics Limited. From 1994 to June 2009, Ms. Tsang worked at C.W. Leung & Co., a certified public accounting firm with the last position as an audit assistant manager.

She has been a fellow member of the Association of Chartered Certified Accountants since March 2008. She obtained a Master of Professional Accounting from the Hong Kong Polytechnic University in November 2010 and a diploma in accountancy by the Hong Kong Institute of Vocational Education (Kwai Chung) (formerly known as the Kwai Chung Technical Institute) in August 1994.

**Mr. LAM Jhug Ching (林澤清)**, aged 61, is the executive Director and human resources manager and joined the Group since April 2008. He is responsible for overseeing all the human resources matters and implementing human resources policies and procedures of the Group. He is acting as directors of a number of major subsidiaries of the Group, including Kind Legend (the operating company of Billion Club). He has over 4 years of experience handling human resources matters. Prior to joining the Group, Mr. Lam worked in certain financial institutions from February 1974 to December 1988 for a number of positions, including an assistant officer in the bills department, an accountant in the credit department and a marketing executive in the marketing department. After that, Mr. Lam provided consultation services to businessmen in Hong Kong and China. He joined the Group in April 2008. He was elected as an Associate of the Institute of Bankers (U.K.) in August 1978.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Independent non-executive Directors

**Mr. YUNG Ha Kuk, Victor (容夏谷)**, aged 60, is the independent non-executive Director. He joined the Group on 14th November, 2013 when he was appointed as an independent non-executive Director.

From June 1979 to September 1981, Mr. Yung was employed by Swire Properties Limited firstly as an assistant management accountant followed by a systems accountant. In October 1981, he worked in Goodyear Investors Limited as the assistant chief accountant and was responsible for the overall functions of the accounts department. In April 1984, Mr. Yung joined Taikoo Royal Insurance Co. Ltd. as chief accountant. In March 1986, he was seconded to Taiwan Swire Ltd., Taiwan for two years, also as chief accountant. In March 1988, Mr. Yung was transferred back to Hong Kong and appointed as general administration manager of Camberley Enterprises Ltd., a position he held until August 1988. Mr. Yung subsequently joined Wang Computer China Limited in September 1988 as financial controller, until August 1989. From August 1989 to June 1990, Mr. Yung was employed by Star Paging (Holding) Limited as group financial controller. In July 1990, he rejoined Wang Pacific Limited as financial controller for both its Hong Kong operations and China operations. Mr. Yung left Wang Pacific Limited in November 1992 to join Datacraft Asia Ltd., and worked there until January 2002. He held various positions in Datacraft Asia Ltd., first as the finance director (renamed chief financial officer in 1995), followed by director of mergers & acquisitions and finally as adviser to the chief executive officer.

Mr. Yung is also an independent non-executive director of Lippo Limited (stock code: 226), Lippo China Resources Limited (stock code: 156), Hongkong Chinese Limited (stock code: 655) and Travel Expert (Asia) Enterprises Limited (stock code: 1235), all of which are companies listed on the Main Board.

Mr. Yung graduated from Hong Kong Baptist University in November 2007 with a Master of Science in Corporate Governance and Directorship. Mr. Yung is a member of the Association of Chartered Certified Accountants (formerly known as The Chartered Association of Certified Accountants) and the Hong Kong Institute of Certified Public Accountants since November 1979 and April 1980, respectively.

**Mr. LEUNG Chun Kuen, Noel (梁振權)**, aged 51, is the independent non-executive Director. He joined the Group on 14th November, 2013 when he was appointed as an independent non-executive Director.

Mr. Leung joined Cheung Chan & Chung in November 1995 as an assistant solicitor and subsequently a partner since April 1998. Mr. Leung graduated from University of Wolverhampton (formerly known as Polytechnic Wolverhampton) in England with a Bachelor of Laws degree in July 1988 and completed his Solicitors' Final Examination in October 1991. He was admitted as a solicitor in Hong Kong since February 1994. Mr. Leung did not acquire the necessary continued professional development points in or about late 1995 and was temporarily suspended from practising as a solicitor for a short period of time until he subsequently acquired the outstanding points.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. LAM Kwok Fai, Osmond (林國輝)**, aged 49, is the independent non-executive Director. He joined the Group on 14th November, 2013 when he was appointed as an independent non-executive Director.

Mr. Lam has been practicing in the legal field for more than 22 years. He was called to Inner Temple in England and the Hong Kong Bar in February 1988 and December 1991, respectively.

He has been a current Council Member of the Bar Council of the Hong Kong Bar Association and a member of Liaoning Provincial Committee of the Chinese People's Political Consultative Conference since January 2013.

Mr. Lam graduated from The Victoria University of Manchester, now known as The University of Manchester, with a Bachelor of Laws degree in July 1986.

Save as disclosed, each of the Directors (i) had no other relationship with any Directors, senior management or substantial or controlling shareholders of the Company as at the Latest Practicable Date; and (ii) did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas. As at the Latest Practicable Date, save as the interests of Mr. Yip in the Shares which are disclosed in the section headed "Statutory and General Information — Further information about Directors and Shareholders" in Appendix IV to the Prospectus, each of the Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

The following table sets forth information regarding the current members of senior management.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mr. WONG Hei Yan (黃熙仁)	47	Chief executive officer
Mr. CHAN Chi Wah (陳志華)	50	Executive Director and chief operating officer
Ms. MOK Kung Yee (莫恭懿)	51	Executive Director and membership database and IT manager
Ms. TSANG Kwok Shan, Sandy (曾國珊)	39	Executive Director, chief financial officer and company secretary
Mr. LAM Jhug Ching (林澤清)	61	Executive Director and human resources manager

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. WONG Hei Yan (黃熙仁)** (with former name as Wong Lok Kei (黃樂璣)), aged 47, is the chief executive officer of the Company. He is responsible for the overall operation of the Group. He is acting as directors of a number of major subsidiaries of the Group, including Sure Wise (the operating company of Beijing Club and Magnum Club) and Kind Legend (operating company of Billion Club). He has over 15 years of experience in the clubbing industry. Mr. Wong has initially acted as the sole Director at inception in order to speed up the Reorganisation and facilitate the signing arrangement. For the purposes of a clear division of responsibilities to ensure a balance of power and authority, it is decided that Mr. Wong to be appointed as chief executive officer of the Company focusing on the operation and execution. Mr. Wong accordingly resigned as a Director on 27th June, 2013 whereby Mr. CHAN Chi Wah, Ms. MOK Kung Yee and Mr. LAM Jhug Ching were appointed as Directors on the same date. Mr. Wong is the spouse of Ms. MOK Kung Yee. During the Track Record Period and up to the Latest Practicable Date, he did not hold any directorship positions in any publicly listed companies.

In previous years, Mr. Wong was an individual responsible for applying for the food business and liquor licence for a club not within the Group. During the years 2002 to 2004, there were three occasions of breach of regulations or licensing conditions where Mr. Wong was fined for the amounts of HK\$500, HK\$7,000 and HK\$9,000, respectively.

**Mr. CHAN Chi Wah (陳志華)**, aged 50, is the executive Director and chief operating officer of the Company. Please refer to the paragraph headed “Directors” above under this section for further details on him.

**Ms. MOK Kung Yee (莫恭懿)** (with former name MOK Po Chun (莫寶珍)), aged 51, is the executive Director and membership database and IT manager of the Company. Please refer to the paragraph headed “Directors” above under this section for further details on her.

**Ms. TSANG Kwok Shan, Sandy (曾國珊)**, aged 39, is the executive Director, chief financial officer and company secretary of the Company. Please refer to the paragraph headed “Directors” above under this section for further details on her.

**Mr. LAM Jhug Ching (林澤清)**, aged 61, is the executive Director and human resources manager of the Company. Please refer to the paragraph headed “Directors” above under this section for further details on him.

### COMPANY SECRETARY

**Ms. TSANG Kwok Shan, Sandy (曾國珊)**, aged 39, is the executive Director, chief financial officer and company secretary of the Company. Please refer to the paragraph headed “Directors” above under this section for further details on her.

### EMPLOYEES

Further information in relation to the Group’s employees and their benefits is set out in the section headed “Business — Employees” in the Prospectus.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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The Board may from time to time appoint managers of the business of the Company, including but not limited to the chief executive officer, for such a period as the Board may decide and enter into such agreement with them. However, the employment of the chief executive officer may be terminated without compensation upon passing of an ordinary resolution to remove the chief executive officer at the general meeting of the Company.

### **Directors' remuneration and compensation**

Details of the arrangement for remuneration of the Directors are set out in Note 7 of Section C to the Accountant's Report in Appendix I to the Prospectus. Pursuant to the Directors' service agreements and letters of appointment referred to in the paragraph headed "Further Information about Directors and Shareholders — 10. Directors — (b) Particulars of Directors' service contracts" of the section headed "Statutory and General Information" in Appendix IV to the Prospectus, the aggregate amount of directors' fee and other emoluments payable to the Directors for the year ending 31st March, 2014 is estimated to be approximately HK\$2.0 million, excluding any discretionary bonuses.

The Directors and members of senior management receive compensation in the form of salaries and/or discretionary bonuses relating to the performance of the Group. The Group also reimburse them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their duties in relation to the operations. The Group regularly review and determine the remuneration and compensation packages of the Directors and senior management.

After Listing, the remuneration committee will review and determine the remuneration and compensation packages of the Directors and members of the senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

The Directors confirm that during the Track Record Period, no remuneration had been paid by the Group to, or received by, the Directors as an inducement to join or upon joining the Group.

### **BOARD COMMITTEE**

#### **Audit committee**

The Company established an audit committee on 3rd January, 2014 with its written terms of reference in compliance with the code provisions of Code on Corporate Governance Practices and Corporate Governance Report set out in Appendix 14 to the Listing Rules pursuant to a resolution of the Directors passed on 3rd January, 2014.

The audit committee consists of 3 members, being Mr. YUNG Ha Kuk, Victor, Mr. LAM Kwok Fai, Osmond and Mr. LEUNG Chun Kuen, Noel, all of whom are independent non-executive Directors. Mr. YUNG Ha Kuk, Victor currently serves as the chairman of the audit committee.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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The primary responsibilities of the audit committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of the Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iii) developing and reviewing the policies and practices on corporate governance with legal and regulatory requirements and requirements under the Listing Rules; and (iv) developing, reviewing and monitoring the code of conduct applicable to the employees and Directors.

### **Remuneration committee**

The Company established a remuneration committee on 3rd January, 2014 with its written terms of reference in compliance with the code provisions of Code on Corporate Governance Practices and Corporate Governance Report set out in Appendix 14 to the Listing Rules pursuant to a resolution of the Directors passed on 3rd January, 2014.

The remuneration committee consists of 5 members, being Mr. LAM Kwok Fai, Osmond, Mr. YUNG Ha Kuk, Victor, Mr. LEUNG Chun Kuen, Noel, Mr. Yip and Mr. CHAN Chi Wah, three of whom are independent non-executive Directors. Mr. LAM Kwok Fai, Osmond currently serves as the chairman of the remuneration committee.

The primary responsibilities of the remuneration committee include, among others, (i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a set of formal and transparent procedures for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iii) making recommendations to the Board on the remuneration packages of executive Directors and members of senior management.

### **Nomination committee**

The Company established a nomination committee on 3rd January, 2014 with its written terms of reference in compliance with the code provisions of Code on Corporate Governance Practices and Corporate Governance Report set out in Appendix 14 to the Listing Rules pursuant to a resolution of the Directors passed on 3rd January, 2014.

The nomination committee consists of 5 members, being Mr. LEUNG Chun Kuen, Noel, Mr. YUNG Ha Kuk, Victor, Mr. LAM Kwok Fai, Osmond, Mr. Yip and Mr. CHAN Chi Wah, three of whom are independent non-executive Directors. Mr. LEUNG Chun Kuen, Noel currently serves as the chairman of the nomination committee.

The primary responsibilities of the nomination committee include making recommendations to the Board regarding candidates to fill vacancies on the Board.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Corporate governance functions

The terms of reference of the Board in relation to its corporate governance functions include, among others, (i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and members of senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing the Company's compliance with the code and disclosure in the Corporate Governance Report.

### COMPLIANCE ADVISER

The Company expects to appoint Anglo Chinese as the compliance adviser 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, amongst others, on the following matters:

- (1) the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (3) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in the Prospectus or where the business activities, developments or results of operation of the Group deviate from any forecast, estimate, or other information in the Prospectus; and
- (4) 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 appointment of the compliance adviser shall commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Rainbow Key will effectively hold 72% of the total issued share capital of the Company. Rainbow Key is held as to 100% by Mr. Yip. Rainbow Key and Mr. Yip will continue to control more than 30% of the issued share capital and will remain as Controlling Shareholders after the Global Offering.

Apart from the Group, the Controlling Shareholders and their respective associates are currently conducting other businesses or holding interest directly or indirectly in certain companies which are engaged in businesses not in competition with the businesses of the Group. These major other businesses conducted or owned directly or indirectly by Mr. Yip and his associates include a controlling interest in Bright Smart Securities & Commodities Group Limited, a company listed on the Main Board (stock code: 1428) and principally engaged in brokerage services in Hong Kong.

As the Group is principally engaged in the clubbing business, the Directors are of the view that there are clear delineations between the principal businesses of the Company and those of, amongst others, Bright Smart Securities & Commodities Group Limited owned by the Controlling Shareholders and their respective associates.

None of the executive Directors, non-executive Directors, independent non-executive Directors, Controlling Shareholders and their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the business of the Group. To ensure that competition will not exist in the future, the Controlling Shareholders have entered into the Deed of Non-Competition with the Company to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest or otherwise be involved in, any business which may be in competition with the businesses.

### NON-COMPETE UNDERTAKINGS

Each of the Controlling Shareholders (collectively, the “**Non-Competing Covenantors**”) has entered into the Deed of Non-Competition in favour of the Company, pursuant to which the Non-Competing Covenantors have undertaken to the Company (for itself and for the benefit of each of the members of the Group) that, with effect from the date of Listing and for as long as the Shares remain so listed on the Stock Exchange and the Controlling Shareholders are individually or collectively with any of his/its associates interested directly or indirectly in not less than 30% of the issued ordinary share capital of the Company (the “**Restricted Period**”), the Non-Competing Covenantors or their respective associates shall not, (i) directly or indirectly engage in, participate or hold any right or interest in or render any services to or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venturer, employee, consultant or otherwise) in competition with or likely to be in competition with the existing business carried on by the Group in Hong Kong and any

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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regions outside of Hong Kong (the “**Restricted Business**”); and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, solicitation of the Group’s customers, suppliers or personnel of any member of the Group.

The aforesaid undertaking does not apply with respect to the holding of or being interested in, directly or indirectly, any shares in any company which conducts or is engaged in, directly or indirectly, any Restricted Business, provided that:

- (a) such shares are listed on a recognised stock exchange;
- (b) the total number of such shares held by any of the Non-Competing Covenantors and/or their respective associates does not amount to more than 10% of the issued shares of that class of such company in question; and
- (c) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated turnover or consolidated assets (individually or collectively with their respective associates) as shown in that company’s latest audited accounts.

The Non-Competing Covenantors have further undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to the Non-Competing Covenantors and/or any of their associates (other than members of the Group) (the “**Offeror**”) is first referred to the Company in the following manner:

- (a) the Non-Competing Covenantors are required to, and shall procure their associates (other than members of the Group) to, refer, or procure the referral of, the New Opportunity to the Company, and shall give written notice to the Company of any New Opportunity containing all information reasonably necessary for the Company to consider whether (i) the New Opportunity would constitute competition with the core business and/or any other new business which the Group may undertake at the relevant time, and (ii) it is in the interest of the Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- (b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from the Company declining the New Opportunity and confirming that the New Opportunity would not constitute competition with the core business, or (ii) the Offeror has not received the notice from the Company within 10 business days from the receipt of the Offer Notice; if there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity as so revised to the Company in the manner as set out above.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Upon receipt of the Offer Notice, the Group will seek opinions and decisions from a committee of the Board consisting of Directors who do not have a material interest in the matter as to whether (a) such New Opportunity would constitute competition with the core business, and (b) it is in the interest of the Company and the Shareholders as a whole to pursue the New Opportunity.

Each of the Non-Competing Covenantors jointly and severally undertakes to indemnify and keep indemnified the Group against any damage, loss or liability suffered by the Company or any other member of the Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-Competition, including any costs and expenses incurred as a result of such breach provided that the indemnity contained in this clause shall be without prejudice to any other rights and remedies the Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by the Company.

### CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of the Shareholders:

- (1) the independent non-executive Directors will review, on an annual basis, the Deed of Non-Competition to ensure compliance with the non-compete undertaking by the Controlling Shareholders;
- (2) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (3) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in an announcement, its interim or annual reports of the Company;
- (4) the Controlling Shareholders will provide confirmation on compliance pursuant to their undertaking under the Deed of Non-Competition in the annual report of the Company; and
- (5) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and the Directors or their respective associates, the interested Director(s) shall not participate in the relevant Board meetings when matters in which they/their associates have a material interest are discussed.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### INDEPENDENCE OF MANAGEMENT, FINANCING AND OPERATION

Having considered the following factors, the Directors are satisfied that the Group will be able to be operationally and financially independent from the Controlling Shareholders and their associates:

Non-competition — although there are certain businesses owned by the Controlling Shareholders as mentioned above in this section, none of the Controlling Shareholders or executive Directors or non-executive Directors has any interest in a business which competes or is likely to compete, either directly or indirectly, with the Group's business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favour of the Company. For details, please refer to the section headed "Relationship with Controlling Shareholders — Non-compete Undertakings" in the Prospectus.

Management independence — The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. Despite the interest of the Controlling Shareholders in certain businesses outside the Group, the Group considers that the Board will function independently from the Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a Director of the Company which requires, among other things, that he/she acts for the benefit and in the best interests of the Company and that he/she does not allow any conflict between his duties as a Director and his/her personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and the Directors or their respective associates, the interested Director(s) shall not participate in the relevant Board meeting and shall abstain from voting at the relevant Board meetings of the Company in respect of such transactions; and
- (c) the Board comprises eight Directors and three of them are independent non-executive Directors who represent more than one-third of the members of the Board; such an arrangement is in line with the requirement as set out in the Listing Rules.

Financial independence — The Group has an independent financial system and makes financial decisions according to its own business needs. As at 31st August, 2013, the Group did not owe any amount to the Controlling Shareholders and their respective associates. In the circumstances, the Directors believe the Group is capable of obtaining financing from third parties without reliance on the Controlling Shareholders.

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Operational independence — The Group has an independent work force to carry out the operation and has not shared its operation team with the Controlling Shareholders' businesses outside the Group. Although during the Track Record Period, there have been certain transactions between the Group and the related parties, details of which are set out in note 23 to the Accountant's Report in Appendix I to the Prospectus, the Directors have confirmed that these related party transactions set forth in Appendix I to the Prospectus were conducted in the ordinary course of business and on fairly and reasonably normal commercial terms. None of the historical related party transactions with the connected persons as defined in the Listing Rules are expected to continue after the Listing.

### **CONNECTED TRANSACTION**

The Group has not entered into any transactions with the connected persons which will continue following the Listing and which will constitute non-exempt continuing connected transactions within the meaning of the Listing Rules.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, 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 meeting of members of the Group (other than the Company):

<b>Name of Shareholder</b>	<b>Capacity/Nature of interest</b>	<b>Number and class of securities<sup>(1)</sup></b>	<b>Percentage of interest in the Company</b>
Rainbow Key	Beneficial owner	216,000,000 Shares (L)	72%
Mr. Yip <sup>(2)</sup>	Interest of a controlled corporation	216,000,000 Shares (L)	72%

*Notes:*

1. The letter "L" denotes the person's long position in the shares of the Company.
2. The disclosed interest represents the interest in the Company held by Rainbow Key, which is in turn 100% owned by Mr. Yip. Therefore, Mr. Yip is deemed to be interested in Rainbow Key's interest in the Company by virtue of the SFO.

Save as disclosed herein, the Directors are not aware of any person (who are not Directors or chief executive of the Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account Shares which may be taken up or acquired under the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be 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 members of the Group other than the Company.

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## SHARE CAPITAL

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### AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital immediately following completion of the Capitalisation Issue and the Global Offering:

#### Authorised Share Capital:

	<i>HK\$</i>
10,000,000,000 Shares of HK\$0.01 each	100,000,000

#### Shares issued and to be issued, fully paid or credited as fully paid:

10,000 Shares in issue at the date of the Prospectus	100
215,990,000 Shares to be issued pursuant to the Capitalisation Issue	2,159,900
84,000,000 Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option and any Shares which may be issued pursuant to exercise of the options which may be granted under the Share Option Scheme)	840,000
300,000,000 Total	3,000,000

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional.

The table takes no account of Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate given to the Directors to allot and issue or repurchase Shares as described below.

### RANKING

The Offer Shares and the Shares that may be issued pursuant to exercise of the Over-allotment Option will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in the Prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on the Shares after the date of the Prospectus save for entitlements under the Capitalisation Issue.



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## SHARE CAPITAL

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### SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 3rd January, 2014. Under the Share Option Scheme, the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to the Company or the subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. Further details of the rules of the Share Option Scheme are set out in the section headed “Statutory and General Information — Other Information — 13. Share Option Scheme” in Appendix IV to the Prospectus.

### Issuing Mandate

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of (a) 20% of the aggregate nominal value of the share capital of the Company in issue as enlarged by the Global Offering and the Capitalisation Issue (but excluding any Shares which may be issued pursuant to the Over-allotment Option); and (b) the aggregate nominal value of the share capital of the Company which may be repurchased by the Company under the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of the Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme. The aggregate nominal value of the Shares which the Directors are authorised to allot and issue under this Issuing Mandate will not be reduced by the allotment and issue of such Shares.

This Issuing Mandate will expire:

- (i) at the conclusion of the Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which the Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further details of the Issuing Mandate, see the section headed “Statutory and General Information — Information about the Company — 3. Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014” in Appendix IV to the Prospectus.

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## SHARE CAPITAL

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### REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all of the powers of the Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalisation Issue (but excluding any Shares of the Company which may be issued pursuant to the Over-allotment Option).

This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in the Prospectus regarding the repurchase of Shares is set out in the section headed “Statutory and General Information — Information about the Company — 6. Securities repurchase mandate” in Appendix IV to the Prospectus.

This Repurchase Mandate will expire:

- (i) at the conclusion of the Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which the Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further information about this Repurchase Mandate, please see the section headed “Statutory and General Information — Information about the Company — 3. Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014” in Appendix IV to the Prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with the consolidated financial information, including the notes thereto, as set forth in the Accountants' Report included as Appendix I to the Prospectus, and the selected historical consolidated financial information and operating data included elsewhere in the Prospectus. The consolidated financial information has been prepared in accordance with HKFRS.*

*The following discussion and analysis contains certain forward-looking statements and are based on assumptions and analyses made by us in light of the experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believe are appropriate under the circumstances. However, whether actual results, outcomes and developments will meet the expectations and predictions depends on a number of risks and uncertainties over which the Group do not have control. See the sections headed "Risk Factors" and "Forward-looking Statements" for discussions of those risks and uncertainties.*

### OVERVIEW

The Group operates the largest group of clubbing venues in Hong Kong in terms of gross floor area and premise capacity, according to the Euromonitor Report. In the view of the Lan Kwai Fong Association, the Group is a leader in the clubbing industry in Hong Kong and all the Clubs are highly successful, professionally operated and have developed a strong reputation for its quality service. The Group has successfully established in Hong Kong a number of clubs and currently operates Magnum Club, Beijing Club and Billion Club. Over the years the Group has successfully built up its status and profile to attract customers to a high-quality clubbing experience in a safe environment. The Group aims to provide customer experience to cover sub-segments of the upscale market segment. Each Club has its own character, style and design particular to its theme.

The Group intends to replicate its success in the new club, Zentral, which will be located in the new California Tower in the Lan Kwai Fong area. By investing half of the net proceeds from the initial public offering, Zentral will be designed as a high-end exclusive club offering dining experience. After its proposed grand opening in 2014, the Group's clubs network will be further strengthened so that the customers can further enjoy different clubbing experiences of four separate venues.

Being the largest group of clubbing venues in Hong Kong in terms of gross floor area and premise capacity, the Group will invest a portion of the net proceeds from the initial public offering into research into expansion into regions other than Hong Kong, including China and Southeast Asia regions.

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## FINANCIAL INFORMATION

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### **BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands on 14th January, 2013. Pursuant to the Reorganisation in preparation for the Listing which was completed on 15th April, 2013, the Company became the holding company of companies now comprising the Group. The companies that took part in the Reorganisation were controlled by the Controlling Shareholder prior to and after the Reorganisation. The control is not transitional and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholder. Therefore, the Reorganisation is considered as a business combination of entities under common control. The financial information has been prepared using the merger basis of accounting as if the companies now comprising the Group have been consolidated at the beginning of the Track Record Period unless the combining companies first came under common control at a later date. The assets and liabilities of the combining companies are consolidated using the existing book values from the Controlling Shareholder's perspective.

The consolidated results of operations of the companies now comprising the Group for the Track Record Period (or where the companies were incorporated or acquired at a date later than 1st April, 2010, for the period from the date of incorporation or acquisition to 31st August, 2013) as if the current group structure had been in existence throughout the Track Record Period. The consolidated financial position of the Group as at 31st March, 2011, 2012, 2013 and as at 31st August, 2013 have been prepared to present the state of affairs of the Group as at the respective dates as if the Reorganisation had occurred at the beginning of the Track Record Period.

On 1st September, 2010, the Group acquired the entire shareholding of Best Future together with its wholly-owned subsidiary, Sure Wise from an Independent Third Party. The acquisition is accounted for using acquisition accounting with the excess of the net fair value of the acquirees' identifiable assets and liabilities measured as at the acquisition date over the fair value of the consideration transferred as a gain on bargain purchase on the acquisition date.

All material intra-group balances, transactions and cash flows have been eliminated in preparing the Financial Information.

### **FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The results of operations and financial position have been and will continue to be affected by a number of factors, many of which may be beyond the control of the Group, including those factors set out in "Risk Factors" in the Prospectus and those set out below.

#### **Number of Clubs in operation**

Before the opening of Magnum Club on 21st December, 2011, approximately 67.8% of the turnover is contributed by Beijing Club, which has a premise capacity of 454 persons, compared to 172 persons in Billion Club. After the grand opening of Magnum Club, which has the premise

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## FINANCIAL INFORMATION

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capacity of 490 persons, the total turnover significantly increased by 26.9% or HK\$36.9 million to HK\$174.0 million for the year ended 31st March, 2013, from HK\$137.1 million for the year ended 31st March, 2012. For the year ended 31st March, 2013, more than 50% of the total turnover is contributed by Magnum Club.

Since the inception of each Club, the payback period of Magnum Club, Beijing Club and Billion Club was 1.1 years, 1.7 years and 0.9 year, respectively. The payback period of Billion Club and Magnum Club were shortened as the management has accumulated extensive experience in club operation and due to economies of scale. Payback period is defined as the amount of time taken for the accumulated net profit (excluding depreciation and amortisation) from a club to cover the cost of opening of the Clubs.

### Revenue contribution from beverage sales

The Group generates most of the revenue from beverage sales at the Clubs. Among all the beverage categories, spirits and champagne are the bestselling categories of beverages, together contributing approximately 70% of the revenue with cocktail and liqueurs following closely behind. The table below sets forth the beverage categories sold over the periods indicated:

Type of beverages	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
Spirits <sup>1</sup>	41.8%	39.3%	34.0%	34.5%	31.4%
Champagne	26.1%	32.8%	39.0%	40.4%	40.7%
Cocktails and liqueurs <sup>2</sup>	21.1%	20.4%	18.7%	19.1%	17.1%
Wine	4.8%	3.1%	3.9%	1.8%	1.0%
Beer	3.3%	1.5%	1.2%	1.3%	1.3%
Soft drinks and other	2.9%	2.9%	2.4%	2.6%	2.3%
Beverage package <sup>3</sup>	n/a	n/a	0.8%	0.3%	6.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Notes:

1. Popular spirits include mainly whisky, vodka, brandy. etc.
2. Generally known as alcoholic beverages served by glass and prepared by bartenders mixing different alcohol and ingredients.
3. A package of assorted alcoholic beverage is sold at discounted price.

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## FINANCIAL INFORMATION

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For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the revenue from sales of beverage and tobacco products amounted to HK\$48.1 million, HK\$101.5 million, HK\$135.5 million and HK\$57.0 million, respectively, representing 68.7%, 74.0%, 77.9% and 79.5% of the total turnover for each such period.

For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the revenue from sales of spirits represents 41.8%, 39.3%, 34.0% and 31.4% of the total beverage sales for each such period. Although the sales revenue from spirits increased over the years ended 31st March, 2011, 2012 and 2013, its proportion compared to the total beverage sales revenue was reduced.

For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the revenue from sales of champagne represents 26.1%, 32.8%, 39.0% and 40.7% of the total beverage sales for each such period.

The management believes that the increasing sales of champagne over the Track Record Period was mainly due to the increasing sales of Moët & Chandon champagne.

### Sales revenue by beverage items

The tables below set forth the top 10 beverage items sold in terms of sales revenue over the periods indicated:

<b>Ranking for the year ended 31st March, 2011</b>	<b>Beverage items</b>	<b>Sales revenue</b> <i>HK\$'000</i>
1	Moët & Chandon Brut Imperial NV	4,916
2	Moët & Chandon Magnum NV	4,543
3	Smirnoff Black	3,020
4	Belvedere (75cL bottle)	2,587
5	Patron Silver	2,393
6	Long Island Iced Tea	2,330
7	Belvedere (per glass)	1,724
8	Jagerbomb	1,706
9	Asahi	1,169
10	Black Label 12Yrs	789
	Total	<u>25,177</u>

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## FINANCIAL INFORMATION

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**Ranking for  
the year ended**

**31st March, 2012**

	<b>Beverage items</b>	<b>Sales revenue</b> <i>HK\$'000</i>
1	Moët & Chandon Magnum NV	16,035
2	Moët & Chandon Brut Imperial NV	10,510
3	Smirnoff Black	7,677
4	Belvedere (75cL bottle)	7,380
5	Jagerbomb	5,535
6	Patron Silver	4,850
7	Long Island Iced Tea	4,806
8	Belvedere (3L bottle)	2,936
9	Dom Perignon Vintage 2000	1,699
10	Belvedere (6L bottle)	<u>1,581</u>
	Total	<u><u>63,009</u></u>

**Ranking for  
the year ended**

**31st March, 2013**

	<b>Beverage items</b>	<b>Sales revenue</b> <i>HK\$'000</i>
1	Moët & Chandon Magnum NV	31,021
2	Moët & Chandon Brut Imperial NV	14,557
3	Jagerbomb	8,858
4	Belvedere (75cL bottle)	8,798
5	Smirnoff Black	7,551
6	Belvedere (1.75L bottle)	6,735
7	Patron Silver	6,380
8	Belvedere (3L bottle)	5,218
9	Domaine Chandon Chardonnay	3,994
10	Dom Perignon Vintage 2003	<u>2,907</u>
	Total	<u><u>96,019</u></u>

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## FINANCIAL INFORMATION

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**Ranking for the  
five months ended**

**31st August, 2013 Beverage items**

**Sales revenue**

*HK\$'000*

1	Moët and Chandon Magnum NV	12,122
2	Moët & Chandon Brut Imperial NV	5,777
3	Jagerbomb	3,684
4	Dom Perignon Vintage 2003	3,294
5	Belvedere (1.75L bottle)	2,909
6	Belvedere (75cL bottle)	2,863
7	Patron Silver	2,611
8	Smirnoff Black	2,585
9	Belvedere (3L bottle)	1,268
10	Moët Rose Magnum	1,085
	Total	<u><u>38,198</u></u>

### Sales quantity by beverage items

In terms of sales quantities, Smirnoff Black was ranked number one for each of the years ended 31st March, 2011, 2012 and 2013 and Jagerbomb became the number one for the five months ended 31st August, 2013.

The tables below set forth the top 10 beverage items sold in terms of sales quantity (per glass) over the periods indicated:

**Ranking for  
the year ended**

**31st March, 2011 Beverage items**

**Sales quantity**

1	Smirnoff Black	37,828
2	Patron Silver	26,182
3	Belvedere	19,653
4	Jagerbomb	19,000
5	Long Island Iced Tea	18,941
6	Asahi	15,938
7	H.Scotch	11,082
8	B-52	9,388
9	Cooks Champagne	9,016
10	Tequila Rose	5,775
	Total	<u><u>172,803</u></u>



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## FINANCIAL INFORMATION

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**Ranking for  
the year ended**

<b>31st March, 2012</b>	<b>Beverage items</b>	<b>Sales quantity</b>
1	Smirnoff Black	91,957
2	Jagerbomb	56,402
3	Patron Silver	52,086
4	Long Island Iced Tea	37,885
5	Camilo Rose	22,212
6	Red Label	20,419
7	Belvedere	14,134
8	B-52	13,908
9	Gordon's Gin	13,499
10	Asahi	<u>10,793</u>
	Total	<u><u>333,295</u></u>

**Ranking for  
the year ended**

<b>31st March, 2013</b>	<b>Beverage items</b>	<b>Sales quantity</b>
1	Smirnoff Black	89,746
2	Jagerbomb	82,530
3	Patron Silver	64,813
4	Redbull	37,363
5	Long Island Iced Tea	35,252
6	Camilo Rose	27,842
7	Red Label	14,669
8	Gordon's Gin	13,577
9	Asahi	9,553
10	Belvedere	<u>8,487</u>
	Total	<u><u>383,832</u></u>

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## FINANCIAL INFORMATION

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**Ranking for the  
five months ended**

<b>31st August, 2013</b>	<b>Beverage items</b>	<b>Sales quantity</b>
1	Jagerbomb	33,509
2	Smirnoff Black	29,699
3	Patron Silver	25,459
4	Long Island Iced Tea	13,346
5	Redbull	12,755
6	Tequila Rose	10,239
7	Belvedere	7,807
8	Asahi	4,711
9	Moët and Chandon Magnum NV	3,677
10	Lychee	3,558
	Total	<u>144,760</u>

### **Seasonality**

The Group experiences seasonal fluctuation in the revenue. Holidays and severe weather conditions (such as typhoon) may impact the revenue. Historically, the percentage of the revenue derived from the second half of a calendar year has been higher than the first half of the calendar year, reflecting higher frequency of clubbing and festival events during the second half of the calendar year. For instance, the Group experience the highest monthly revenue in December, mainly contributed from the Christmas Eve party on 24th December, Christmas party on 25th December and New Year's Eve party on 31st December. The monthly revenue is relatively lower in February, May and November. Because of the seasonality of the business, the results for any period in a year are not necessarily indicative of the results that may be achieved for the full year.

### **Liquor price**

The cost of inventories sold is mainly comprised of the cost of all beverages used in the operations. Cost of inventories sold is one of the largest components of the operating expenses.

For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the cost of inventories sold amounted to HK\$11.2 million, HK\$23.8 million, HK\$31.8 million and HK\$13.4 million, respectively, representing gross margin of 84.0%, 82.6%, 81.7% and 81.3% for each such period. Therefore, liquor prices have a significant effect on the results of operations.

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## FINANCIAL INFORMATION

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The tables below set forth the top 5 beverage suppliers and the purchase amount over the periods indicated:

<b>Ranking for the year ended 31st March, 2011</b>	<b>Name of the beverage suppliers</b>	<b>Cost of goods purchased <i>HK\$'000</i></b>	<b>Percentage of cost to total cost of goods purchased</b>
1	Moët Hennessy Diageo Hong Kong Limited	6,611	59.0%
2	Telford International Company Limited	2,590	23.2%
3	Jebsen & Co., Ltd.	649	5.8%
4	Leung Yick Co., Ltd.	357	3.2%
5	Carlsberg Hong Kong Limited	227	2.0%
	Total purchase from the top 5 suppliers	10,434	93.2%
	Total cost of goods purchased	<u>11,198</u>	<u>100%</u>

<b>Ranking for the year ended 31st March, 2012</b>	<b>Name of the beverage suppliers</b>	<b>Cost of goods purchased <i>HK\$'000</i></b>	<b>Percentage of cost to total cost of goods purchased</b>
1	Moët Hennessy Diageo Hong Kong Limited	15,294	62.7%
2	Telford International Company Limited	5,424	22.3%
3	Leung Yick Co., Ltd.	1,024	4.2%
4	Hong Kong Wine Ltd.	438	1.8%
5	Edrington Hong Kong Ltd.	369	1.5%
	Total purchase from the top 5 suppliers	22,549	92.5%
	Total cost of goods purchased	<u>24,379</u>	<u>100%</u>

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**FINANCIAL INFORMATION**

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<b>Ranking for the year ended 31st March, 2013</b>	<b>Name of the beverage suppliers</b>	<b>Cost of goods purchased <i>HK\$'000</i></b>	<b>Percentage of cost to total cost of goods purchased</b>
1	Moët Hennessy Diageo Hong Kong Limited	20,035	61.6%
2	Telford International Company Limited	8,087	24.9%
3	Leung Yick Co., Ltd.	1,086	3.3%
4	Edrington Hong Kong Ltd.	687	2.1%
5	Carlsberg Hong Kong Limited	448	1.4%
	Total purchase from the top 5 suppliers	30,343	93.3%
	Total cost of goods purchased	<u>32,525</u>	<u>100%</u>

<b>Ranking for the five months ended 31st August, 2013</b>	<b>Name of the beverage suppliers</b>	<b>Cost of goods purchased <i>HK\$'000</i></b>	<b>Percentage of cost to total cost of goods purchased</b>
1	Moët Hennessy Diageo Hong Kong Limited	8,916	65.7%
2	Telford International Company Limited	3,266	24.0%
3	Leung Yick Co., Ltd.	297	2.2%
4	Edrington Hong Kong Ltd.	225	1.7%
5	Carlsberg Hong Kong Limited	190	1.4%
	Total purchase from the top 5 suppliers	12,894	95.0%
	Total cost of goods purchased	<u>13,569</u>	<u>100%</u>

Liquor prices worldwide have generally increased during the Track Record Period. In response to this trend, the Group has, among other things, refined the menus and increased prices of selected menu items, introduced higher-margin menu items for the Clubs, and enhanced relationships with the major suppliers to secure better pricing. The Group expects the rising liquor price trend to continue in the foreseeable future and it will constantly monitor and respond to changes in the beverage costs. The cost of inventories sold as a percentage of turnover will continue to be a key performance indicator of the overall efficiency and profitability of the business operations.

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## FINANCIAL INFORMATION

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in cost of inventories sold on the profit before taxation and the profit for each period during the Track Record Period. The break-even percentages of the sensitivity analysis are 171.9%, 146.6%, 105.6% and 49.7% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. Fluctuations are assumed to be 5.0%, 8.0% and 10.0% for each of the period indicated, which correspond to the range of historical fluctuations of the cost of inventories sold over such periods.

Hypothetical fluctuation	(HK\$'000, except percentages)					
	+5%	-5%	+8%	-8%	+10%	-10%
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2011</b>						
Change in cost of inventories sold	560	(560)	897	(897)	1,121	(1,121)
Change in profit before taxation	(560)	560	(897)	897	(1,121)	1,121
Change in profit for the year	(468)	468	(749)	749	(936)	936
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2012</b>						
Change in cost of inventories sold	1,192	(1,192)	1,907	(1,907)	2,383	(2,383)
Change in profit before taxation	(1,192)	1,192	(1,907)	1,907	(2,383)	2,383
Change in profit for the year	(995)	995	(1,592)	1,592	(1,990)	1,990
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2013</b>						
Change in cost of inventories sold	1,589	(1,589)	2,543	(2,543)	3,179	(3,179)
Change in profit before taxation	(1,589)	1,589	(2,543)	2,543	(3,179)	3,179
Change in profit for the year	(1,327)	1,327	(2,123)	2,123	(2,654)	2,654
<b>Impact on certain consolidated statement of comprehensive income items for the five months ended 31st August, 2013</b>						
Change in cost of inventories sold	672	(672)	1,075	(1,075)	1,344	(1,344)
Change in profit before taxation	(672)	672	(1,075)	1,075	(1,344)	1,344
Change in profit for the period	(561)	561	(898)	898	(1,122)	1,122

### Property rentals

The Group leases all the properties on which the Clubs operate. The leasing costs are reflected in the property rentals and related expenses. For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the property rentals and related expenses amounted to HK\$8.9 million, HK\$20.6 million, HK\$30.3 million and HK\$13.8 million, respectively, representing 12.7%, 15.0%, 17.4% and 19.2% of the turnover for each such period. Rental expenses vary depending on the size and location of the Clubs. All the tenancy agreements of the Clubs are based on fixed rent. The Group does not pay any contingent rent.

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## FINANCIAL INFORMATION

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For every lease that the Group considers to enter into, the Group considers whether the rental expense is within the acceptable range, taking into account the expected revenue to be derived from the Club in future. As the Group intends to continue to open new clubs and expand its clubbing network, the Directors expect that the property rental and related expenses related to the Clubs to increase in the future.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in property rentals and related expenses on the profit before taxation and the profit and total comprehensive income for each of the period indicated. The break-even percentages of the sensitivity analysis are 217.5%, 169.2%, 110.8% and 48.4% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. Fluctuations are assumed to be 5.0%, 10.0% and 15.0% for each of the period indicated, respectively, which correspond to the range of historical fluctuations of the property rentals and related expenses for each of the periods indicated.

<b>Hypothetical fluctuation</b>	<b>(HK\$'000, except percentages)</b>					
	<b>+5%</b>	<b>-5%</b>	<b>+10%</b>	<b>-10%</b>	<b>+15%</b>	<b>-15%</b>
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2011</b>						
Change in property rentals and related expenses	443	(443)	886	(886)	1,329	(1,329)
Change in profit before taxation	(443)	443	(886)	886	(1,329)	1,329
Change in profit for the year	(370)	370	(740)	740	(1,109)	1,109
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2012</b>						
Change in property rentals and related expenses	1,032	(1,032)	2,065	(2,065)	3,097	(3,097)
Change in profit before taxation	(1,032)	1,032	(2,065)	2,065	(3,097)	3,097
Change in profit for the year	(862)	862	(1,724)	1,724	(2,586)	2,586
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2013</b>						
Change in property rentals and related expenses	1,516	(1,516)	3,031	(3,031)	4,547	(4,547)
Change in profit before taxation	(1,516)	1,516	(3,031)	3,031	(4,547)	4,547
Change in profit for the year	(1,266)	1,266	(2,531)	2,531	(3,797)	3,797
<b>Impact on certain consolidated statement of comprehensive income items for the five months ended 31st August, 2013</b>						
Change in property rentals and related expenses	690	(690)	1,381	(1,381)	2,071	(2,071)
Change in profit before taxation	(690)	690	(1,381)	1,381	(2,071)	2,071
Change in profit for the period	(576)	576	(1,153)	1,153	(1,729)	1,729

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## FINANCIAL INFORMATION

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### Staff costs

Clubbing operations are highly service-oriented, and therefore the success, to a considerable extent, depends upon the ability to attract, motivate and retain a sufficient number of qualified employees.

The Group believes that high-quality customer service is a key attribute of the success of the Clubs. The Group offers competitive wages and other benefits to its employees.

The staff costs includes all salaries and benefits payable to all the employees and staff, including the executive Directors, headquarters staff and operational staff in each Club. The staff costs amounted to HK\$7.9 million, HK\$16.3 million, HK\$31.1 million and HK\$17.6 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. As a percentage of turnover, the staff costs accounted for 11.3%, 11.9%, 17.9% and 24.5% of the turnover for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

Due to the general increase in labour costs in Hong Kong, the salary level of employees in the clubbing industry in Hong Kong has generally increased in recent years. The Group expects the staff costs to continue to increase as inflationary pressures in Hong Kong continue to drive up wages. The Group believes the resulting upward pressure on the total staff costs as a percentage of total turnover could be mitigated by (i) increasing operating leverage by staff rotation as all the staff are employed at the Group level and can be deployed at any of the Clubs; (ii) the efforts to control the staff costs at the new clubs by managing employee headcount levels before a club achieves certain target performance levels more efficiently and prioritising internal transfers and re-allocations of employees from existing Clubs; and (iii) the efforts to increase productivity of the staff by providing various training programmes.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in staff costs on the profit before taxation and the profit and total comprehensive income for each of the period indicated. The break-even percentages of the sensitivity analysis are 244.6%, 214.1%, 107.9% and 38.0% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. Fluctuations are assumed to be 5.0%, 8.0% and 10.0% for each of the period indicated, which correspond to the range of historical fluctuations of the staff costs over such periods.

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## FINANCIAL INFORMATION

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(HK\$'000, except percentages)

Hypothetical fluctuation	+5%	-5%	+8%	-8%	+10%	-10%
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2011</b>						
Change in staff costs	394	(394)	630	(630)	787	(787)
Change in profit before taxation	(394)	394	(630)	630	(787)	787
Change in profit for the year	(329)	329	(526)	526	(657)	657
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2012</b>						
Change in staff costs	816	(816)	1,305	(1,305)	1,632	(1,632)
Change in profit before taxation	(816)	816	(1,305)	1,305	(1,632)	1,632
Change in profit for the year	(681)	681	(1,090)	1,090	(1,363)	1,363
<b>Impact on certain consolidated statement of comprehensive income items for the year ended 31st March, 2013</b>						
Change in staff costs	1,555	(1,555)	2,488	(2,488)	3,110	(3,110)
Change in profit before taxation	(1,555)	1,555	(2,488)	2,488	(3,110)	3,110
Change in profit for the year	(1,299)	1,299	(2,078)	2,078	(2,597)	2,597
<b>Impact on certain consolidated statement of comprehensive income items for the five months ended 31st August, 2013</b>						
Change in staff costs	879	(879)	1,406	(1,406)	1,757	(1,757)
Change in profit before taxation	(879)	879	(1,406)	1,406	(1,757)	1,757
Change in profit for the period	(734)	734	(1,174)	1,174	(1,467)	1,467

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The Group has identified certain accounting policies that are critical to the preparation of the financial information. These accounting policies are important for an understanding of the financial position and results of operations and are set forth in Note 1 “Significant accounting policies” of Section C of the Accountants’ Report in Appendix I to the Prospectus.

In addition, the preparation of the financial information requires the management to make significant and subjective estimates, assumptions and judgements that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013. However, uncertainties about these assumptions, estimates and judgements could result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

The Directors believe that the following critical accounting estimates involve the most significant or subjective judgements and estimates used in the preparation of the financial information.



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## FINANCIAL INFORMATION

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### **Impairment of non-current assets**

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group’s assets are not readily available. In determining value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

### **Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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## FINANCIAL INFORMATION

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### DISCUSSION OF CERTAIN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

#### Turnover

##### *Turnover in terms of service category*

The tables below set forth a breakdown of turnover in terms of service category over the periods indicated:

#### For the year ended 31st March, 2011

	<i>Notes</i>	<b>Billion Club</b> <i>HK\$'000</i>		<b>Beijing Club</b> <i>HK\$'000</i>		<b>Total</b> <i>HK\$'000</i>	
Sales of beverage and tobacco products		15,089	66.9%	32,963	69.5%	48,052	68.7%
Cloakroom	1	528	2.3%	921	1.9%	1,449	2.1%
Entry fee	2	5,917	26.2%	11,374	24.0%	17,291	24.7%
Event rental	3	38	0.2%	86	0.2%	124	0.2%
Sponsorship income	4	643	2.8%	1,071	2.3%	1,714	2.4%
Tips	5	354	1.6%	1,002	2.1%	1,356	1.9%
<b>Total</b>		<u>22,569</u>	<u>100.0%</u>	<u>47,417</u>	<u>100.0%</u>	<u>69,986</u>	<u>100.0%</u>

#### For the year ended 31st March, 2012

	<i>Notes</i>	<b>Billion Club</b> <i>HK\$'000</i>		<b>Beijing Club</b> <i>HK\$'000</i>		<b>Magnum Club</b> <i>HK\$'000</i>		<b>Total</b> <i>HK\$'000</i>	
Sales of beverage and tobacco products		14,920	64.2%	72,551	74.8%	13,995	81.9%	101,466	74.0%
Cloakroom	1	477	2.1%	1,798	1.9%	289	1.7%	2,564	1.9%
Entry fee	2	6,558	28.3%	18,279	18.9%	2,012	11.8%	26,849	19.6%
Event rental	3	163	0.7%	244	0.3%	54	0.3%	461	0.3%
Sponsorship income	4	645	2.8%	1,930	2.0%	302	1.8%	2,877	2.1%
Tips	5	451	1.9%	2,061	2.1%	419	2.5%	2,931	2.1%
<b>Total</b>		<u>23,214</u>	<u>100.0%</u>	<u>96,863</u>	<u>100.0%</u>	<u>17,071</u>	<u>100.0%</u>	<u>137,148</u>	<u>100.0%</u>

## FINANCIAL INFORMATION

### For the year ended 31st March, 2013

		Billion Club		Beijing Club		Magnum Club		Total	
	Notes	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Sales of beverage and tobacco products		9,920	66.9%	50,764	76.9%	74,801	80.3%	135,485	77.9%
Cloakroom	1	271	1.8%	1,171	1.8%	1,168	1.3%	2,610	1.5%
Entry fee	2	2,837	19.1%	10,224	15.5%	9,354	10.0%	22,415	12.9%
Event rental	3	—	0.0%	210	0.3%	1,566	1.7%	1,776	1.0%
Sponsorship income	4	1,492	10.0%	2,312	3.5%	4,923	5.3%	8,727	5.0%
Tips	5	329	2.2%	1,311	2.0%	1,342	1.4%	2,982	1.7%
<b>Total</b>		<b>14,849</b>	<b>100.0%</b>	<b>65,992</b>	<b>100.0%</b>	<b>93,154</b>	<b>100.0%</b>	<b>173,995</b>	<b>100.0%</b>

### For the five months ended 31st August, 2013

		Billion Club		Beijing Club		Magnum Club		Total	
	Notes	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Sales of beverage and tobacco products		3,777	71.9%	18,333	76.1%	34,861	82.2%	56,971	79.4%
Cloakroom	1	81	1.5%	409	1.7%	535	1.2%	1,025	1.4%
Entry fee	2	325	6.2%	2,445	10.1%	2,998	7.1%	5,768	8.1%
Event rental	3	4	0.1%	545	2.3%	1,272	3.0%	1,821	2.5%
Sponsorship income	4	983	18.7%	2,087	8.7%	2,168	5.1%	5,238	7.3%
Tips	5	83	1.6%	259	1.1%	583	1.4%	925	1.3%
<b>Total</b>		<b>5,253</b>	<b>100.0%</b>	<b>24,078</b>	<b>100.0%</b>	<b>42,417</b>	<b>100.0%</b>	<b>71,748</b>	<b>100.0%</b>

*Notes:*

- Cloakroom income represents the personal belongings storage service for customers charged at HK\$30 for each item of belonging.
- Entry fee represents entry ticket income (inclusive of one drink), received from non-member customers. The VIP Customers can enjoy free entry to the respective Clubs.
- Event rental represents the rental income from leasing the Clubs for events and activities, such as filming or festival party.
- Sponsorship income is recognised in accordance with Hong Kong Accounting Standard ("HKAS") 18, Revenue. As the sponsorship income is generated from rendering of various services in the course of the ordinary activities of the Group to certain businesses that also happen to be the Group's suppliers and is not dependent on the purchase of the suppliers' products, the presentation of sponsorship income as part of revenue is appropriate to reflect the substance of the transactions pursuant to HKAS 1, Presentation of Financial Statements.
- Tips represent cash and credit card tips from customers, which will be allocated to the Club's staff and recognised as staff costs.

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## FINANCIAL INFORMATION

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For the year ended 31st March, 2013, the Group generated 77.9% of its turnover from sales of beverage and tobacco products.

For the year ended 31st March, 2013, 12.9% of the turnover is contributed by the entry fee from customers who do not have a membership card. Less than 10% of the turnover is contributed by other club operations (including cloakroom income, event rental income, sponsorship income and tips).

For the years ended 31st March, 2011, 2012, 2013 and for the five months ended 31st August, 2013, the sponsorship income amounted to HK\$1.7 million, HK\$2.9 million, HK\$8.7 million and HK\$5.2 million, respectively. The increase was due to opening of Magnum Club and the increased promotional events held by the Group.

### ***Turnover in terms of clubbing venues***

The table below sets for the turnover of each Club over the periods indicated:

	Year ended 31st March,						Five months ended 31st August,			
	2011		2012		2013		2012		2013	
	contributed by each Club	%	contributed by each Club	%	contributed by each Club	%	contributed by each Club	%	contributed by each Club	%
	HK\$'000		HK\$'000	HK\$'000		HK\$'000		HK\$'000		HK\$'000
Billion Club	22,569	32.2%	23,214	16.9%	14,849	8.5%	6,468	9.2%	5,253	7.3%
Beijing Club	47,417	67.8%	96,863	70.6%	65,992	37.9%	30,690	43.9%	24,078	33.6%
Magnum Club	N/A	N/A	17,071	12.5%	93,154	53.6%	32,823	46.9%	42,417	59.1%
Total	<u>69,986</u>	<u>100.0%</u>	<u>137,148</u>	<u>100.0%</u>	<u>173,995</u>	<u>100.0%</u>	<u>69,981</u>	<u>100.0%</u>	<u>71,748</u>	<u>100.0%</u>

For the year ended 31st March, 2011, approximately 67.8% of the Group's total turnover is contributed by the Beijing Club. The Group only recorded seven months of the turnover from Beijing Club as it was acquired by Mr. Yip and became part of the Group starting from 1st September, 2010.

For the year ended 31st March, 2012, the Group's total turnover increased by 95.9% to HK\$137.1 million, from HK\$70.0 million for the year ended 31st March, 2011. Such increase was mainly due to the revenue contributed by Beijing Club as the Group has recorded full financial year of its revenue and its sales revenue has increased significantly due to effective marketing campaigns following its acquisition. The average monthly revenue from Beijing Club has increased to HK\$8.1 million for the year ended 31st March, 2012, from HK\$6.8 million for the year ended 31st March, 2011.

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## FINANCIAL INFORMATION

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For the year ended 31st March, 2013, the Group's total turnover increased by 26.9% to HK\$174.0 million, from HK\$137.1 million for the year ended 31st March, 2012. Such increase was mainly due to the revenue contributed by Magnum Club as the Group has recorded full financial year of its revenue, compared to about three months of its revenue recorded for the year ended 31st March, 2012. The revenue contribution of Magnum Club has increased significantly to 53.6% for the year ended 31st March, 2013, from 12.5% for the year ended 31st March, 2012. The Directors believe that the fall in turnover of Billion Club and Beijing Club is related to the opening of Magnum Club in 2011, whereby the Group's customers relocated their visits to the new club. Nonetheless, the overall turnover of the Group increased during the Track Record Period. Although the market has a club hopping culture and customers may visit multiple clubs in one night, the Directors believe that the Group has successfully retained most of its customers among its various clubbing venues in Lan Kwai Fong.

For the five months ended 31st August, 2013, the Group's total turnover increased by 2.4% to HK\$71.7 million, from HK\$70.0 million for the five months ended 31st August, 2012. Such increase was mainly due to the revenue contributed by Magnum Club.

### Gross profit and gross profit margin

The table below sets forth the gross profit and gross profit margin of each Club over the periods indicated:

<b>Gross profit</b>	<b>Year ended 31st March,</b>			<b>Five months ended</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2012</b>	<b>2013</b>
Billion Club	18,845	19,108	12,405	5,280	4,506
Beijing Club	39,934	80,611	54,255	24,722	19,796
Magnum Club	N/A	13,596	75,550	26,430	34,010

<b>Gross profit margin</b>	<b>Year ended 31st March,</b>			<b>Five months ended</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
Billion Club	83.5%	82.3%	83.5%	81.6%	85.8%
Beijing Club	84.2%	83.2%	82.2%	80.6%	82.2%
Magnum Club	N/A	79.6%	81.1%	80.5%	80.2%

*Note:* Gross profit equals turnover minus cost of inventories sold. The gross profit margin is calculated by dividing gross profit by turnover and multiplying the resulting value by 100%.

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## FINANCIAL INFORMATION

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The Group has been able to maintain a relatively stable gross margin at around 80% during the Track Record Period. As the Group reviewed the beverage purchase prices with its major beverage suppliers on an annual basis and adjusted the Clubs' retail beverage prices on a semi-annual basis, the Directors believe the Group will be able to pass on the increase in beverage purchase prices to its customers.

### Average turnover and spending

The table below sets forth the average revenue per operating evening of each Club (turnover less sponsorship income over number of business days of the respective Club) over the periods indicated:

Average revenue per operating evening	Year ended 31st March,			Five months ended 31st August,
	2011	2012	2013	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Billion	129,736	131,214	77,658	60,135
Beijing	292,701	295,743	200,882	162,895
Magnum	—	246,611	341,982	359,366

The table below sets forth the average spending per receipt of each Club (turnover less cloak room income, tips income and sponsorship income over the number of transactions of the respective Club) over the periods indicated:

Average spending per transaction	Year ended 31st March,			Five months ended 31st August,
	2011	2012	2013	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Billion	720	547	541	407
Beijing	633	558	613	540
Magnum	—	684	717	710

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## FINANCIAL INFORMATION

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### *Sales receipts in terms of settlement methods*

The table below sets forth the settlement methods over the periods indicated:

	Year ended 31st March,			Five months ended
	2011	2012	2013	31st August, 2013
	%	%	%	%
Cash	53.5	46.3	36.0	35.1
Credit cards	43.6	49.7	56.3	58.6
Other methods	<u>2.9</u>	<u>4.0</u>	<u>7.7</u>	<u>6.3</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, settlement by credit card and cash represents over 85% of total sales receipts for each such period. The remainings were settled by other methods, including debit cards, cheque and auto payment.

### **Cost of inventories sold**

Cost of inventories sold mainly consists of the cost of beverages used in the operations. For the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the total cost of inventories sold amounted to HK\$11.2 million, HK\$23.8 million, HK\$31.8 million and HK\$13.4 million, respectively, representing 16.0%, 17.4%, 18.3% and 18.7% of the turnover for each such period. The cost of inventories sold increased during the Track Record Period which was the result of the enhancement of sale performances of the Group.

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## FINANCIAL INFORMATION

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### Other revenue

Other revenue represents interest income from the deposits with bank(s).

### Other net income/(loss)

	<b>Year ended 31st March,</b>			<b>Five months ended</b>	
	<b>2011</b>			<b>31st August,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss on disposal of property, plant and equipment	—	(505)	—	—	—
Gain on bargain purchase of subsidiaries	496	—	—	—	12
	<u>496</u>	<u>(505)</u>	<u>—</u>	<u>—</u>	<u>12</u>

### Acquisition of Best Future by the Group

During the year ended 31st March, 2011, the Group acquired the entire shareholding of Best Future and its wholly-owned subsidiary Sure Wise (which operates Beijing Club) from an Independent Third Party at a consideration of HK\$2.5 million. The identifiable assets acquired and liabilities assumed from the acquisition are as follows:

	<b>Pre-acquisition carrying amounts</b>	<b>Fair value adjustments</b>	<b>Recognised values on acquisition</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	1,418	—	1,418
Intangible asset	—	1,174	1,174
Deferred tax assets	591	(194)	397
Inventories	497	—	497
Trade and other receivables	14,527	—	14,527
Cash at bank and in hand	644	—	644
Trade and other payables	(15,024)	—	(15,024)
Current taxation	(637)	—	(637)
	<u>2,016</u>	<u>980</u>	2,996
Gain on bargain purchase			<u>(496)</u>
Total consideration			<u>2,500</u>



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## FINANCIAL INFORMATION

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The Group recorded a gain on bargain purchase of approximately HK\$0.5 million from the excess of the Group's equity interest in the fair value of identifiable assets and liabilities over acquisition cost of Best Future and Sure Wise.

During the year ended 31st March, 2012, the Group recorded a loss on disposal of certain property, plant and equipment of approximately HK\$0.5 million.

### Staff costs

	<b>Year ended 31st March,</b>			<b>Five months ended</b>	
				<b>31st August,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beijing Club	5,194	11,645	16,794	6,177	7,913
Magnum Club	—	1,499	10,878	2,960	8,299
Billion Club	<u>2,679</u>	<u>3,174</u>	<u>3,432</u>	<u>1,551</u>	<u>1,358</u>
	<u>7,873</u>	<u>16,318</u>	<u>31,104</u>	<u>10,688</u>	<u>17,570</u>

The staff costs comprise salaries, wages, discretionary bonuses, membership commission, tips from customers allocated to staff and other benefits including retirement benefit costs and other allowances and benefits payable to the permanent staff and part time staff.

The number of the employees increased by 41.4% to 263 as at 31st March, 2013, 66.1% to 186 as at 31st March, 2012 from 112 as at 31st March, 2011.

The staff costs amounted to HK\$7.9 million, HK\$16.3 million, HK\$31.1 million and HK\$17.6 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively, representing 11.3%, 11.9%, 17.9% and 24.5%, respectively, of the turnover for such periods.

### Depreciation and amortisation

The depreciation and amortisation expenses represent the depreciation on property, plant and equipment and the amortisation of intangible asset.

The depreciation and amortisation expenses amounted to HK\$1.0 million, HK\$3.4 million, HK\$5.2 million and HK\$2.1 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, representing 1.4%, 2.5%, 3.0% and 2.9%, respectively, of the turnover for such periods.

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## FINANCIAL INFORMATION

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### **Property rentals and related expenses**

The property rentals and related expenses consist of lease payments under operating leases for the Clubs and the headquarter. The property rentals and related expenses amounted to HK\$8.9 million, HK\$20.6 million, HK\$30.3 million and HK\$13.8 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, representing 12.7%, 15.0%, 17.4% and 19.2%, respectively, of the turnover for such periods.

### **Advertising and marketing expenses**

The advertising and marketing expenses primarily consist of advertising and promotional expense, such as the cost of inviting international DJs to the Clubs.

The advertising and marketing expenses amounted to HK\$8.2 million, HK\$10.8 million, HK\$18.8 million and HK\$6.2 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, representing 11.7%, 7.9%, 10.8% and 8.6%, respectively, of the turnover for such periods.

The DJ related expenses amounted to HK\$1.8 million, HK\$2.1 million, HK\$4.4 million and HK\$1.8 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, representing 2.6%, 1.5%, 2.5% and 2.5%, respectively, of the turnover for such periods.

### **Other operating expenses**

The other operating expenses mainly represents credit card commissions, repairs and maintenance costs and security costs.

The other operating expenses amounted to HK\$14.2 million, HK\$26.7 million, HK\$20.1 million and HK\$7.1 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, representing 20.3%, 19.5%, 11.6% and 9.9%, respectively, of the turnover for such periods.

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## FINANCIAL INFORMATION

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The following table sets out the breakdown of other operating expenses over the periods indicated:

	<b>Year ended 31st March,</b>			<b>Five months ended</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2012</b>	<b>2013</b>
				<i>HK\$'000</i>	<i>HK\$'000</i>
Security costs	5,487	7,924	6,845	2,949	2,642
Credit card commissions <sup>1</sup>	603	1,340	2,341	849	901
Repair and maintenance expenses	1,224	2,662	2,044	744	802
Other expenses <sup>2</sup>	<u>6,844</u>	<u>14,730</u>	<u>8,913</u>	<u>3,795</u>	<u>2,786</u>
	<u><u>14,158</u></u>	<u><u>26,656</u></u>	<u><u>20,143</u></u>	<u><u>8,337</u></u>	<u><u>7,131</u></u>

*Notes:*

1. Credit card commission refers to commission charged by financial institutions arising from credit card sales.
2. Other expenses refers to consultancy fees, pre-operating expenses, office consumables and other miscellaneous expenses incurred during normal course of business.

Security costs decreased to HK\$6.8 million for the year ended 31st March, 2013, from HK\$7.9 million for the year ended 31st March, 2012, mainly due to less reliance on external security service provider in view of the increase in number of staff in the Clubs.

Security costs increased to HK\$7.9 million for the year ended 31st March, 2012, from HK\$5.5 million for the year ended 31st March, 2011, mainly due to the opening of Magnum Club during the year.

Credit card commissions increased from HK\$0.6 million for the year ended 31st March, 2011, to HK\$2.3 million for the year ended 31st March, 2013, which was in line with the increase in sales.

Repair and maintenance expenses increased from HK\$1.2 million for the year ended 31st March, 2011, to HK\$2.7 million for the year ended 31st March, 2012, and decreased to HK\$2.0 million for the year ended 31st March, 2013 mainly due to certain major repairs cost incurred for Beijing Club during the year ended 31st March, 2012.

Other expenses increased from HK\$6.8 million for the year ended 31st March, 2011, to HK\$14.7 million for the year ended 31st March, 2012, largely attributable to an increase in pre-operating expenses and consultancy fees, which consist of project management fees for the opening of Mangum Club and consultancy fees for the renewal of leases for the Clubs.

## FINANCIAL INFORMATION

### Income tax

The operations in Hong Kong are subject to a profit tax rate of 16.5% on estimated assessable profits arising in Hong Kong. For more details, see Note 6 of Section C to the Accountants' Report set out in Appendix I to the Prospectus. The effective tax rate for operations in Hong Kong was 16.1%, 16.7%, 17.8% and 25.3% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### RESULTS OF OPERATIONS OF THE GROUP

The following table presents the results of operations of the Group and the percentage to turnover for each of the financial line items over the periods indicated:

	Year ended 31st March,						Five months ended 31st August,			
	2011		2012		2013		2012		2013	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
<b>Turnover</b>	69,986	100.0%	137,148	100.0%	173,995	100.0%	69,981	100.0%	71,748	100.0%
Other revenue	4	—	12	—	33	—	9	—	16	—
Other net income/(loss)	496	0.7%	(505)	0.4%	—	—	—	—	12	—
Cost of inventories sold	(11,207)	16.0%	(23,833)	17.4%	(31,785)	18.3%	(13,549)	19.4%	(13,436)	18.7%
Staff costs	(7,873)	11.2%	(16,318)	11.9%	(31,104)	17.9%	(10,688)	15.3%	(17,570)	24.5%
Depreciation and amortisation	(1,006)	1.4%	(3,403)	2.5%	(5,155)	3.0%	(1,909)	2.7%	(2,105)	2.9%
Property rentals and related expenses	(8,857)	12.7%	(20,649)	15.1%	(30,314)	17.4%	(12,659)	18.1%	(13,806)	19.2%
Advertising and marketing expenses	(8,215)	11.7%	(10,766)	7.8%	(18,846)	10.8%	(7,147)	10.2%	(6,223)	8.7%
Other operating expenses	(14,158)	20.2%	(26,656)	19.4%	(20,143)	11.5%	(8,337)	11.9%	(7,131)	10.0%
Listing expenses	—	—	—	—	(2,583)	1.5%	—	—	(4,044)	5.6%
<b>Profit before taxation</b>	19,170	27.4%	35,030	25.5%	34,098	19.6%	15,701	22.4%	7,461	10.4%
Income tax	(3,088)	4.4%	(5,863)	4.3%	(6,064)	3.5%	(2,627)	3.7%	(1,887)	2.6%
<b>Profit and total comprehensive income for the year/period</b>	<u>16,082</u>	<u>23.0%</u>	<u>29,167</u>	<u>21.3%</u>	<u>28,034</u>	<u>16.1%</u>	<u>13,074</u>	<u>18.7%</u>	<u>5,574</u>	<u>7.8%</u>

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## FINANCIAL INFORMATION

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### **Five months ended 31st August, 2013 compared to five months ended 31st August, 2012**

#### ***Turnover***

The turnover increased by 2.4% or HK\$1.7 million, to HK\$71.7 million for the five months ended 31st August, 2013, from HK\$70.0 million for the five months ended 31st August, 2012. Such increase was mainly attributed from the turnover generated from Magnum Club.

#### ***Other net income/(loss)***

The other net income for the five months ended 31st August, 2013 represented a gain on bargain purchase from the excess of the Group's equity interest in the fair value of identifiable assets and liabilities over acquisition cost of Prime Sunlight, Asiatic Century, Best Season and Dragon Praise.

#### ***Cost of inventories sold***

The cost of inventories sold decreased by 0.7% or HK\$0.1 million, to HK\$13.4 million for the five months ended 31st August, 2013, from HK\$13.5 million for the five months ended 31st August, 2012.

#### ***Staff costs***

The staff costs increased by 64.5% or HK\$6.9 million, to HK\$17.6 million for the five months ended 31st August, 2013, from HK\$10.7 million for the five months ended 31st August, 2012. Such increase was mainly due to increase in average costs in retaining experienced staff for the proposed Listing. The Group had conducted series of marketing and brand building activities during the first six months of 2013 that involved extra marketing personnel and thus increased the staff costs.

#### ***Depreciation and amortisation***

The depreciation and amortisation charges increased by 10.5% or HK\$0.2 million, to HK\$2.1 million for the five months ended 31st August, 2013, from HK\$1.9 million for the five months ended 31st August, 2012. Such increase was mainly due to depreciation expenses incurred for property, plant and equipment of the Clubs.

#### ***Property rentals and related expenses***

The property rentals and related expenses increased by 8.7% or HK\$1.1 million, to HK\$13.8 million for the five months ended 31st August, 2013, from HK\$12.7 million for the five months ended 31st August, 2012. Such increase was mainly due to increase in the rental expenses of some of the leased properties of the Group.

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## FINANCIAL INFORMATION

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### ***Advertising and marketing expenses***

The advertising and marketing expenses decreased by 12.7% or HK\$0.9 million, to HK\$6.2 million for the five months ended 31st August, 2013, from HK\$7.1 million for the five months ended 31st August, 2012. Such decrease was mainly due to less magazine advertisements placed by the Group during the period.

### ***Other operating expenses***

The other operating expenses decreased by 14.5% or HK\$1.2 million, to HK\$7.1 million for the five months ended 31st August, 2013, from HK\$8.3 million for the five months ended 31st August, 2012. Such decrease was mainly due to tightened budget on entertainment expenses.

### ***Profit before taxation***

As a result of the foregoing and the listing expenses of HK\$4.0 million charged to profit or loss during the five months ended 31st August, 2013, the profit before taxation decreased by 52.2% or HK\$8.2 million, to HK\$7.5 million for the five months ended 31st August, 2013, from HK\$15.7 million for the five months ended 31st August, 2012.

### ***Income tax***

The income tax decreased by 26.9% or HK\$0.7 million, to HK\$1.9 million for the five months ended 31st August, 2013, from HK\$2.6 million for the five months ended 31st August, 2012. Such decrease was in line with the decrease in the profit before taxation for the five months ended 31st August, 2013. The effective income tax rate increased from 16.7% for the five months ended 31st August, 2012 to 25.3% for the five months ended 31st August, 2013. The increase in effective tax rate was mainly due to the listing expenses of HK\$4.0 million charged to profit or loss during the five months ended 31st August, 2013 which are non-deductible expenses.

### ***Profit and total comprehensive income***

As a result of the factors discussed above, the profit attributable to owners of the Company decreased by 57.3% or HK\$7.5 million, to HK\$5.6 million for the five months ended 31st August, 2013, from HK\$13.1 million for the five months ended 31st August, 2012. Such decrease was due to the listing expenses incurred and the increase in staff costs for brand building, marketing and proposed Listing.

## **Year ended 31st March, 2013 compared to year ended 31st March, 2012**

### ***Turnover***

The turnover increased by 26.9% or HK\$36.9 million, to HK\$174.0 million for the year ended 31st March, 2013, from HK\$137.1 million for the year ended 31st March, 2012. Such increase was mainly attributed from the turnover generated from Magnum Club.

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## FINANCIAL INFORMATION

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### ***Other net income/(loss)***

The Group does not have any other net income for the year ended 31st March, 2013, compared to the loss of HK\$0.5 million relating to the disposal of property, plant and equipment for the year ended 31st March, 2012.

### ***Cost of inventories sold***

The cost of inventories sold increased by 33.6% or HK\$8.0 million, to HK\$31.8 million for the year ended 31st March, 2013, from HK\$23.8 million for the year ended 31st March, 2012. Such increase was mainly due to the increase beverage sales after the opening of Magnum Club on 21st December, 2011, which was in line with the increase in beverage sales for such period.

### ***Staff costs***

The staff costs increased by 90.8% or HK\$14.8 million, to HK\$31.1 million for the year ended 31st March, 2013, from HK\$16.3 million for the year ended 31st March, 2012. Such increase was mainly due to the increase in total headcount after the opening of Magnum Club on 21st December, 2011 and the increase in cost of marketing staff.

### ***Depreciation and amortisation***

The depreciation and amortisation charges increased by 52.9% or HK\$1.8 million, to HK\$5.2 million for the year ended 31st March, 2013, from HK\$3.4 million for the year ended 31st March, 2012. Such increase was mainly due to depreciation expenses incurred for property, plant and equipment of Magnum Club opened on 21st December, 2011.

### ***Property rentals and related expenses***

The property rentals and related expenses increased by 47.1% or HK\$9.7 million, to HK\$30.3 million for the year ended 31st March, 2013, from HK\$20.6 million for the year ended 31st March, 2012. Such increase was mainly due to the rental expenses of Magnum Club, and the new headquarter office and the renewal of tenancy agreement of Billion Club with higher rental rates.

### ***Advertising and marketing expenses***

The advertising and marketing expenses increased by 74.1% or HK\$8.0 million, to HK\$18.8 million for the year ended 31st March, 2013, from HK\$10.8 million for the year ended 31st March, 2012. Such increase was mainly due to additional advertising and marketing expenses for Magnum Club.

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## FINANCIAL INFORMATION

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### ***Other operating expenses***

The other operating expenses decreased by 24.7% or HK\$6.6 million, to HK\$20.1 million for the year ended 31st March, 2013, from HK\$26.7 million for the year ended 31st March, 2012. Such decrease was mainly due to the tightened budget effort which led to a decrease in management fee and repair and maintenance costs during the year ended 31st March, 2013.

### ***Profit before taxation***

As a result of the foregoing and the listing expenses of HK\$2.6 million charged to profit or loss during the year ended 31st March, 2013, the profit before taxation decreased by 2.6% or HK\$0.9 million, to HK\$34.1 million for the year ended 31st March, 2013, from HK\$35.0 million for the year ended 31st March, 2012.

### ***Income tax***

The income tax increased by 3.4% or HK\$0.2 million, to HK\$6.1 million for the year ended 31st March, 2013, from HK\$5.9 million for the year ended 31st March, 2012. The effective income tax rate increased slightly from 16.7% for the year ended 31st March, 2012 to 17.8% for the year ended 31st March, 2013. Such increase was mainly due to the listing expenses of HK\$2.6 million charged to profit or loss during the year ended 31st March, 2013 which are non-deductible expenses.

### ***Profit and total comprehensive income***

As a result of the factors discussed above, the profit attributable to owners of the Company decreased by 4.1% or HK\$1.2 million, to HK\$28.0 million for the year ended 31st March, 2013, from HK\$29.2 million for the year ended 31st March, 2012. This was mainly due to the listing expenses incurred, the increase in staff costs and advertising and marketing expenses, offset by the increase in turnover.

## **Year ended 31st March, 2012 compared to year ended 31st March, 2011**

### ***Turnover***

The turnover increased by 95.9% or HK\$67.1 million, to HK\$137.1 million for the year ended 31st March, 2012, from HK\$70.0 million for the year ended 31st March, 2011. Such increase was mainly attributed from the turnover generated from Beijing Club, which was acquired by the Group on 1st September, 2010.



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## FINANCIAL INFORMATION

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### ***Other net income/(loss)***

The Group has recorded a loss of HK\$0.5 million on disposal of property, plant and equipment for the year ended 31st March, 2012, compared to a gain on bargain purchase from the excess of the Group's equity interest in the fair value of identifiable assets and liabilities over acquisition cost of Best Future and Sure Wise of HK\$0.5 million, for the year ended 31st March, 2011.

### ***Cost of inventories sold***

The cost of inventories sold increased by 112.5% or HK\$12.6 million, to HK\$23.8 million for the year ended 31st March, 2012, from HK\$11.2 million for the year ended 31st March, 2011. Such increase was mainly due to the increase beverage sales after the acquisition of Beijing Club on 1st September, 2010.

### ***Staff costs***

The staff costs increased by 106.3% or HK\$8.4 million, to HK\$16.3 million for the year ended 31st March, 2012, from HK\$7.9 million for the year ended 31st March, 2011. Such increase was mainly due to (i) the increase in total headcount after the acquisition of Beijing Club on 1st September, 2010; and (ii) increase in membership commission to staff.

### ***Depreciation and amortisation***

The depreciation and amortisation charges increased by 240.0% or HK\$2.4 million, to HK\$3.4 million for the year ended 31st March, 2012, from HK\$1.0 million for the year ended 31st March, 2011. Such increase was mainly due to depreciation expenses incurred for property, plant and equipment of Beijing Club acquired and Magnum Club opened on 1st September, 2010 and 21st December, 2011 respectively.

### ***Property rentals and related expenses***

The property rentals and related expenses increased by 131.5% or HK\$11.7 million, to HK\$20.6 million for the year ended 31st March, 2012, from HK\$8.9 million for the year ended 31st March, 2011. Such increase was mainly due to the rental expenses of Magnum Club opened on 21st December, 2011 and Beijing Club acquired on 1st September, 2010.

### ***Advertising and marketing expenses***

The advertising and marketing expenses increased by 31.7% or HK\$2.6 million, to HK\$10.8 million for the year ended 31st March, 2012, from HK\$8.2 million for the year ended 31st March, 2011. Such increase was mainly due to increase in marketing expenses for organising music shows, dancing performance and other promotion events.

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## FINANCIAL INFORMATION

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### ***Other operating expenses***

The other operating expenses increased by 88.0% or HK\$12.5 million, to HK\$26.7 million for the year ended 31st March, 2012, from HK\$14.2 million for the year ended 31st March, 2011. Such increase was mainly due to an increase in credit card commissions, repair and maintenance costs, consultancy fee, management fee and pre-operating expenses incurred for Magnum Club, which were in line with the business expansion. Such consultancy fee refers to advisory fee paid to independent advisers who assisted the Group in handling the licensing matters. Management fee was mainly paid to companies controlled by Mr. Wong for the year ended 31st March, 2012.

### ***Profit before taxation***

As a result of the foregoing, the profit before taxation increased by 82.3% or HK\$15.8 million, to HK\$35.0 million for the year ended 31st March, 2012, from HK\$19.2 million for the year ended 31st March, 2011.

### ***Income tax***

The income tax increased by 90.3% or HK\$2.8 million, to HK\$5.9 million for the year ended 31st March, 2012, from HK\$3.1 million for the year ended 31st March, 2011. Such increase was in line with the increase in the profit before taxation for the year ended 31st March, 2012. The effective income tax rate increased slightly from 16.1% in the year ended 31st March, 2011 to 16.7% in the year ended 31st March, 2012.

### ***Profit and total comprehensive income***

As a result of the factors discussed above, the profit attributable to owners of the Company increased by 81.4% or HK\$13.1 million, to HK\$29.2 million for the year ended 31st March, 2012, from HK\$16.1 million for the year ended 31st March, 2011. This was due to the full year profit contributed by Beijing Cub, which was acquired by the Group on 1st September, 2010.

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## FINANCIAL INFORMATION

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### WORKING CAPITAL

The Group had net current assets of HK\$12.2 million as at 31st March, 2011, HK\$4.0 million as at 31st March, 2012, HK\$32.2 million as at 31st March, 2013, HK\$38.4 million as at 31st August, 2013 and HK\$32.4 million as at 30th November, 2013. The following table sets forth the breakdown of its current assets and current liabilities as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at 31st</b>	<b>As at 30th</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>August, November,</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current assets</b>					
Inventories	936	1,482	2,222	2,355	2,669
Trade and other receivables	7,988	21,323	32,405	35,372	39,993
Amount due from Director	190	—	1,677	—	—
Amounts due from related parties	—	—	1,976	1,398	1,116
Amount due from Controlling Shareholder	9,390	3,390	3,390	—	—
Tax recoverable	—	—	1,012	1,012	1,012
Pledged bank deposits	2,461	4,467	6,479	6,486	6,491
Cash at bank and in hand	14,173	12,028	22,239	25,562	16,065
	<u>35,138</u>	<u>42,690</u>	<u>71,400</u>	<u>72,185</u>	<u>67,346</u>
<b>Current liabilities</b>					
Trade and other payables	12,975	26,727	30,706	29,223	29,621
Amounts due to related parties	517	449	17	—	—
Amount due to Controlling Shareholder	6,197	6,198	6,151	—	—
Current taxation	3,290	5,354	2,295	4,518	5,351
	<u>22,979</u>	<u>38,728</u>	<u>39,169</u>	<u>33,741</u>	<u>34,972</u>
<b>Net current assets</b>	<u><u>12,159</u></u>	<u><u>3,962</u></u>	<u><u>32,231</u></u>	<u><u>38,444</u></u>	<u><u>32,374</u></u>

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## FINANCIAL INFORMATION

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### LIQUIDITY AND CAPITAL RESOURCES

Historically, the Group has funded the liquidity and capital requirements primarily through cash flows from the operating activities. The Group had net cash inflows from operating activities of HK\$16.0 million, HK\$31.3 million, HK\$21.9 million and HK\$5.4 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The Group requires cash primarily for working capital needs and capital expenditures. As at 31st August, 2013, the Group had HK\$25.6 million in cash and cash equivalents. During the Track Record Period, the Group did not have any bank borrowing facilities. The Directors believe the Group will be able to obtain bank borrowing facilities on such terms to be further agreed between the Group and the relevant banks should the need arises in the future.

The Group expects to finance the working capital requirements for the 12 months following the date of the Prospectus with the following sources of funding:

- cash flows generated from the operating activities;
- cash and cash equivalents available, which were HK\$25.6 million as at 31st August, 2013; and
- net proceeds to be received by the Group from the Global Offering.

Based on the above, the Directors believe that the Group will have sufficient funds for the present working capital requirements for at least the next 12 months from the date of the Prospectus.

For more information on the expected capital expenditure requirements, see “Financial Information — Capital Expenditures and Capital Commitments” in the Prospectus.

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## FINANCIAL INFORMATION

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### Cash flows of the Group

The following table sets forth selected cash flow data from the consolidated cash flow statements over the periods indicated:

	Year ended 31st March,			Five months ended 31st August,	
	2011	2012	2013	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	15,981	31,317	21,942	16,259	5,376
Net cash generated from/(used in) investing activities	361	(12,463)	(11,684)	(5,024)	4,098
Net cash used in financing activities	<u>(3,999)</u>	<u>(20,999)</u>	<u>(47)</u>	<u>—</u>	<u>(6,151)</u>
Net increase/(decrease) in cash and cash equivalents	12,343	(2,145)	10,211	11,235	3,323
Cash at bank and in hand at beginning of the year/period	<u>1,830</u>	<u>14,173</u>	<u>12,028</u>	<u>12,028</u>	<u>22,239</u>
Cash at bank and in hand at end of the year/period	<u><u>14,173</u></u>	<u><u>12,028</u></u>	<u><u>22,239</u></u>	<u><u>23,263</u></u>	<u><u>25,562</u></u>

### Operating cash flow

The Group derives the cash flow from operating activities principally from the operation of clubbing business. The working capital requirements are typically used to purchase beverages and other operating items for club operations and to pay the rental expenses and staff costs. During the Track Record Period, the net cash flow from operating activities represented profit before taxation for the year/period adjusted for income tax paid, non-cash items and changes in working capital.

For the five months ended 31st August, 2013, the Group had net cash generated from operating activities of HK\$5.4 million. Profit before taxation for the period was HK\$7.5 million. Adjustments primarily include depreciation and amortisation of intangible asset in the amount of HK\$2.1 million. Changes in working capital represented a net use of HK\$4.2 million in cash, primarily driven by an increase in the trade and other receivables of HK\$3.0 million.

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## FINANCIAL INFORMATION

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For the year ended 31st March, 2013, the Group had net cash generated from operating activities of HK\$21.9 million. Profit before taxation for the year was HK\$34.1 million. Adjustments primarily include depreciation and amortisation of intangible asset in the amount of HK\$5.2 million. Changes in working capital represented a net use of HK\$6.5 million in cash, primarily driven by an increase in trade and other receivables of HK\$11.1 million. The increase in trade and other receivables was primarily due to increases in rental deposits and sponsorship income receivable. These cash outflows were partially offset by an increase in trade and other payables of HK\$5.8 million. The increase in trade and other payables was primarily due to an increase in receipts in advance relating to prepayments made by the customers. The Group paid income tax of HK\$10.8 million during the year ended 31st March, 2013.

For the year ended 31st March, 2012, the Group had net cash generated from operating activities of HK\$31.3 million. Profit before taxation for the year was HK\$35.0 million. Adjustments primarily include depreciation and amortisation of intangible asset in the amount of HK\$3.4 million. Changes in working capital represented a net use of HK\$4.5 million in cash, primarily driven by an increase in trade and other receivables of HK\$13.3 million. The increase in trade and other receivables was primarily due to the increase in trade receivables after the opening of Magnum Club on 21st December, 2011 and sales improvement in Beijing Club after the acquisition on 1st September, 2010. These cash outflows were partially offset by an increase in trade and other payables of HK\$9.5 million. The increase in trade and other payables was primarily due to an increase in expense accruals after the opening of Magnum Club on 21st December, 2011. The Group paid income tax of HK\$3.2 million during the year ended 31st March, 2012.

For the year ended 31st March, 2011, the Group had net cash generated from operating activities of HK\$16.0 million. Profit before taxation for the period was HK\$19.2 million. Adjustments primarily include the depreciation and amortisation of intangible asset in the amount of HK\$1.0 million. Changes in working capital represented a net use of HK\$3.0 million in cash, primarily driven by an increase in trade and other receivable of HK\$1.0 million and a decrease in amount due to related companies of HK\$2.0 million. The increase in trade and other receivable was primarily due to increases in trade receivables after the acquisition of Beijing Club on 1st September, 2010. The Group paid income tax of HK\$0.7 million during the year ended 31st March, 2011.

### **Investing cash flow**

During the Track Record Period, the investing activities principally consisted of purchases of property, plant and equipment, advances from/to related companies and Controlling Shareholder and increase in pledged bank deposits.

For the five months ended 31st August, 2013, the Group had net cash generated from investing activities of HK\$4.1 million, which primarily consisted of decrease in amounts due from related parties and Controlling Shareholder in the amount of HK\$2.3 million and HK\$3.0 million, respectively.

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## FINANCIAL INFORMATION

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For the year ended 31st March, 2013, the Group had net cash used in investing activities of HK\$11.7 million, which was primarily due to (i) purchases of property, plant and equipment in the amount of HK\$6.1 million for the Clubs, (ii) advances to a Director and related companies in the amount of HK\$3.7 million and (iii) increase in pledged bank deposits in the amount of HK\$2.0 million.

For the year ended 31st March, 2012, the Group had net cash used in investing activities of HK\$12.5 million, which was primarily due to (i) purchases of property, plant and equipment in the amount of HK\$16.7 million for the Clubs and (ii) increase in pledged deposits in the amounts of HK\$2.0 million. These cash outflows were partially offset by the decrease in amount due from a Director and Controlling Shareholder in the amount of HK\$0.2 million and HK\$6.0 million, respectively.

For the year ended 31st March, 2011, the Group had net cash generated from investing activities of HK\$0.4 million, which was primarily due to net cash inflow from acquisition of subsidiaries of HK\$0.6 million, net off by the increase in amount due from a Director in the amount of HK\$0.2 million.

### **Financing cash flow**

The cash outflow from financing activities relates primarily to the payment of dividends and decrease in amount due to Controlling Shareholder.

For the five months ended 31st August, 2013, the net cash used in financing activities was HK\$6.2 million which consisted of amount due to Controlling Shareholder.

For the year ended 31st March, 2013, the net cash used in financing activities was less than HK\$0.1 million which consisted of amount due to Controlling Shareholder.

For the year ended 31st March, 2012 and 2011, the net cash used in financing activities was HK\$21.0 million and HK\$4.0 million, respectively, which mainly consisted of payment of dividends.

### **INDEBTEDNESS**

As at the Latest Practicable Date, the Group does not have any outstanding mortgage, charge, debenture or other loan capital (issued or agreed to be issued), bank overdraft, loan, liability under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantee or other material contingent liability.

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## FINANCIAL INFORMATION

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### DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

#### Current assets

##### *Inventories*

During the Track Record Period, the inventories mainly comprised of beverages used in the operations. The following table sets out the inventory balances and inventory turnover days as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
Beverages, and other operating items for clubbing operations	<u>936</u>	<u>1,482</u>	<u>2,222</u>	<u>2,355<sup>1</sup></u>
Inventory turnover days <sup>2</sup>	22	13	21	26

*Notes:*

- 1 As at 17th December, 2013, the subsequent utilisation of beverages and other operating items was approximately HK\$2,187,000 or 92.9% of inventories as at 31st August, 2013.
- 2 The calculation of inventory turnover days is calculated by dividing average inventories by cost of inventories sold and multiplying the resulting value by 365 days for each of the three years ended 31st March, 2013 and 153 days for the five months ended 31st August 2013. The average inventories is the inventories at the beginning of the period plus the inventories at the end of the period with the sum divided by two. For club opened during the respective year, the cost of inventories sold is annualised for the calculation of inventory turnover days.

The inventories increased by 9.1% to HK\$2.4 million as at 31st August, 2013 from HK\$2.2 million as at 31st March, 2013, mainly due to the increase in stock in preparation for events held in September 2013.

The inventories increased by 46.7% to HK\$2.2 million as at 31st March, 2013 from HK\$1.5 million as at 31st March, 2012, mainly due to the increase in liquor cost and introduction of new liquor products in Magnum Club.

The inventories increased by 66.7% to HK\$1.5 million as at 31st March, 2012 from HK\$0.9 million as at 31st March, 2011, mainly due to increase in purchase after the opening of Magnum Club on 21st December, 2011.

Inventory turnover days increased to 21 days in 2013, from 13 days in 2012, mainly due to increase in inventory balance closed to year end to facilitate the forecasted sales volume in April 2013.



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## FINANCIAL INFORMATION

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Inventory turnover days decreased to 13 days in 2012, from 22 days in 2011 mainly due to the increasing sales from Beijing Club and after the opening of Magnum Club on 21st December, 2011.

### ***Trade and other receivables***

The following table sets out the trade and other receivables balances as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
Trade receivables	316	6,437	4,502	2,919 <sup>1</sup>
Deposits, prepayments and other receivables	<u>7,672</u>	<u>14,886</u>	<u>27,903</u>	<u>32,453</u>
	<u><u>7,988</u></u>	<u><u>21,323</u></u>	<u><u>32,405</u></u>	<u><u>35,372</u></u>

*Note:*

- 1 As at 17th December, 2013, the subsequent settlement of trade receivables was approximately HK\$2,808,000 or 96.2% of trade receivables as at 31st August, 2013.

### ***Trade receivables***

During the Track Record Period, trade receivables represented receivables from financial institutions arising from credit card sales. Such financial institutions usually settle their payments within 30 days.

The trade receivables decreased by 35.6% to HK\$2.9 million as at 31st August, 2013 from HK\$4.5 million as at 31st March, 2013, mainly due to the financial institutions shortened the settlement time for credit card sales after the Group negotiated with the financial institutions and has placed the pledged bank deposits for such arrangement.

The trade receivables decreased by 29.7% to HK\$4.5 million as at 31st March, 2013 from HK\$6.4 million as at 31st March, 2012, mainly due to the financial institutions shortened the settlement time for credit card sales after the Group negotiated with the financial institutions and has placed the pledged bank deposits for such arrangement.

The trade receivables increased significantly to HK\$6.4 million as at 31st March, 2012 from HK\$0.3 million as at 31st March, 2011, mainly due to the increase in sales after the opening of Magnum Club on 21st December, 2011 and sales improvement in Beijing Club after the acquisition on 1st September, 2010.

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## FINANCIAL INFORMATION

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Debtors' turnover days increased to 11 days in 2013, from 7 days in 2012 and 1 day in 2011, as financial institutions required longer settlement time in processing the increasing membership sales to comply with the regulatory policy.

The following table sets out an aging analysis of the trade receivables based on the invoice date as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	316	4,316	4,153	2,808
Over 1 month to 2 months	—	989	238	—
Over 2 months to 3 months	—	842	—	—
Over 3 months	—	290	111	111
	<u>316</u>	<u>6,437</u>	<u>4,502</u>	<u>2,919</u>

### *Deposits, prepayments and other receivables*

The following table sets out the deposits, prepayments and other receivables as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits	6,032	12,698	17,518	16,527
Prepayments	1,223	379	4,427	5,250
Other receivables	<u>417</u>	<u>1,809</u>	<u>5,958</u>	<u>10,676<sup>1</sup></u>
	<u>7,672</u>	<u>14,886</u>	<u>27,903</u>	<u>32,453</u>

*Note:*

- 1 As at 17th December, 2013, the subsequent settlement of other receivables was approximately HK\$6,138,000 or 57.5% of other receivables as at 31st August, 2013.

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## FINANCIAL INFORMATION

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### *Deposits*

During the Track Record Period, deposits represented rental and related deposits, including building management fee and reinstatement deposits for the Clubs and office premises.

The deposits decreased to HK\$16.5 million as at 31st August, 2013, from HK\$17.5 million as at 31st March, 2013, mainly due to the return of rental deposit for Beijing Club from the landlord.

The deposits increased to HK\$17.5 million as at 31st March, 2013, from HK\$12.7 million as at 31st March, 2012, mainly due to the rental deposits for Zentral of HK\$2.3 million and increase in rental deposits for Beijing Club after the renewal of rental agreement of HK\$2.5 million.

The deposits increased to HK\$12.7 million as at 31st March, 2012, from HK\$6.0 million as at 31st March, 2011, mainly due to the rental deposits of Magnum Club of HK\$4.2 million and headquarters of HK\$0.8 million.

### *Prepayments*

During the Track Record Period, prepayments mainly represented prepayments made to suppliers and prepaid Listing expenses.

The prepayments increased to HK\$5.3 million as at 31st August, 2013, from HK\$4.4 million as at 31st March, 2013, mainly due to payment of fees and expenses in relation to the proposed Listing of the Group.

The prepayments increased to HK\$4.4 million as at 31st March, 2013, from HK\$0.4 million as at 31st March, 2012, mainly due to prepayment of SMS promotion costs to a telecommunication service provider of HK\$1.7 million.

The prepayments decreased to HK\$0.4 million as at 31st March, 2012, from HK\$1.2 million as at 31st March, 2011, mainly due to utilisation of prepayments made to beverage suppliers.

### *Other receivables*

During the Track Record Period, other receivables represented sponsorship income receivables from beverage suppliers, in return for brand displaying and promotions through different events held at the Clubs.

The other receivables increased to HK\$10.7 million as at 31st August, 2013, from HK\$0.4 million as at 31st March, 2011, mainly due to increase in sponsorship income receivables from beverage suppliers.

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## FINANCIAL INFORMATION

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### *Amounts due from Director, related companies and Controlling Shareholder*

The following table sets forth an analysis of the amount due from a Director, related parties and Controlling Shareholder as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
<i>Director</i>				
Mr. Wong <sup>(1)</sup>	<u>190</u>	<u>—</u>	<u>1,677</u>	<u>—</u>
 <i>Controlling Shareholder</i>				
Mr. Yip	<u>9,390</u>	<u>3,390</u>	<u>3,390</u>	<u>—</u>
 <i>Related parties</i>				
Goal Speed Limited	—	—	310	—
Colorline Limited	—	—	105	—
China Finance (Worldwide) Limited <sup>(2)</sup>	—	—	577	—
Asiatic Century Limited	—	—	1	—
Jetsky Corporation Limited	—	—	350	—
Leonart Limited	—	—	513	400
Gold Allied Limited	—	—	120	—
Bright Smart Securities International (H.K.) Limited	—	—	—	29
Mr. Wong <sup>(1)</sup>	<u>—</u>	<u>—</u>	<u>—</u>	<u>969</u>
	<u>—</u>	<u>—</u>	<u>1,976</u>	<u>1,398</u>

*Notes:*

(1) Mr. Wong resigned as a Director on 27th June, 2013.

(2) Formerly known as Bright Smart Finance International (China) Limited.

The above amounts represented advances made by the Group and are unsecured, interest-free and recoverable on demand.

Apart from the amount due from Mr. Wong, the above amounts were fully settled in September 2013. There were no amounts due but unpaid, nor any provision made against the principal amount at 31st March, 2011, 2012 and 2013 and 31st August, 2013, respectively.

### ***Pledged bank deposits***

As at 31st August, 2013, the pledged bank deposits remained stable at HK\$6.5 million.

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## FINANCIAL INFORMATION

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The pledged bank deposits increased to HK\$6.5 million as at 31st March, 2013, from HK\$4.5 million as at 31st March, 2012, as the Group renewed the tenancy agreement and an additional bank guarantee issued to the landlord of Beijing Club during the year.

The pledged bank deposits increased to HK\$4.5 million as at 31st March, 2012, from HK\$2.5 million as at 31st March, 2011, due to the credit card sales arrangement with the banks.

### ***Cash at bank and in hand***

The cash balance increased to HK\$25.6 million as at 31st August, 2013, from HK\$22.2 million as at 31st March, 2013, mainly due to cash generated from operations.

The cash balance increased significantly to HK\$22.2 million as at 31st March, 2013, as no dividend has been paid in the year ended 31st March, 2013, compared to HK\$4 million and HK\$21 million dividend payment in the years ended 31st March, 2011 and 2012, respectively.

The cash balance decreased to HK\$12.0 million as at 31st March, 2012, from HK\$14.2 million as at 31st March, 2011, mainly due to the transfer of fund to pledged bank deposit.

### **Non-current assets and liabilities**

#### ***Property, plant and equipment***

During the Track Record Period, the property, plant and equipment mainly represented leasehold improvements, furniture and fixtures and other equipments.

The property, plant and equipment decreased slightly to HK\$17.4 million as at 31st August, 2013, from HK\$18.7 million as at 31st March, 2013, mainly due to the depreciation of the property, plant and equipment for the period.

The property, plant and equipment decreased by HK\$0.6 million, to HK\$18.7 million as at 31st March, 2013, from HK\$19.3 million as at 31st March, 2012, mainly due to the depreciation of furniture and fixtures and leasehold improvement for the Clubs.

The property, plant and equipment increased by HK\$17.3 million, to HK\$19.3 million as at 31st March, 2012, from HK\$2.0 million as at 31st March, 2011, mainly due to the purchase of leasehold improvement, furniture and fixtures and other equipments for Magnum Club.

#### ***Intangible assets***

Intangible assets represented the customer relationship acquired by the Group during the acquisition of Beijing Club on 1st September, 2010.

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## FINANCIAL INFORMATION

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### ***Deferred tax assets and liabilities***

Deferred tax assets or liabilities arose from the temporary difference between the accounting and tax bases of property, plant and equipment, intangible asset and future benefit of tax losses.

For the year ended 31st March, 2011, the deferred taxation mainly related to deferred tax asset arising from property, plant and equipment and deferred tax liability arising from intangible asset of Beijing Club. Such aforesaid intangible assets represented the customer relationship acquired by the Group during the acquisition of Beijing Club on 1st September, 2010.

For the year ended 31st March, 2012, the deferred tax liability was recognised due to the temporary difference arise from the addition to property, plant and equipment of Magnum Club opened on 21st December, 2011.

For the year ended 31st March, 2013 and five months ended 31st August, 2013, a deferred tax asset was recognised for an unused tax losses carry-forward for Billion Club as such loss was temporary and it is probable that there would be sufficient future taxable profit against which the loss carry-forward could be utilised.

### **Current liabilities**

During the Track Record Period, the trade payables primarily related to the purchases of beverages and tobaccos. The following table sets forth the trade and other payables, the aging analysis and turnover days of trade payables as at the dates indicated:

#### ***Trade and other payables***

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
Trade payables	1,591	2,899	3,217	2,750 <sup>1</sup>
Other payables	3,058	9,082	6,056	6,214 <sup>2</sup>
Accrued charges	3,123	5,484	7,733	7,055 <sup>3</sup>
Receipts in advance	<u>5,203</u>	<u>9,262</u>	<u>13,700</u>	<u>13,204</u>
	<u>12,975</u>	<u>26,727</u>	<u>30,706</u>	<u>29,223</u>

*Notes:*

- 1 As at 17th December, 2013, the trade payables have been fully settled.
- 2 As at 17th December, 2013, the subsequent settlement of other payables was approximately HK\$3,236,000 or 52.1% of other payables as at 31st August, 2013.
- 3 As at 17th December, 2013, the subsequent settlement of accrual charges was approximately HK\$3,745,000 or 53.1% of accrued charges as at 31st August, 2013.

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## FINANCIAL INFORMATION

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### *Ageing analysis and creditors' turnover days*

	<b>As at 31st March,</b>		<b>As at 31st August,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	1,591	2,889	3,217	2,750
Over 3 months to 6 months	—	10	—	—
	<u>1,591</u>	<u>2,899</u>	<u>3,217</u>	<u>2,750</u>
 Creditors' turnover days <sup>1</sup>	 40	 25	 35	 34

*Note:*

- 1 The Group calculates creditors' turnover days by dividing average trade payables by cost of inventories sold for the relevant period and multiplying 365 days for each of the three years ended 31st March, 2013 and 153 days for the five months ended 31st August, 2013. Average trade payables is calculated by the sum of trade payables at the beginning of the period and trade payables at the end of the period, divided by two. For club opened during the respective year, the cost of inventories sold is annualised for the calculation of creditors' turnover days.

The trade payables primarily related to the purchases of beverages and tobacco. The trade payables increased significantly to HK\$2.9 million as at 31st March, 2012, from HK\$1.6 million as at 31st March, 2011, mainly due to increase in purchase after the opening of Magnum Club on 21st December, 2011.

The other payables mainly represents payables in advertising and marketing expenses, purchase costs of furniture, equipments and renovations and salary accruals. The other payables increased significantly to HK\$9.1 million as at 31st March, 2012, from HK\$3.1 million as at 31st March, 2011, mainly due to the increase in expenses payable after the opening of Magnum Club on 21st December, 2011.

The accrued charges mainly represents salary accruals and accruals for reinstatement costs for leased properties. The accrued charges increased to HK\$7.7 million as at 31st March, 2013, from HK\$5.5 million as at 31st March, 2012, mainly due to the increasing in staff costs.

The receipt in advance mainly represents advance receipt of membership fees from members of the Clubs. Such payables increased significantly up to 31st March, 2013, mainly due to the efforts in promotion of the membership schemes to the VIP Customers.

Creditors' turnover days increased to 35 days as at 31st March, 2013, from 25 days as at 31st March, 2012. Such turnover days approximate to the average credit period of 30 days offered by its major suppliers.

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## FINANCIAL INFORMATION

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### *Amounts due to related companies and Controlling Shareholder*

The following table sets forth an analysis of the amounts due to related parties and Controlling Shareholder as at the dates indicated:

	<b>As at 31st March,</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31st August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2013</b>
				<i>HK\$'000</i>
<i>Controlling Shareholder</i>				
Mr. Yip	<u>6,197</u>	<u>6,198</u>	<u>6,151</u>	<u>—</u>
 <i>Related parties</i>				
Goal Speed Limited	150	160	—	—
Colorline Limited	—	105	—	—
China Finance (Worldwide) Limited <sup>(note)</sup>	307	108	—	—
Asiatic Century Limited	—	16	17	—
Gold Allied Limited	<u>60</u>	<u>60</u>	<u>—</u>	<u>—</u>
	<u>517</u>	<u>449</u>	<u>17</u>	<u>—</u>

*Note:* Formerly known as Bright Smart Finance International (China) Limited.

Amount due to Controlling Shareholder represented advances from Controlling Shareholder for working capital. The amounts due to related companies represented operating expenses payables. The above amounts are unsecured, interest-free and repayable on demand. All of these amounts due to related parties and the Controlling Shareholder have been settled on 11th July, 2013.

### **CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS**

The capital expenditure, as represented by the additions to property, plant and equipment during the Track Record Period, primarily related to expenditure on (i) acquisition of furniture, fixtures and equipment used in the operations; and (ii) leasehold improvements.

The total capital expenditure amounted to HK\$0.1 million, HK\$16.7 million, HK\$6.1 million and HK\$1.2 million for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively. The capital expenditure increased by HK\$16.6 million, from HK\$0.1 million for the year ended 31st March, 2011 to HK\$16.7 million for the year ended 31st March, 2012 and decrease by HK\$10.6 million to HK\$6.1 million for the year ended 31st March, 2013. Such movements primarily reflected investments in the Clubs.



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## FINANCIAL INFORMATION

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The Group anticipates its capital expenditure in the future to increase as it plans to open new club and expand its operations. The projected capital expenditure for the years ending 31st March, 2014, 2015 and 2016 is approximately HK\$7.0 million, HK\$26.3 million and HK\$3.2 million, respectively. The Group expects that its planned capital expenditure for the years ending 31st March, 2014, 2015 and 2016 to be primarily used for the expansion plans in Hong Kong. During the Track Record Period the Group did not have any bank borrowing facilities. The Directors believe the Group will be able to obtain bank borrowing facilities on such terms to be further agreed between the Group and the relevant banks should the need arises in the future.

The expansion plans in Hong Kong for the years ending 31st March, 2014, 2015 and 2016 and the related projected capital expenditures are summarised as follows:

Projected capital expenditure	Year ending 31st March,		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Beijing Club	1,000	1,150	1,323
Magnum Club	700	805	926
Billion Club	300	345	397
Zentral	5,000	24,000	600
<b>Total</b>	<u>7,000</u>	<u>26,300</u>	<u>3,246</u>

The Group expects that approximately 50% and 50% of its projected capital expenditure will be funded from a portion of the net proceeds from the Global Offering and cash generated from its operating activities, respectively.

For a detailed description of the expansion plans, please see the section headed “Business — Expansion Plans, Site Selection and Development” in the Prospectus.

The planned capital expenditures are projections only and are based on the current expectations and assumptions regarding the business, the economy and other future conditions. The Group may make necessary adjustment depending on the existing market conditions and status of the various expansion plans.

### CONTINGENT LIABILITIES

As at the Latest Practicable Date, other than disclosed in the section entitled “Business — Legal Proceedings” in the Prospectus, the Group was not involved in any legal proceedings pending or, to its knowledge, threatened against it which could have a material adverse effect on the business or operations. The Directors confirm that as at the Latest Practicable Date, other than disclosed in “Financial Information — Indebtedness” in the Prospectus, the Group did not have any material contingent liabilities.

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## FINANCIAL INFORMATION

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### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in Note 23 of Section C of the Accountants' Report in Appendix I to the Prospectus, the Directors confirm that each transaction set forth therein were conducted on arm's length basis, on normal commercial terms and in the ordinary course of business.

### OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, except for the capital commitments disclosed above, the Group had no other material off-balance sheet arrangements.

### FINANCIAL RATIOS

The following table sets forth the key financial ratios of the Group over the periods indicated:

		<b>Five months ended</b>			
		<b>Year ended 31st March,</b>			<b>31st August,</b>
	<i>Notes</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>
Gearing ratio	1	0%	0%	0%	0%
Gross margin	2	84.0%	82.6%	81.7%	81.3%
Net profit margin	3	23.0%	21.3%	16.1%	7.8%
Return on equity	4	103.1%	122.7%	54.1%	23.5%
Return on total assets	5	41.7%	46.5%	30.8%	14.7%
Current ratio	6	1.5	1.1	1.8	2.1
Quick ratio	7	1.5	1.1	1.8	2.1
Inventory turnover days	8	22	13	21	26
Debtors' turnover days	9	1	7	11	8
Creditors' turnover days	10	40	25	35	34

*Notes:*

1. The calculation of the gearing ratio is calculated by dividing total bank borrowings by total equity.
2. The calculation of gross margin is calculated by dividing gross profit by turnover and multiplying the resulting value by 100%. Gross profit equals turnover minus cost of inventories sold.
3. The calculation of net profit margin is calculated by dividing profit for the year/period by turnover and multiplying the resulting value by 100%.
4. For each of the three years ended 31st March, 2013, the calculation of return on equity is calculated by dividing profit for the year by total equity and multiplying the resulting value by 100%. For the five months ended 31st August, 2013, the profit has been annualised in the calculation.

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## FINANCIAL INFORMATION

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5. For each of the three years ended 31st March, 2013, the calculation of return on total assets is calculated by dividing profit for the year by total assets and multiplying the resulting value by 100%. For the five months ended 31st August, 2013, the profit has been annualised in the calculation.
6. The calculation of current ratio is calculated by dividing total current assets by total current liabilities.
7. The calculation of quick ratio is calculated by dividing current assets (excluding inventories) by current liabilities.
8. The calculation of inventory turnover days is calculated by dividing average inventories by cost of inventories sold and multiplying the resulting value by 365 days for each of the three years ended 31st March, 2013 and 153 days for the five months ended 31st August, 2013. The average inventories is the inventories at the beginning of the period plus the inventories at the end of the period with the sum divided by two. For club opened during the respective year, the cost of inventories sold is annualised for the calculation of inventory turnover days.
9. The Group calculates debtors' turnover days by dividing average trade receivable by turnover for the relevant period and multiplying 365 days for each of the three years ended 31st March, 2013 and 153 days for the five months ended 31st August, 2013. Average trade receivable is calculated by the sum of trade receivables at the beginning of the period and trade receivables at the end of the period, divided by two. For club opened during the respective year, turnover is annualised for the calculation of debtor's turnover days.
10. The Group calculates creditors' turnover days by dividing average trade payables by cost of inventories sold for the relevant period and multiplying 365 days for each of the three years ended 31st March, 2013 and 153 days for the five months ended 31st August, 2013. Average trade payables is calculated by the sum of trade payables at the beginning of the period and trade payables at the end of the period, divided by two. For club opened during the respective year, the cost of inventories sold is annualised for the calculation of creditors' turnover days.

### **Gearing ratio**

The Group does not have any bank borrowings for each of the three years ended 31st March, 2013 and the five months ended 31st August, 2013.

### **Gross margin**

The gross margin was 84.0%, 82.6%, 81.7% and 81.3% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### **Net profit margin**

The net profit margin was 23.0%, 21.3%, 16.1% and 7.8% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively, as the profitability of Billion Club has declined.

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## FINANCIAL INFORMATION

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### **Return on equity**

The return on equity was 103.1%, 122.7%, 54.1% and 23.5% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### **Return on total assets**

The return on total assets was 41.7%, 46.5%, 30.8% and 14.7% for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### **Current ratio**

The current ratio was 1.5, 1.1, 1.8 and 2.1 as at 31st March, 2011, 2012 and 2013 and as at 31st August, 2013, respectively.

### **Quick ratio**

The quick ratio was 1.5, 1.1, 1.8 and 2.1 as at 31st March, 2011, 2012 and 2013 and as at 31st August, 2013, respectively.

### **Inventory turnover days**

The inventory turnover days were 22 days, 13 days, 21 days and 26 days for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### **Debtors' turnover days**

The debtors' turnover days were 1 day, 7 days, 11 days and 8 days for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

### **Creditors' turnover days**

The creditors' turnover days were 40 days, 25 days, 35 days and 34 days for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

### **Interest rate risk**

The Directors believe that the Group's exposure to interest rate risk is minimal as the Group does not have any interest-bearing liabilities. The Group has not entered into any interest rate hedging contracts or any other derivative financial instruments.

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## FINANCIAL INFORMATION

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### **Foreign currency risk**

The Directors believe that the Group's exposure to foreign currency risk is minimal as the monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars.

### **Credit risk**

The majority of the revenue is on a cash basis and thus does not subject to credit risk. The Group's credit risk is primarily attributable to the trade and other receivables. Credit risk in respect of trade receivables is limited as the balances are due from financial institutions with high credit rating.

### **Liquidity risk**

The Group had net current assets for the amount of approximately HK\$12.2 million, HK\$4.0 million, HK\$32.2 million and HK\$38.4 million as at 31st March, 2011, 2012, 2013 and 31st August, 2013, respectively. The Group monitors the liquidity requirements regularly to ensure that sufficient reserves of cash and adequate committed lines of funding from financial institutions are available to meet the liquidity requirements for both the short and long term.

### **DIVIDEND AND DIVIDEND POLICY**

During the Track Record Period, the Group declared and paid dividends of HK\$4.0 million, HK\$21.0 million, nil and nil for the three years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, respectively.

The Group declared a one-off and non-recurring dividend to the existing Shareholder of approximately HK\$10 million on 24th October, 2013, all of which has been paid on 25th October, 2013. Such dividend was funded by using the internal resources. Investors in the Global Offering and persons becoming Shareholders after the Listing will not be entitled to such dividend. After completion of the Global Offering, the Shareholders will be entitled to receiving dividends only when declared by the Board. The payment and the amount of any dividends will be at the discretion of the Directors and will depend upon the future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which the Directors deem relevant.

Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Shareholders by any means which the Directors deem legal, fair and practicable. Investors should note that historical dividend distributions are not indicative of the future dividend distribution policy.

### **DISCLOSURE UNDER RULES 13.11 TO 13.19 OF THE LISTING RULES**

The Directors confirm that they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of the adjusted net tangible assets of the Group which has been prepared in accordance with Paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if the Global Offering had been completed on 31st August, 2013. It is based on the notes set forth below. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31st August, 2013 or any future date.

	<b>Consolidated net tangible assets of the Group as at 31st August, 2013</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted net tangible asset of the Group</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(Note a)</i>	<i>(Note b)</i>		<i>(Note c)</i>	<i>(Note d)</i>
Based on an Offer Price of HK\$1.0 per Share	56,679	56,740	113,419	0.38	0.34
Based on an Offer Price of HK\$1.5 per Share	56,679	93,784	150,463	0.50	0.47

*Notes:*

- (a) The consolidated net tangible assets of the Group as at 31st August, 2013 is calculated based on the consolidated net assets of the Group of HK\$56,972,000 less intangible assets of HK\$293,000, as extracted from the financial information presented in Appendix I to the Prospectus.
- (b) Estimated net proceeds from the Global Offering. The estimated net proceeds from the Global Offering take no account of any Shares that may be issued upon exercise of the Over-allotment Option.

	<b>Based on indicative Offer Price of HK\$1.0 per Share</b>	<b>Based on indicative Offer Price of HK\$1.5 per Share</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Gross proceeds from the Global Offering	84,000	126,000
Underwriting fees and other expenses associated with the Global Offering	27,260	32,216
Net proceeds from the Global Offering	56,740	93,784

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## FINANCIAL INFORMATION

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- (c) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 300,000,000 Shares (being the number of Shares expected to be in issue immediately after completion of the Global Offering). No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.
- (d) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and taken into account a dividend of HK\$10,000,000 declared by the Company to the then Shareholder on 24th October, 2013.
- (e) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31st August, 2013.

### LISTING EXPENSE

The total estimated Listing expenses (excluding underwriting fees and commissions) in connection with the Global Offering is approximately HK\$28.0 million, of which approximately HK\$7.8 million is directly attributable to the issue of new shares and to be accounted for as a deduction from the equity and approximately HK\$20.2 million, being 72.1% of HK\$28.0 million, is to be charged to the consolidated statement of comprehensive income. Listing expenses of HK\$2.6 million and HK\$4.0 million were charged to the consolidated statement of comprehensive income for the year ended 31st March, 2013 and the five months ended 31st August, 2013, respectively. Approximately HK\$13.6 million is expected to be charged to the consolidated statement of comprehensive income in the seven months ending 31st March, 2014. The total estimated Listing expenses (excluding underwriting fees and commissions) of HK\$28.0 million is a current estimate for reference only and the final amount is subject to adjustment based on the actual amount incurred or to be incurred.

### MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraphs headed “Recent development” and “Listing expenses” in the “Summary” section of the Prospectus, the Directors confirm that up to the date of Prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group since 31st August, 2013 and there is no event since 31st August, 2013 which would materially affect the information shown in the consolidated financial statements included in the Accountants’ Report set forth in Appendix I to the Prospectus, in each case except as otherwise disclosed herein.

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## **FUTURE PLANS, REASONS FOR LISTING AND USE OF PROCEEDS**

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### **FUTURE PLANS AND PROSPECTS**

See “Business — Expansion Plans, Site Selection and Development” in the Prospectus for a detailed description of the future plans.

### **REASONS FOR THE LISTING**

The purpose of seeking the Listing is to:

- allow the Group access to capital for future growth with opportunities to raise fund not only at Listing but also at a later stage. This is of particular importance to the Group in view of its expansion plan for opening of Zentral in Lan Kwai Fong in 2014 and in regions other than in Hong Kong, including China;
- increase the Group’s profile and visibility in the market and generate reassurance among the customers and suppliers of the Clubs; and
- enhance the Group’s operational efficiency and corporate governance through compliance with rigorous disclosure standards which the Directors believe would lead to improvement in the Group’s internal control and operating systems.

### **USE OF PROCEEDS**

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$1.25 per Share, being the mid-point of the indicative range of the Offer Price of HK\$1.0 to HK\$1.5 per Share, and assuming the Over-allotment Option is not exercised) will be approximately HK\$80.4 million. The Directors intend to apply the net proceeds from the Global Offering as follows:

- approximately HK\$40.2 million, representing approximately 50% of the net proceeds will be used for opening costs of Zentral (which is expected to be opened in the new California Tower in the Lan Kwai Fong area in 2014), of which over 70% will be used for decoration, rental and furniture and fixture expenses, respectively and the remaining will be used for purchase of inventories and recruitment of staff or professional consultant;
- approximately HK\$16.1 million, representing approximately 20% of the net proceeds will be used for marketing purposes including, among others, placing advertisement on internet, television and printed media and organise events to promote the Group;
- approximately HK\$16.1 million, representing approximately 20% of the net proceeds will be used for the research of expansion plan in regions other than Hong Kong, including China and Southeast Asia regions. The Group plans to engage external market consultant and legal adviser to conduct business development studies and



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## **FUTURE PLANS, REASONS FOR LISTING AND USE OF PROCEEDS**

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feasibility studies including market research, business, financial and legal analysis. The Group may recruit local experienced staff and acquire new equipments for the said feasibility studies from time to time. The Group currently does not have any detailed plan or timeframe for the expansion plan; and

- the remaining balance of approximately HK\$8.0 million, representing 10% of the net proceeds, will be used for additional working capital and other general corporate purposes.

If the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$1.5 per Share, the net proceeds the Group receive from the Global Offering will increase by approximately HK\$17.3 million. The Group intend to apply the additional net proceeds for the above purposes on a pro-rata basis. If the Offer Price is set at the low-end of the indicative range of the Offer Price, being HK\$1.0 per Share, the net proceeds the Group receive from the Global Offering will decrease by approximately HK\$19.8 million. The Group intend to reduce the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the Group estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by it, will be approximately (i) HK\$14.2 million, assuming the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$1.5 per Share; (ii) HK\$12.4 million, assuming the Offer Price is fixed at the mid-point of the indicative range of the Offer Price, being HK\$1.25 per Share; and (iii) HK\$11.9 million, assuming the Offer Price is fixed at the low-end of the indicative range of the Offer Price, being HK\$1.0 per Share. Any additional proceeds received by us from the exercise of the Over-allotment Option will also be allocated to the above businesses and projects on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, the Group intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### **Sole Global Coordinator and Sole Bookrunner**

BOCOM International Securities Limited

#### **Joint Lead Managers**

Anglo Chinese Securities, Limited  
BOCOM International Securities Limited  
Kingston Securities Limited

#### **Underwriters**

Anglo Chinese Securities, Limited  
BOCOM International Securities Limited  
Kingston Securities Limited  
Astrum Capital Management Limited  
Sun Hung Kai Investment Services Limited  
Kingsway Financial Services Group Limited  
Tanrich Securities Company Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of the Prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated. Subject to the listing of and permission to deal in the Shares in issue and to be issued as mentioned in the Prospectus being granted by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares.

#### **Grounds for termination**

The Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other

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## UNDERWRITING

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competent authority in Hong Kong, the PRC or any other jurisdiction(s) relevant to the Company and its subsidiaries or any other similar event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of the Group or which may be expected to adversely affect the business or financial condition or prospects of the Group in a material way; or

- (ii) any change (whether or not permanent) in Hong Kong, the PRC, Asia, national, regional, international, financial, military, industrial or economic conditions or prospects, the stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters which is material to the revenues or operation of the Group as a whole; or
- (iii) without prejudice to sub-paragraph (i) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) would or might adversely affect any member of the Group or its present or prospective shareholders in their capacity as such; or
- (v) any change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC, the BVI, the Cayman Islands or any other jurisdiction(s) to which any member of the Group is subject or the implementation of any exchange controls which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of the Group or its present or prospective shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim of material importance to the business, financial or operations of the Group being threatened or instituted against any member of the Group; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by any jurisdictions in Hong Kong, the PRC or any other jurisdiction(s) relevant to the Company and its subsidiaries which is material to the revenues or operation of the Group as a whole; or
- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central,

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## UNDERWRITING

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federal, provincial, state, regional, municipal, local, domestic or foreign or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director; or

- (ix) order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (x) a prohibition on the Company for whatever reason from allotting or selling the Offer Shares (including additional Shares that may be allotted and issued by the Company upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xi) non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xii) the issue or requirement to issue by the Company of any supplement or amendment to the Prospectus (or to any other document used in connection with the contemplated offer and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xiii) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” relating to the operation and business of the Group in the Prospectus,

and any such event, which, individually, or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), (i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or (ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of the Group as a whole; or (iii) makes it inadvisable or inexpedient to proceed with the Global Offering; or (iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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## UNDERWRITING

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- (b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on the Company or the covenantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material; or
- (c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any breach on the part of the Company or any of the covenantors under the Hong Kong Underwriting Agreement of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) to be material; or
- (d) any statement contained in the Prospectus, notices, advertisements, announcements, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Underwriters and any other parties involved in the Global Offering which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
- (e) matters have arisen or have been discovered which would, if the Prospectus, notices, advertisements, announcements was to be issued at that time, constitute, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission of such information; or
- (f) there is any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of the Group which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material; or
- (g) the approval from the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued or sold under the Global Offering and the Shares to be issued pursuant to the Capitalisation Issue is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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## UNDERWRITING

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- (h) any expert, who has given opinion or advice which are contained in the Prospectus, has withdrawn its respective consent to the issue of the Prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears prior to the issue of the Prospectus; or
- (i) the Company withdraws the Prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (j) there comes to the notice of the Sole Global Coordinator or any of the Underwriters any information, matter or event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):
  - (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form B) given by any Directors pursuant to the Global Offering; or
  - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of the Group.

### **Undertakings by the Controlling Shareholders**

Each of the Controlling Shareholders jointly and severally undertakes to each of the Company, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriters that, save for any lending of Shares by Rainbow Key pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholders will, and will procure that none of its associates will:

- (i) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six Month Period**”), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or

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## UNDERWRITING

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derives any significant part of its value from such Shares), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (ii) he or it will not, during the period of six months commencing on the date on which the First Six month Period expires (the “**Second Six Month Period**”), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he or it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him or it and/or any of his or its associates which owns such Shares or interests as aforesaid; and
- (iii) until the expiry of the Second Six Month period, in the event that he or it enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, he or it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

### **Undertakings by the Company**

Except for the issue and allotment of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the issue and allotment of Shares pursuant to the Capitalisation Issue as disclosed in the Prospectus and the issue and allotment of Shares pursuant to the options which may be granted under the Share Option Scheme during the First Six Month Period, the Company undertakes to each of the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriters not to, and

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## UNDERWRITING

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to procure each member of the Group not to, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such member of the Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) and (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such member of the Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, the Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. Each of the Controlling Shareholders undertakes to each of the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriters to procure the Company to comply with the undertakings in this paragraph.



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## UNDERWRITING

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### **Undertakings by the Company and the warrantors under the Hong Kong Underwriting Agreement**

Each of the Company, Mr. Yip, Rainbow Key and the executive Directors undertakes to and covenants with the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner and the Hong Kong Underwriters that save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), no company in the Group will during the First Six Month Period purchase any securities of the Company.

Without prejudice to the undertakings by the Controlling Shareholders above, each of the Controlling Shareholders undertakes and covenants with the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner and the Hong Kong Underwriters that:

- (a) save with the prior written notification to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and to the extent as allowed under the Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in the Prospectus and ending on the date which is 12 months from the Listing Date, he or it shall not and shall procure that none of his or its associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him or it or any of their associates or in which he or it or any of their associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or securities of or interest in the Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise) or any share or interest in any company controlled by him or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and
- (b) in the event that notification is given to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when he or it or any of their associates shall pledge, charge or create any encumbrance or other right or any of the Shares or interests referred to in paragraph (a) above, he or it shall give prior written notice of not less than two business days to the Stock Exchange, the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favour of whom the pledge, charge, encumbrance or interest is created and further if he or it or any of their associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in paragraph (a) above, he or it will immediately notify the Stock Exchange, the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf

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## UNDERWRITING

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of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.

The Company undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner and the Hong Kong Underwriters that the Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (b) above and the Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

### **The International Placing**

In connection with the International Placing, it is expected that the Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, the Company will offer the International Placing Shares for subscription by certain professional, institutional and private investors at the Offer Price payable in full on subscription and/or purchase, on and subject to the terms and conditions set out in the International Underwriting Agreement. It is expected that the International Underwriters will agree to severally underwrite for the International Placing Shares.

### **Commission and expenses**

The Hong Kong Underwriters will receive a commission of 3.3% of the aggregate Offer Price of the Hong Kong Offer Shares underwritten by the Hong Kong Underwriters. In addition, the Company agrees to pay an incentive to the Sole Global Coordinator up to 6.7% of sales amount of the Sole Global Coordinator (“**SGC Sales Amount**”) for the Global Offering if such SGC Sales Amount reached certain amount. The SGC Sales Amount includes (i) the aggregate Offer Price of the Offer Shares under the Hong Kong Public Offer; (ii) the aggregate Offer Price of the Offer Shares subscribed for or procured for subscription by the Sole Global Coordinator under the International Placing; and (iii) the aggregate Offer Price of the Shares issued upon exercise of the Over-allotment Option which are subscribed or procured for subscription by the Sole Global Coordinator. The incentive fees will be subject to the terms of the Hong Kong Underwriting Agreement and the International Underwriting Agreement.

The Sole Sponsor will receive sponsorship and documentation fees. The underwriting commission, financial advisory and documentation fees, Listing fees, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$1.25 (being the mid-point of Offer Price range between HK\$1.0 per Offer Share and HK\$1.5 per Offer Share), are estimated to amount to approximately HK\$35.1 million in total (assuming that the Over-allotment Option is not being exercised) and payable by the Company.

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## UNDERWRITING

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### **Hong Kong Underwriters' interests in the Company**

Save for their interests and obligations under the Underwriting Agreements, none of the Sole Sponsor, the Sole Global Coordinator or the Underwriters is interested beneficially or non-beneficially in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

### **Minimum public float**

The Directors will ensure that there will be a minimum of 25% of the total Shares in issue in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Capitalisation Issue and the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be Thursday, 16th January, 2014, and in any event, not later than Tuesday, 21st January, 2014.

**Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than indicative Offer Price range as stated in the Prospectus.** The Offer Price will not be more than HK\$1.5 per Offer Share and is expected to be not less than HK\$1.0 per Offer Share. The Offer Price will fall within the Offer Price range as stated in the Prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of the Company, reduce the indicative Offer Price range below that stated in the Prospectus at any time prior to the morning of Thursday, 16th January, 2014, being the last day for lodging applications under the Hong Kong Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day lodging applications under the Hong Kong Public Offer, cause there to be published in Hong Kong Economic Times (in Chinese), and on the Company's website at [www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with the Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" of the Prospectus, and any other financial information which may change as a result of such reduction.

If you have already submitted an application for Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offer, you will be allowed to subsequently withdraw your application, if the number of Hong Kong Offer Shares and/or the Offer Price range is reduced.

In the absence of any notice being published in Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in the Prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in the Prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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**If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.**

Announcement of the Offer Price, together with indication of the level of interests in the International Placing and the results of application under the Hong Kong Public Offer and basis of allocation of the Hong Kong Offer Shares is expected to be published on Wednesday, 22nd January, 2014.

### **PRICE PAYABLE ON APPLICATION**

The Offer Price will not be more than HK\$1.5 per Offer Share and is expected to be not less than HK\$1.0 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer as set out above. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be lower than the indicative Offer Price as stated in the Prospectus.

Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$1.5 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. That means a total of HK\$3,030.24 is payable for every board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$1.5 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Offer Shares" in the Prospectus.

### **CONDITIONS OF THE HONG KONG PUBLIC OFFER**

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offer is conditional upon:

#### **1. Listing**

The Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in the Prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares.

#### **2. Underwriting Agreements**

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and

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## STRUCTURE OF THE GLOBAL OFFERING

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- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

## THE GLOBAL OFFERING

The Global Offering comprises:

- the Hong Kong Public Offer of 8,400,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below under the paragraph headed “Hong Kong Public Offer”; and
- the International Placing of 75,600,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below).

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in the Prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

### International Placing

The Company is expected to offer initially 75,600,000 International Placing Shares (subject to adjustment and the Over-allotment Option) at the Offer Price under the International Placing, representing 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International

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## STRUCTURE OF THE GLOBAL OFFERING

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Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$1.5 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of the Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its Shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offer.

The Company, Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Hong Kong Public Offer” of this section.

### **Hong Kong Public Offer**

The Company is initially offering 8,400,000 Hong Kong Offer Shares for subscription (subject to adjustment) by the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$1.5 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she has not applied for

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## STRUCTURE OF THE GLOBAL OFFERING

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nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 4,200,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 4,200,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. When there is over-subscription under the Hong Kong Public Offer, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **BASIS OF ALLOCATION OF THE OFFER SHARES**

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be allocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 25,200,000 Shares, representing 30% of the Offer Shares;



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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 33,600,000 Shares, representing 40% of the Offer Shares; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 42,000,000 Shares, representing 50% of the Offer Shares.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

If the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offer to the International Placing in such proportions as it deems appropriate.

### **OVER-ALLOTMENT OPTION**

In connection with the Global Offering, the Company is expected to grant to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) the Over-allotment Option which will expire on a date which is 30 days from the date of the last day of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, the Company may be required by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to allot and issue up to 12,600,000 additional Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Sole Global Coordinator (for itself and on behalf of the International Underwriters) may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 12,600,000 Shares will represent 4.2% of the Company's issued share capital immediately after completion of the Global Offering. In the event that the Over-allotment Option is exercised or expired, an announcement will be made.

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## STRUCTURE OF THE GLOBAL OFFERING

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### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions which stabilise or maintain the market price of the Shares at levels above those which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 12,600,000 Shares, being the number of the Shares that may be sold pursuant to the exercise of the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangements or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator to do this. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end within 30 days after the last day for lodging of applications under the Hong Kong Public Offer. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions (“primary stabilising action”) with respect to any Shares during the stabilisation period, which should end on Saturday, 15th February, 2014.

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
  - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares;
    - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
    - (ii) sell or agree to sell Shares so as to establish a short position in them;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
- (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
- (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the earlier of the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer or the commencement of trading of the Shares on the Stock Exchange, that the stabilising period is expected to expire on Saturday, 15th February, 2014, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;
- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and that stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Shares.

### STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 12,600,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangement or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 12,600,000 Shares from Rainbow Key, equivalent to the maximum number of Shares to be issued on a full exercise of the

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## STRUCTURE OF THE GLOBAL OFFERING

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Over-allotment Option, under the Stock Borrowing Agreement. **The stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:**

- the stock borrowing arrangement is fully described in the Prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from Rainbow Key will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Rainbow Key or its nominees within three business days following the earlier of (i) the last day for exercising the Over-allotment Option; and (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and regulatory requirements; and
- no payments will be made to Rainbow Key in relation to the stock borrowing arrangement.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (“U.S. Securities Act”)); and
- are not a legal or natural person of the PRC.

If you apply online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) under the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members’ names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation’s chop.

If an application is made by a person under a power of attorney, the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney’s authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a Prospectus during normal business hours between 9:00 a.m. on 13th January, 2014 until 12:00 noon on 16th January, 2014 from:

- (i) the office of the Sole Global Coordinator and Sole Bookrunner:

BOCOM International Securities Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the branches of the following receiving banks:

- **Bank of Communications Co., Ltd. Hong Kong Branch**

	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Hong Kong Branch	20 Pedder Street, Central
	King's Road Sub-Branch	67-71 King's Road
	North Point Sub-Branch	442-444 King's Road, North Point
<b>Kowloon</b>	Mongkok Sub-Branch	Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
<b>New Territories</b>	Yuen Long Sub-Branch	Shop B-F, G/F., 2-14 Tai Fung Street

- **The Bank of East Asia, Limited**

	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Main Branch	10 Des Voeux Road Central, HK
	Causeway Bay Branch	46 Yee Wo Street
	Queen's Road East Branch	Ground Floor Shop B & C, 228 Queen's Road East, Wanchai
<b>Kowloon</b>	Prince Edward Branch	G/F, Hanley House, 776-778 Nathan Road
	Kwun Tong Branch	7 Hong Ning Road
	East Tsim Sha Tsui Branch	Shop G3 - G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
<b>New Territories</b>	Tsuen Wan Branch	239-243 Sha Tsui Road
	Shatin Plaza Branch	Shop 3 - 4, Level 1, Shatin Plaza

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- **Industrial and Commercial Bank of China (Asia) Limited**

	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong</b>	Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
<b>Kowloon</b>	Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Tsim Sha Tsui Branch	Shop 1&2, G/F, No. 35-37 Hankow Road, Tsimshatsui
	Ngau Tau Kok Branch	Shop Nos. G211-214, G/F, Phase II, Amoy Plaza, 77 Ngau Tau Kok Road
	Mei Foo Branch	Branch Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
<b>New Territories</b>	Tai Po Branch	Shop F, G/F, Mee Fat Building, No. 34-38 Tai Wing Lane, Tai Po

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on 13th January, 2014 until 12:00 noon on 16th January, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — Magnum Ent Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- **Monday, 13th January, 2014 — 9:00 a.m. to 5:00 p.m.**
- **Tuesday, 14th January, 2014 — 9:00 a.m. to 5:00 p.m.**
- **Wednesday, 15th January, 2014 — 9:00 a.m. to 5:00 p.m.**
- **Thursday, 16th January, 2014 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on 16th January, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Lead Managers (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in the Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read the Prospectus and have only relied on the information and representations contained in the Prospectus in making your application and will not rely on any other information or representations except those in any supplement to the Prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in the Prospectus;
- (vi) agree that none of the Company, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in the Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in the Prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in the Prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form service**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on 13th January, 2014 until 11:30 a.m. on 16th January, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on 16th January, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### **No Multiple Applications**

If you apply by means of HK eIPO white form, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under eIPO white form more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of the Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

### Environmental Protection

The advantage of HK eIPO white form is to minimise the usage of paper via the self-serviced and electronic application process. The Company and the Sole Sponsor encourage you to utilise this application channel should you desire the Hong Kong Offer Shares to be issued under your own name.

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

#### **Hong Kong Securities Clearing Company Limited**

Customer Service Centre  
2/F Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

You can also collect a Prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Lead Managers and the Hong Kong Branch Share Registrar of the Company.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or the Prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in the Prospectus and agree to be bound by them;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- confirm that you have received and/or read a copy of the Prospectus and have relied only on the information and representations in the Prospectus in causing the application to be made, save as set out in any supplement to the Prospectus;
- agree that none of the Company, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in the Prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Branch Share Registrar of the Company, receiving banks, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in the Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for the Prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for the Prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in the Prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **Monday, 13th January, 2014 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**
- **Tuesday, 14th January, 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**
- **Wednesday, 15th January, 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**
- **Thursday, 16th January, 2014 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 13th January, 2014 until 12:00 noon on 16th January, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on 16th January, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of the Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on 16th January, 2014.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Determination of the Offer Price”.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 16th January, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on 16th January, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on 22nd January, 2014 in Hong Kong Economic Times (in Chinese) on the Company’s website at [www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.magnumentertainment.com.hk](http://www.magnumentertainment.com.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 22nd January, 2014;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on 22nd January, 2014 to 12:00 midnight on 28th January, 2014;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from 22nd January, 2014 to 27th January, 2014 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from 22nd January, 2014 to 24th January, 2014 at all the receiving banks’ designated branches and sub-branches.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for the Prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for the Prospectus.

If any supplement to the Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.5 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” in the Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on 22nd January, 2014.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around 22nd January, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on 23rd January, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in the Prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 22nd January, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on 22nd January, 2014, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on 22nd January, 2014, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on 22nd January, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 22nd January, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### ***(iii) If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 22nd January, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on 22nd January, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *(iv) If you apply via Electronic Application Instructions to HKSCC*

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on 22nd January, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "Publication of Results" above on 22nd January, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 22nd January, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on 22nd January, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on 22nd January, 2014.

### **15. ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



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

13th January, 2014

The Directors  
Magnum Entertainment Group Holdings Limited

Anglo Chinese Corporate Finance, Limited

Dear Sirs,

### **Introduction**

We set out below our report on the financial information relating to Magnum Entertainment Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) comprising the consolidated statements of financial position of the Group as at 31st March, 2011, 2012 and 2013 and 31st August, 2013 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2013 (the “**Relevant Periods**”), together with the explanatory notes thereto (the “**Financial Information**”), for inclusion in the prospectus of the Company dated 13th January, 2014 (the “**Prospectus**”).

The Company was incorporated in the Cayman Islands on 14th January, 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 15th April, 2013 (the “**Reorganisation**”) as detailed in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Best Future Worldwide Limited, Coral Spring Investments Limited, Corporate Hero Limited, Double Reach Limited, New Pride Corporate Limited and Prime Sunlight Limited as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.

All companies now comprising the Group have adopted 31st March, as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 26 of Section C. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “**Underlying Financial Statements**”) on the same basis as used in the preparation of the Financial Information set out in Section A and the accounting policies set out in Section C below. The Underlying Financial Statements for each of the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2013 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

### **Directors' responsibility for the Financial Information**

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

### **Reporting accountants' responsibility**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31st August, 2013.

### **Opinion**

In our opinion, the Financial Information gives, for the purpose of this report, on the basis of preparation set out in Section A below, a true and fair view of the state of affairs of the Group as at 31st March, 2011, 2012 and 2013 and 31st August, 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

**Corresponding financial information**

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the five months ended 31st August, 2012, together with the notes thereon (the “**Corresponding Financial Information**”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

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

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

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

**A BASIS OF PREPARATION**

The Company was incorporated in the Cayman Islands on 14th January, 2013. Pursuant to the Reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (“**HKSE**”) which was completed on 15th April, 2013, the Company became the holding company of companies now comprising the Group. The companies that took part in the Reorganisation were controlled by Mr. YIP Mow Lum (“**Mr. YIP**” or the “**Controlling Shareholder**”) prior to and after the Reorganisation. The control is not transitional and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholder. Therefore, the Reorganisation is considered as a business combination of entities under common control. The Financial Information has been prepared using the merger basis of accounting as if the companies now comprising the Group have been consolidated at the beginning of the Relevant Periods unless the combining companies first came under common control at a later date. The assets and liabilities of the combining companies are consolidated using the existing book values from the Controlling Shareholder's perspective.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Section B include the consolidated results of operations of the companies now comprising the Group for the Relevant Periods (or where the companies were incorporated or acquired at a date later than 1st April, 2010, for the period from the date of incorporation or acquisition to 31st August, 2013) as if the current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31st March, 2011, 2012 and 2013 and 31st August, 2013 as set out in Section B have been prepared to present the state of affairs of the Group as at the respective dates as if the Reorganisation had occurred at the beginning of the Relevant Periods.

On 1st September, 2010, the Group acquired the entire shareholding of Best Future Worldwide Limited together with its wholly-owned subsidiary, Sure Wise Investment Limited from an independent third party. The acquisition is accounted for using acquisition accounting with the excess of the net fair value of the acquirees' identifiable assets and liabilities measured as at the acquisition date over the fair value of the consideration transferred as a gain on bargain purchase on the acquisition date.

All material intra-group balances, transactions and cash flows have been eliminated in preparing the Financial Information.

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

Name of company	Place and date of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Best Future Worldwide Limited	British Virgin Islands ("BVI")/ 19th February, 2009	US\$100	—	100%	Investment holding
Coral Spring Investments Limited	BVI/ 2nd January, 2013	US\$1	—	100%	Investment holding
Corporate Hero Limited	BVI/ 21st May, 2012	US\$1	—	100%	Investment holding
Double Reach Limited	BVI/ 13th June, 2005	US\$50,000	—	100%	Investment holding
New Pride Corporate Limited	BVI/ 2nd January, 2013	US\$1	100%	—	Investment holding

Name of company	Place and date of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Prime Sunlight Limited	BVI/ 26th January, 2012	US\$1	—	100%	Investment holding
Asiatic Century Limited	Hong Kong/ 3rd December, 2010	HK\$1	—	100%	Provision of administrative services to group companies
Best Season Corporation Limited	Hong Kong/ 4th November, 2010	HK\$1	—	100%	Provision of administrative services to group companies
Cheerful Raise Limited	Hong Kong/ 17th July, 2006	HK\$1	—	100%	Provision of administrative services to group companies
Club Kingdom The Central Group Limited	Hong Kong/ 3rd November, 2005	HK\$1	—	100%	Holding of trademarks
Clubbing Kingdom Management Limited	Hong Kong/ 7th December, 2012	HK\$1	—	100%	Provision of company secretarial services to group companies
Dragon Praise Limited	Hong Kong/ 20th July, 2011	HK\$1	—	100%	Provision of administrative services to group companies
Ease Goal Management Limited	Hong Kong/ 2nd August, 2007	HK\$1	—	100%	Provision of administrative services to group companies

Name of company	Place and date of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Easy Large Limited	Hong Kong/ 8th February, 2011	HK\$1	—	100%	Provision of administrative services to group companies
Honor Legend Limited	Hong Kong/ 6th March, 2008	HK\$1	—	100%	Provision of administrative services to group companies
Joyful Green Limited	Hong Kong/ 2nd March, 2010	HK\$1	—	100%	Provision of administrative services to group companies
Joyful Mercy Limited	Hong Kong/ 6th July, 2007	HK\$1	—	100%	Provision of administrative services to group companies
Kind Legend Limited	Hong Kong/ 27th December, 2007	HK\$10,000	—	100%	Operation of clubbing business
Ocean Ample Investment Limited	Hong Kong/ 29th June, 2011	HK\$1	—	100%	Provision of administrative services to group companies
Sure Wise Investment Limited	Hong Kong/ 22nd January, 2009	HK\$100	—	100%	Operation of clubbing business



**B FINANCIAL INFORMATION****1 Consolidated statements of comprehensive income**

	<i>Section C Note</i>	<b>Five months ended</b>				
		<b>Year ended 31st March,</b>			<b>31st August,</b>	
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>				
<b>Turnover</b>	2	69,986	137,148	173,995	69,981	71,748
Other revenue	3	4	12	33	9	16
Other net income/(loss)	4	496	(505)	—	—	12
Cost of inventories sold	5(b)	(11,207)	(23,833)	(31,785)	(13,549)	(13,436)
Staff costs	5(a)	(7,873)	(16,318)	(31,104)	(10,688)	(17,570)
Depreciation and amortisation		(1,006)	(3,403)	(5,155)	(1,909)	(2,105)
Property rentals and related expenses		(8,857)	(20,649)	(30,314)	(12,659)	(13,806)
Advertising and marketing expenses		(8,215)	(10,766)	(18,846)	(7,147)	(6,223)
Other operating expenses		(14,158)	(26,656)	(20,143)	(8,337)	(7,131)
Listing expenses		—	—	(2,583)	—	(4,044)
<b>Profit before taxation</b>	5	19,170	35,030	34,098	15,701	7,461
Income tax	6(a)	(3,088)	(5,863)	(6,064)	(2,627)	(1,887)
<b>Profit and total comprehensive income for the year/period</b>		<u>16,082</u>	<u>29,167</u>	<u>28,034</u>	<u>13,074</u>	<u>5,574</u>

The accompanying notes form part of the Financial Information.

## 2 Consolidated statements of financial position

	Section C Note	As at 31st March,			As at 31st
		2011	2012	2013	August,
		HK\$'000	HK\$'000	HK\$'000	2013 HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	10	1,972	19,271	18,679	17,426
Intangible asset	11	1,003	709	415	293
Deferred tax assets	18(b)	463	106	473	809
		<u>3,438</u>	<u>20,086</u>	<u>19,567</u>	<u>18,528</u>
<b>Current assets</b>					
Inventories	12	936	1,482	2,222	2,355
Trade and other receivables	13	7,988	21,323	32,405	35,372
Amount due from director	14	190	—	1,677	—
Amounts due from related parties	14	—	—	1,976	1,398
Amount due from Controlling Shareholder	14	9,390	3,390	3,390	—
Tax recoverable	18(a)	—	—	1,012	1,012
Pledged bank deposits	16	2,461	4,467	6,479	6,486
Cash at bank and in hand		<u>14,173</u>	<u>12,028</u>	<u>22,239</u>	<u>25,562</u>
		<u>35,138</u>	<u>42,690</u>	<u>71,400</u>	<u>72,185</u>
<b>Current liabilities</b>					
Trade and other payables	17	12,975	26,727	30,706	29,223
Amounts due to related parties	15	517	449	17	—
Amount due to Controlling Shareholder	15	6,197	6,198	6,151	—
Current taxation	18(a)	3,290	5,354	2,295	4,518
		<u>22,979</u>	<u>38,728</u>	<u>39,169</u>	<u>33,741</u>
<b>Net current assets</b>		<u>12,159</u>	<u>3,962</u>	<u>32,231</u>	<u>38,444</u>
<b>Total assets less current liabilities</b>		<u>15,597</u>	<u>24,048</u>	<u>51,798</u>	<u>56,972</u>

	<i>Section C Note</i>	<b>As at 31st March,</b>			<b>As at 31st</b>
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>August,</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liability</b>					
Deferred tax liabilities	18(b)	—	284	—	—
<b>NET ASSETS</b>		<u>15,597</u>	<u>23,764</u>	<u>51,798</u>	<u>56,972</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	19	400	400	400	—*
Reserves		<u>15,197</u>	<u>23,364</u>	<u>51,398</u>	<u>56,972</u>
<b>TOTAL EQUITY</b>		<u>15,597</u>	<u>23,764</u>	<u>51,798</u>	<u>56,972</u>

\* The balance represents an amount less than HK\$1,000.

The accompanying notes form part of the Financial Information.

## 3 Consolidated statements of changes in equity

	<i>Section C Note</i>	<b>Share capital</b> <i>HK\$'000</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total equity</b> <i>HK\$'000</i>
<b>Balance at 1st April, 2010</b>		400	—	615	1,015
<b>Changes in equity for the year ended 31st March, 2011:</b>					
Profit and total comprehensive income for the year		—	—	16,082	16,082
Acquisition of subsidiaries	19(c)	—	2,500	—	2,500
Dividends declared in respect of the current year	19(b)	—	—	(4,000)	(4,000)
<b>Balance at 31st March, 2011 and 1st April, 2011</b>		400	2,500	12,697	15,597
<b>Changes in equity for the year ended 31st March, 2012:</b>					
Profit and total comprehensive income for the year		—	—	29,167	29,167
Dividends declared in respect of the current year	19(b)	—	—	(21,000)	(21,000)
<b>Balance at 31st March, 2012 and 1st April, 2012</b>		400	2,500	20,864	23,764
<b>Changes in equity for the year ended 31st March, 2013:</b>					
Profit and total comprehensive income for the year		—	—	28,034	28,034
<b>Balance at 31st March, 2013 and 1st April, 2013</b>		400	2,500	48,898	51,798
<b>Changes in equity for the five months ended 31st August, 2013:</b>					
Reorganisation	19(a)	(400)	—	—	(400)
Profit and total comprehensive income for the period		—	—	5,574	5,574
<b>Balance at 31st August, 2013</b>		—*	2,500	54,472	56,972

	<i>Section C Note</i>	<b>Share capital</b> <i>HK\$'000</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total equity</b> <i>HK\$'000</i>
<b>(Unaudited)</b>					
<b>Balance at 1st April, 2012</b>		400	2,500	20,864	23,764
<b>Changes in equity for the five months ended 31st August, 2012:</b>					
Profit and total comprehensive income for the period		—	—	13,074	13,074
<b>Balance at 31st August, 2012</b>		<u>400</u>	<u>2,500</u>	<u>33,938</u>	<u>36,838</u>

\* The balance represents an amount less than HK\$1,000.

The accompanying notes form part of the Financial Information.

## 4 Consolidated cash flow statements

	Section C Note	Five months ended				
		Year ended 31st March,			31st August,	
		2011	2012	2013	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Unaudited)</i>				
<b>Operating activities</b>						
Profit before taxation		19,170	35,030	34,098	15,701	7,461
Adjustments for:						
Bank interest income	3	(4)	(12)	(33)	(9)	(16)
Amortisation of intangible asset	5(b)	171	294	294	122	122
Depreciation	5(b)	835	3,109	4,861	1,787	1,983
Net loss on disposal of property, plant and equipment	4	—	505	—	—	—
Gain on bargain purchase of subsidiaries	4	(496)	—	—	—	(12)
<b>Changes in working capital:</b>						
Decrease/(increase) in inventories		2	(546)	(740)	(80)	(133)
Increase in trade and other receivables		(1,019)	(13,335)	(11,082)	(5,660)	(2,967)
Increase/(decrease) in trade and other payables		23	9,498	5,762	4,446	(1,045)
Decrease in amounts due to related parties		(2,038)	(68)	(432)	(48)	(17)
<b>Cash generated from operations</b>		16,644	34,475	32,728	16,259	5,376
Hong Kong Profits Tax paid		(663)	(3,158)	(10,786)	—	—
<b>Net cash generated from operating activities</b>		15,981	31,317	21,942	16,259	5,376

	Section C Note	Five months ended				
		Year ended 31st March,			31st August,	
		2011	2012	2013	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Unaudited)</i>				
<b>Investing activities</b>						
Increase in pledged bank deposits		(4)	(2,006)	(2,012)	(5)	(7)
(Increase)/decrease in amount due from director		(190)	190	(1,677)	(720)	—
(Increase)/decrease in amounts due from related parties		—	—	(1,976)	(821)	2,263
Decrease in amount due from Controlling Shareholder		—	6,000	—	—	2,990
Net cash inflow from acquisition of subsidiaries	20	644	—	—	—	14
Payment for the purchase of property, plant and equipment		(93)	(16,659)	(6,052)	(3,487)	(1,178)
Interest received		4	12	33	9	16
<b>Net cash generated from/(used in) investing activities</b>		<u>361</u>	<u>(12,463)</u>	<u>(11,684)</u>	<u>(5,024)</u>	<u>4,098</u>
<b>Financing activities</b>						
Increase/(decrease) in amount due to Controlling Shareholder		1	1	(47)	—	(6,151)
Dividend paid		(4,000)	(21,000)	—	—	—
<b>Net cash used in financing activities</b>		<u>(3,999)</u>	<u>(20,999)</u>	<u>(47)</u>	<u>—</u>	<u>(6,151)</u>

	<i>Section C</i>			<b>Five months ended</b>		
	<i>Note</i>	<b>Year ended 31st March,</b>			<b>31st August,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
	<i>(Unaudited)</i>					
<b>Net increase/ (decrease) in cash and cash equivalents</b>		12,343	(2,145)	10,211	11,235	3,323
<b>Cash at bank and in hand at beginning of the year/period</b>		<u>1,830</u>	<u>14,173</u>	<u>12,028</u>	<u>12,028</u>	<u>22,239</u>
<b>Cash at bank and in hand at end of the year/period</b>		<u>14,173</u>	<u>12,028</u>	<u>22,239</u>	<u>23,263</u>	<u>25,562</u>

The accompanying notes form part of the Financial Information.



**C NOTES TO THE FINANCIAL INFORMATION****1 Significant accounting policies*****(a) Statement of compliance***

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

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 28.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

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

The Corresponding Financial Information for the five months ended 31st August, 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

***(b) Basis of preparation and presentation***

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 24.

**(c) Basis of measurement**

The Financial Information is presented in Hong Kong Dollars (“**HK\$**”), rounded to the nearest thousand. The measurement basis used in the preparation of the Financial Information is the historical cost basis.

**(d) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

The financial information of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities are ultimately controlled by the Controlling Shareholder both before and after the business combination and that control is not transitory.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

**(e) Goodwill**

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

***(f) Property, plant and equipment***

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

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

— Leasehold improvements	Over the unexpired term of lease
— Furniture, fixtures and equipment	5 years

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

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

***(g) Intangible assets***

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimate useful lives. Customer relationships are amortised over their estimated useful lives of 4 years.

Both the period and method of amortisation are reviewed annually.

***(h) Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(i) Impairment of assets***(i) Impairment of trade and other receivables*

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

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

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

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

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

*(ii) Impairment of other assets*

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

- property, plant and equipment; and
- intangible assets.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years/periods. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognised.

*(j) Inventories*

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

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

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

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

***(k) Trade and other receivables***

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

***(l) Trade and other payables***

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

***(m) Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

***(n) Employee benefits***

***(i) Short term employee benefits***

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

***(ii) Retirement benefits***

Retirement benefits are provided by the Group under the Mandatory Provident Fund Scheme as defined contribution schemes. The employer's monthly contributions to the scheme are at a maximum of 5% of each employee's monthly salary, subject to a cap of monthly relevant income of HK\$20,000, or HK\$25,000 after 1st June, 2012.

The cost of all these schemes is charged to profit or loss of the Group for the years/periods concerned and the assets of all these schemes are held separately from those of the Group.

**(o) *Income tax***

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

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

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

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

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

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

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

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

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

***(p) Provisions and contingent liabilities***

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

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



***(q) Revenue recognition***

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

***(i) Sale of beverages and tobacco products***

Revenue from sale of beverages and tobacco products is recognised at the point of sale to customers.

Prepayments from customers in respect of the membership schemes operated by the Group which are considered to be unearned at the reporting date are shown as receipts in advance in the consolidated statements of financial position.

***(ii) Revenue from club operations***

Revenue from club operations (including entrance fees, cloakroom fees and event rental income) is recognised when the services have been provided to the customers.

***(iii) Sponsorship income***

Sponsorship income is recognised when:

- the promotion events have been held; or
- the services have been rendered, and it is probable that the sponsorship income will be granted and the amount can be measured reliably.

***(iv) Interest income***

Interest income is recognised as it accrues using the effective interest method.

***(r) Related parties***

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

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

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

**(s) Segment reporting**

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's business and geographical location.

Management has determined operating segment with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the operation of clubbing business. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented.

No geographic information is shown as the turnover and profit from operations of the Group are primarily derived from its activities in Hong Kong.

**2 Turnover**

The principal activity of the Group is the operation of clubbing business.

Turnover represents the amount received or receivable from the sale of beverages and tobacco products, revenue from club operations (including entrance fees, cloakroom fees and event rental income) and sponsorship income.

The Group's customer base is diversified and no individual customer had transactions which exceeded 10% of the Group's turnover during the Relevant Periods.

**3 Other revenue**

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Bank interest income	<u>4</u>	<u>12</u>	<u>33</u>	<u>9</u>	<u>16</u>

**4 Other net income/(loss)**

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Net loss on disposal of property, plant and equipment	—	(505)	—	—	—
Gain on bargain purchase of subsidiaries (note 20)	<u>496</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>
	<u>496</u>	<u>(505)</u>	<u>—</u>	<u>—</u>	<u>12</u>

**5 Profit before taxation**

Profit before taxation is arrived at after charging:

	Year ended 31st March,			Five months ended	
	2011	2012	2013	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					<i>(Unaudited)</i>
<b>(a) Staff costs</b>					
Contributions to defined contribution retirement plans	314	687	1,340	424	719
Salaries, wages and other benefits	7,559	15,631	29,764	10,264	16,851
	<u>7,873</u>	<u>16,318</u>	<u>31,104</u>	<u>10,688</u>	<u>17,570</u>
<b>(b) Other items</b>					
Amortisation of intangible asset	171	294	294	122	122
Depreciation	835	3,109	4,861	1,787	1,983
Auditors' remuneration	52	67	22	—	—
Operating lease charges:					
minimum lease payments					
- property rentals	7,410	17,739	26,519	11,040	12,115
Cost of inventories (note 12(b))	11,207	23,833	31,785	13,549	13,436
	<u>11,207</u>	<u>23,833</u>	<u>31,785</u>	<u>13,549</u>	<u>13,436</u>

## 6 Income tax in the consolidated statements of comprehensive income

## (a) Income tax in the consolidated statements of comprehensive income represents:

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
<b>Current tax - Hong Kong</b>					
<b>Profits Tax</b>					
Provision for the year/period	3,154	5,222	6,715	2,832	2,223
<b>Deferred tax</b>					
Origination and reversal of temporary differences	(66)	641	(651)	(205)	(336)
	<u>3,088</u>	<u>5,863</u>	<u>6,064</u>	<u>2,627</u>	<u>1,887</u>

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

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Profit before taxation	<u>19,170</u>	<u>35,030</u>	<u>34,098</u>	<u>15,701</u>	<u>7,461</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (notes (i) and (ii))	3,080	5,780	5,626	2,591	1,231
Tax effect of non-deductible expenses	9	85	443	38	660
Tax effect of non-taxable income	(1)	(2)	(5)	(2)	(4)
Actual tax expense	<u>3,088</u>	<u>5,863</u>	<u>6,064</u>	<u>2,627</u>	<u>1,887</u>

## Notes:

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% to the estimated assessable profits for the Relevant Periods.
- (ii) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.

## 7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31st March, 2011			
	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Chairman and non-executive director</b>				
YIP Mow Lum	—	—	—	—
<b>Executive directors</b> (Note)				
CHAN Chi Wah	—	165	7	172
MOK Kung Yee	—	—	—	—
TSANG Kwok Shan, Sandy	—	—	—	—
LAM Jhug Ching	—	150	7	157
Total	—	315	14	329

	Year ended 31st March, 2012			
	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Chairman and non-executive director</b>				
YIP Mow Lum	—	—	—	—
<b>Executive directors</b> (Note)				
CHAN Chi Wah	—	331	12	343
MOK Kung Yee	—	—	—	—
TSANG Kwok Shan, Sandy	—	—	—	—
LAM Jhug Ching	—	179	9	188
Total	—	510	21	531

	Year ended 31st March, 2013			
	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Chairman and non-executive director</b>				
YIP Mow Lum	—	—	—	—
<b>Executive directors (Note)</b>				
CHAN Chi Wah	—	473	15	488
MOK Kung Yee	—	390	15	405
TSANG Kwok Shan, Sandy	—	298	7	305
LAM Jhug Ching	—	335	14	349
Total	—	1,496	51	1,547

	Five months ended 31st August, 2012 (Unaudited)			
	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Chairman and non-executive director</b>				
YIP Mow Lum	—	—	—	—
<b>Executive directors (Note)</b>				
CHAN Chi Wah	—	222	6	228
MOK Kung Yee	—	148	6	154
TSANG Kwok Shan, Sandy	—	—	—	—
LAM Jhug Ching	—	143	6	149
Total	—	513	18	531

<b>Five months ended 31st August, 2013</b>				
<b>Directors' fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Retirement scheme contributions</b>	<b>Total</b>	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<b>Chairman and non-executive director</b>				
YIP Mow Lum	—	—	—	—
<b>Executive directors (Note)</b>				
CHAN Chi Wah	—	203	6	209
MOK Kung Yee	—	198	6	204
TSANG Kwok Shan, Sandy	—	234	6	240
LAM Jhug Ching	—	172	6	178
Total	—	807	24	831

*Note:* Mr. WONG Hei Yan was a director of the Company and he resigned as a director of the Company on 27th June, 2013. The remuneration paid to Mr. WONG Hei Yan during the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2012 and 2013 was HK\$Nil, HK\$Nil, HK\$1,370,000, HK\$498,000 (unaudited) and HK\$623,000 respectively. Prior to entering into an employment agreement with Mr. WONG Hei Yan on 1st May, 2012, the Group paid management fees to companies controlled by Mr. WONG Hei Yan during the Relevant Periods (see note 23(a)).

During the Relevant Periods, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals as set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. And, there was no arrangement under which a director has waived or agreed to waive any remuneration during the Relevant Periods.



**8 Individuals with highest emoluments**

Of the five individuals with the highest emoluments, 1, 0, 2, 2 and 2 are directors for the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2012 and 2013 respectively whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 31st March,			Five months ended 31st August,	
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Salaries and other emoluments	888	2,486	2,418	897	1,061
Retirement scheme contributions	<u>33</u>	<u>60</u>	<u>44</u>	<u>17</u>	<u>19</u>
	<u>921</u>	<u>2,546</u>	<u>2,462</u>	<u>914</u>	<u>1,080</u>

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

	Year ended 31st March,			Five months ended 31st August,	
	2011 <i>Number of individuals</i>	2012 <i>Number of individuals</i>	2013 <i>Number of individuals</i>	2012 <i>Number of individuals</i>	2013 <i>Number of individuals</i>
HK\$Nil to HK\$1,000,000	<u>4</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>

**9 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 Reorganisation and the preparation of the results of the Group for the Relevant Periods on the basis as disclosed in Section A.

## 10 Property, plant and equipment

	<b>Furniture, fixtures and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost:</b>			
At 1st April, 2010	2,222	928	3,150
Additions	93	—	93
Acquisition of subsidiaries (note 20)	<u>1,323</u>	<u>95</u>	<u>1,418</u>
At 31st March, 2011	<u>3,638</u>	<u>1,023</u>	<u>4,661</u>
<b>Accumulated depreciation:</b>			
At 1st April, 2010	926	928	1,854
Charge for the year	<u>796</u>	<u>39</u>	<u>835</u>
At 31st March, 2011	<u>1,722</u>	<u>967</u>	<u>2,689</u>
<b>Net book value:</b>			
At 31st March, 2011	<u>1,916</u>	<u>56</u>	<u>1,972</u>

	<b>Furniture, fixtures and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost:</b>			
At 1st April, 2011	3,638	1,023	4,661
Additions	10,034	10,879	20,913
Disposals	<u>(1,416)</u>	<u>(95)</u>	<u>(1,511)</u>
At 31st March, 2012	<u>12,256</u>	<u>11,807</u>	<u>24,063</u>
<b>Accumulated depreciation:</b>			
At 1st April, 2011	1,722	967	2,689
Charge for the year	2,110	999	3,109
Written back on disposals	<u>(911)</u>	<u>(95)</u>	<u>(1,006)</u>
At 31st March, 2012	<u>2,921</u>	<u>1,871</u>	<u>4,792</u>
<b>Net book value:</b>			
At 31st March, 2012	<u>9,335</u>	<u>9,936</u>	<u>19,271</u>

	<b>Furniture, fixtures and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost:</b>			
At 1st April, 2012	12,256	11,807	24,063
Additions	<u>2,145</u>	<u>2,124</u>	<u>4,269</u>
At 31st March, 2013	<u>14,401</u>	<u>13,931</u>	<u>28,332</u>
<b>Accumulated depreciation:</b>			
At 1st April, 2012	2,921	1,871	4,792
Charge for the year	<u>2,650</u>	<u>2,211</u>	<u>4,861</u>
At 31st March, 2013	<u>5,571</u>	<u>4,082</u>	<u>9,653</u>
<b>Net book value:</b>			
At 31st March, 2013	<u>8,830</u>	<u>9,849</u>	<u>18,679</u>

	<b>Furniture, fixtures and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost:</b>			
At 1st April, 2013	14,401	13,931	28,332
Additions	<u>730</u>	<u>—</u>	<u>730</u>
At 31st August, 2013	<u>15,131</u>	<u>13,931</u>	<u>29,062</u>
<b>Accumulated depreciation:</b>			
At 1st April, 2013	5,571	4,082	9,653
Charge for the period	<u>1,054</u>	<u>929</u>	<u>1,983</u>
At 31st August, 2013	<u>6,625</u>	<u>5,011</u>	<u>11,636</u>
<b>Net book value:</b>			
At 31st August, 2013	<u>8,506</u>	<u>8,920</u>	<u>17,426</u>

**11 Intangible asset**

	<b>Customer relationships</b> <i>HK\$'000</i>
<b>Cost:</b>	
At 1st April, 2010	—
Acquisition of subsidiaries (note 20)	<u>1,174</u>
At 31st March, 2011	<u>1,174</u> -----
<b>Accumulated amortisation:</b>	
At 1st April, 2010	—
Charge for the year	<u>171</u>
At 31st March, 2011	<u>171</u> -----
<b>Net book value:</b>	
At 31st March, 2011	<u>1,003</u> =====

	<b>Customer relationships</b> <i>HK\$'000</i>
<b>Cost:</b>	
At 1st April, 2011 and 31st March, 2012	<u>1,174</u> -----
<b>Accumulated amortisation:</b>	
At 1st April, 2011	171
Charge for the year	<u>294</u>
At 31st March, 2012	<u>465</u> -----
<b>Net book value:</b>	
At 31st March, 2012	<u>709</u> =====

**Customer relationships***HK\$'000***Cost:**

At 1st April, 2012 and 31st March, 2013	1,174
	-----

**Accumulated amortisation:**

At 1st April, 2012	465
--------------------	-----

Charge for the year	294
	-----

At 31st March, 2013	759
	-----

**Net book value:**

At 31st March, 2013	415
	=====

**Customer relationships***HK\$'000***Cost:**

At 1st April, 2013 and 31st August, 2013	1,174
	-----

**Accumulated amortisation:**

At 1st April, 2013	759
--------------------	-----

Charge for the period	122
	-----

At 31st August, 2013	881
	-----

**Net book value:**

At 31st August, 2013	293
	=====

The amortisation charge for the Relevant Periods is included in “depreciation and amortisation” in the consolidated statements of comprehensive income.

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

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Beverages and other operating items for club operations	<u>936</u>	<u>1,482</u>	<u>2,222</u>	<u>2,355</u>

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

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August,	
	HK\$'000	HK\$'000	HK\$'000	2012	2013
Carrying amount of inventories sold	<u>11,207</u>	<u>23,833</u>	<u>31,785</u>	<u>13,549</u>	<u>13,436</u>

*(Unaudited)*

**13 Trade and other receivables**

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Trade receivables	316	6,437	4,502	2,919
Deposits, prepayments and other receivables	<u>7,672</u>	<u>14,886</u>	<u>27,903</u>	<u>32,453</u>
	<u>7,988</u>	<u>21,323</u>	<u>32,405</u>	<u>35,372</u>

As at 31st March, 2011, 2012 and 2013 and 31st August, 2013, none of the Group's trade receivables was individually or collectively considered to be impaired. The Group does not hold any collateral over these balances.

As at 31st March, 2011, 2012 and 2013 and 31st August, 2013, the amount of the Group's deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$5,824,000, HK\$12,219,000, HK\$14,342,000 and HK\$15,850,000 respectively, which mainly represents rental deposits for clubs of the Group. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

### ***Ageing analysis***

As at 31st March, 2011, 2012 and 2013 and 31st August, 2013, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	<b>As at 31st March,</b>			<b>As at 31st</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>August,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	316	4,316	4,153	2,808
Over 1 month to 2 months	—	989	238	—
Over 2 months to 3 months	—	842	—	—
Over 3 months	—	290	111	111
	<u>316</u>	<u>6,437</u>	<u>4,502</u>	<u>2,919</u>

The Group's trade receivables represent the credit card sales receivable from financial institutions, which are neither past due nor impaired.

#### 14 Amounts due from director, related parties and Controlling Shareholder

The amounts due from director, related parties and Controlling Shareholder disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Mr. WONG Hei Yan		Bright Smart China							
	Mr. YIP	Mr. YIP	Asiatic Century Limited ("Asiatic Century")	Securities International (Worldwide) Limited (H.K.) Limited ("China BSSI")	Finance Limited* ("China Finance")	Colorline Limited ("Colorline")	Goal Speed Limited ("Goal Speed")	Leonart Limited	Jetsky Corporation Limited ("Jetsky")	Gold Allied Limited ("Gold Allied")
Relationship	Director (resigned on 27th June, 2013) and key management personnel	Director and the controlling shareholder	Company controlled by Mr. WONG Hei Yan before 15th April, 2013 (note 20(d))	Company controlled by Mr. YIP	Company controlled by Mr. YIP	Company controlled by Mr. WONG Hei Yan	Company controlled by Mr. WONG Hei Yan	Company controlled by Mr. YIP	Company controlled by Mr. YIP	Company controlled by Mr. LAM Jhug Ching
Terms of the loan										
- duration and repayment terms	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand
- interest rate	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free	Interest-free
- security/guarantee	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Balance of the loan										
- at 31st March, 2011	HK\$190,000	HK\$9,390,000	—	—	—	—	—	—	—	—
- at 31st March, 2012	—	HK\$3,390,000	—	—	—	—	—	—	—	—
- at 31st March, 2013	HK\$1,677,000	HK\$3,390,000	HK\$1,000	—	HK\$577,000	HK\$105,000	HK\$310,000	HK\$513,000	HK\$350,000	HK\$120,000
- at 31st August, 2013	HK\$969,000	—	—	HK\$29,000	—	—	—	HK\$400,000	—	—
Maximum balance outstanding										
- during the year ended 31st March, 2011	HK\$190,000	HK\$9,390,000	—	—	—	—	—	—	—	—
- during the year ended 31st March, 2012	HK\$190,000	HK\$9,390,000	—	—	—	—	—	—	—	—
- during the year ended 31st March, 2013	HK\$1,677,000	HK\$3,390,000	HK\$1,000	—	HK\$577,000	HK\$105,000	HK\$310,000	HK\$513,000	HK\$350,000	HK\$120,000
- during the five months ended 31st August, 2013	HK\$1,884,000	HK\$3,390,000	HK\$1,000	HK\$29,000	HK\$577,000	HK\$105,000	HK\$310,000	HK\$513,000	HK\$350,000	HK\$120,000

\* Formerly known as Bright Smart Finance International (China) Limited

Except for the amount due from Mr. WONG Hei Yan, the above amounts were fully settled in September 2013. There were no amounts due but unpaid, nor any provision made against the principal amount at 31st March, 2011, 2012 and 2013 and 31st August, 2013.

#### 15 Amounts due to related parties and Controlling Shareholder

The amounts due to related parties and Controlling Shareholder are unsecured, interest free and repayable on demand.



**16 Pledged bank deposits**

The amounts are pledged to secure (i) bank guarantee issued to the landlord which the Group entered into a tenancy agreement; and (ii) banking services relating to credit card sale arrangement.

**17 Trade and other payables**

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Trade creditors	1,591	2,899	3,217	2,750
Other payables and accrued charges	6,181	14,566	13,789	13,269
Receipts in advance	5,203	9,262	13,700	13,204
	<u>12,975</u>	<u>26,727</u>	<u>30,706</u>	<u>29,223</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Receipts in advance represents the prepayments from customers in respect of the membership schemes operated by the Group.

Included in trade and other payables are trade creditors with the following ageing analysis, based on the invoice date, as of the end of the reporting period:

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Within 3 months	1,591	2,889	3,217	2,750
Over 3 months to 6 months	—	10	—	—
	<u>1,591</u>	<u>2,899</u>	<u>3,217</u>	<u>2,750</u>

## 18 Income tax in the consolidated statements of financial position

(a) Current taxation in the consolidated statements of financial position represents:

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Provision for Hong Kong Profits Tax for the year/period	3,154	5,222	6,715	2,223
Provisional Profits Tax paid	(332)	(1,676)	(6,243)	—
	<u>2,822</u>	<u>3,546</u>	<u>472</u>	<u>2,223</u>
Balance of Profits Tax provision relating to prior years	468	1,808	811	1,283
	<u>3,290</u>	<u>5,354</u>	<u>1,283</u>	<u>3,506</u>
<b>Represented by:</b>				
Tax recoverable	—	—	(1,012)	(1,012)
Tax payable	<u>3,290</u>	<u>5,354</u>	<u>2,295</u>	<u>4,518</u>
	<u>3,290</u>	<u>5,354</u>	<u>1,283</u>	<u>3,506</u>

**(b) Deferred tax assets and liabilities recognised:**

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

<b>Deferred tax arising from:</b>	<b>Depreciation (in excess of)/ less than the related depreciation allowances</b>	<b>Intangible assets</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 2010	—	—	—	—
Acquisition of subsidiaries (note 20)	(591)	194	—	(397)
Credited to profit or loss	<u>(38)</u>	<u>(28)</u>	<u>—</u>	<u>(66)</u>
At 31st March, 2011	<u>(629)</u>	<u>166</u>	<u>—</u>	<u>(463)</u>
At 1st April, 2011	(629)	166	—	(463)
Charged/(credited) to profit or loss	<u>689</u>	<u>(48)</u>	<u>—</u>	<u>641</u>
At 31st March, 2012	<u>60</u>	<u>118</u>	<u>—</u>	<u>178</u>
At 1st April, 2012	60	118	—	178
Credited to profit or loss	<u>(298)</u>	<u>(49)</u>	<u>(304)</u>	<u>(651)</u>
At 31st March, 2013	<u>(238)</u>	<u>69</u>	<u>(304)</u>	<u>(473)</u>
At 1st April, 2013	(238)	69	(304)	(473)
Credited to profit or loss	<u>(145)</u>	<u>(20)</u>	<u>(171)</u>	<u>(336)</u>
At 31st August, 2013	<u>(383)</u>	<u>49</u>	<u>(475)</u>	<u>(809)</u>

Reconciliation to the consolidated statements of financial position:

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Net deferred tax assets recognised in the consolidated statements of financial position	(463)	(106)	(473)	(809)
Net deferred tax liabilities recognised in the consolidated statements of financial position	—	284	—	—
	<u>(463)</u>	<u>178</u>	<u>(473)</u>	<u>(809)</u>

## 19 Capital, reserves and dividends

### (a) Share capital

The Company was incorporated on 14th January, 2013 with an authorised share capital of HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each. On 14th January, 2013 and 19th April, 2013, 1 share and 9,999 shares of HK\$0.01 were allotted and issued as fully paid at par respectively.

Upon the completion of the Reorganisation on 15th April, 2013, the Company became the holding company of the Group.

Since the Reorganisation was not completed on 31st March, 2013, the share capital in the consolidated statements of financial position as at 31st March, 2011, 2012 and 2013 represented an aggregate amount of the paid-in capital of the companies comprising the Group. The share capital in the consolidated statement of financial position as at 31st August, 2013 represents the share capital of the Company.

### (b) Dividends

Dividends for the Relevant Periods represent interim dividends declared by the Company's subsidiaries, Best Future Worldwide Limited and Kind Legend Limited. The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the basis of preparation of the Financial Information as disclosed in Section A.

Subsequent to 31st August, 2013, the Company declared a dividend of HK\$10,000,000 which has not been recognised as a liability at the end of the reporting period.

**(c) Nature and purpose of reserves***Capital reserve*

The capital reserve represents the cash paid for the acquisition of subsidiaries contributed by the Controlling Shareholder in September 2010 (see note 20).

**(d) Distributability of reserves**

At 31st August, 2013, the Company does not have reserves available for distribution.

**(e) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. At 31st March, 2011, 2012 and 2013 and 31st August, 2013, the ratio of the Group's total liabilities over its total assets was 60%, 62%, 43% and 37% respectively.

The Group is not subject to externally imposed capital requirements during the Relevant Periods.

**20 Acquisition of subsidiaries**

- (a) On 1st September, 2010, the Group acquired the entire shareholding of Best Future Worldwide Limited together with its wholly-owned subsidiary, Sure Wise Investment Limited (collectively known as the "**2010 Acquired Subsidiaries**"), from an independent third party at a consideration of HK\$2,500,000. The principal activity of the 2010 Acquired Subsidiaries is the operation of clubbing business. Taking control of the 2010 Acquired Subsidiaries enabled the Group to increase its share of the clubbing market.

In the seven months to 31st March, 2011, the 2010 Acquired Subsidiaries contributed revenue of HK\$47,418,000 and a profit of HK\$9,838,000 to the Group's results. If the acquisition had occurred on 1st April, 2010, management estimates that the consolidated

revenue would have been HK\$97,010,000, and the consolidated profit for the year ended 31st March, 2011 would have been HK\$19,925,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1st April, 2010.

- (i) The identifiable assets acquired and liabilities assumed from the acquisition are as follows:

	<b>Pre- acquisition carrying amounts</b>	<b>Fair value adjustments</b>	<b>Recognised values on acquisition</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	1,418	—	1,418
Intangible asset	—	1,174	1,174
Deferred tax assets	591	(194)	397
Inventories	497	—	497
Trade and other receivables	14,527	—	14,527
Cash at bank and in hand	644	—	644
Trade and other payables	(15,024)	—	(15,024)
Current taxation	(637)	—	(637)
Total identifiable net assets	<u>2,016</u>	<u>980</u>	2,996
Gain on bargain purchase (note 4)			<u>(496)</u>
Total consideration (note 19(c))			<u>2,500</u>
Net cash inflow arising on acquisition:			
- cash acquired			<u>644</u>

- (ii) The results of the 2010 Acquired Subsidiaries during the period from 1st April, 2010 to the date of acquisition are as follows:

	<i>HK\$'000</i>
<b>Turnover</b>	27,024
Cost of inventories sold	(4,975)
Staff costs	(3,222)
Depreciation and amortisation	(275)
Property rentals and related expenses	(4,167)
Advertising and marketing expenses	(3,364)
Other operating expenses	<u>(5,930)</u>
<b>Profit before taxation</b>	5,091
Income tax	<u>(819)</u>
<b>Profit and total comprehensive income for the period</b>	<u>4,272</u>

- (iii) The net cash flows of the 2010 Acquired Subsidiaries during the period from 1st April, 2010 to the date of acquisition are as follows:

	<i>HK\$'000</i>
Net cash used in operating activities	(568)
Net cash used in financing activities	<u>(3,000)</u>
Net cash outflows	<u><u>(3,568)</u></u>

- (b) On 28th March, 2013 and 31st March, 2013, the Group acquired the entire shareholdings of Clubbing Kingdom Management Limited, Ease Goal Management Limited, Easy Large Limited, Joyful Mercy Limited and Honor Legend Limited (collectively known as the “**2013 Acquired Subsidiaries**”), from Mr. WONG Hei Yan and Mr. LAM Jhug Ching at a total consideration of less than HK\$1,000. The principal activities of the 2013 Acquired Subsidiaries are mainly the provision of management services to the subsidiaries of the Group.

The management estimates that the 2013 Acquired Subsidiaries would not have significant impact to the consolidated revenue and consolidated profit for the year ended 31st March, 2013 if the acquisition had occurred on 1st April, 2012.

The identifiable assets acquired and liabilities assumed from the acquisition are as follows:

	<b>Pre-acquisition carrying amounts</b> <i>HK\$'000</i>	<b>Recognised values on acquisition</b> <i>HK\$'000</i>
Trade and other receivables	3,347	3,347
Trade and other payables	<u>(3,347)</u>	<u>(3,347)</u>
Total identifiable net assets	<u>—</u>	<u>—</u>
Total consideration		<u>—</u> *

\* Represents amount less than HK\$1,000

- (c) On 19th April, 2011 and 29th May, 2012, the Group acquired the entire shareholdings of Joyful Green Limited and Club Kingdom The Central Group Limited, from Mr. WONG Hei Yan at a consideration of less than HK\$1,000. The identifiable assets acquired and liabilities assumed from the acquisitions are less than HK\$1,000. The principal activities of these companies are the provision of management services to the subsidiaries of the Group and holding of trademarks.

The management estimates that these subsidiaries would not have significant impact to the consolidated revenue and consolidated profit of the Group if the acquisition had occurred on 1st April, 2011 and 2012 respectively.

- (d) On 15th April, 2013, the Group acquired Prime Sunlight Limited, Asiatic Century Limited, Best Season Corporation Limited and Dragon Praise Limited from Mr. WONG Hei Yan at a total consideration of less than HK\$1,000. The principal activities of these companies are provision of administrative services to the subsidiaries of the Group.

The management estimates that these subsidiaries would not have significant impact to the consolidated revenue and consolidated profit of the Group if the acquisition had occurred on 1st April, 2013.

The identifiable assets acquired and liabilities assumed from the acquisition are as follows:

	<b>Pre-acquisition carrying amounts</b> <i>HK\$'000</i>	<b>Recognised values on acquisition</b> <i>HK\$'000</i>
Amounts due from related parties	8	8
Cash at bank and in hand	14	14
Trade and other payables	(10)	(10)
Total identifiable net assets	<u>12</u>	12
Gain on bargain purchase (note 4)		<u>(12)</u>
Total consideration		<u>—</u> *
Net cash inflow arising on acquisition:		
- cash acquired		<u>14</u>

\* Represented amount less than HK\$1,000

## 21 Financial risk management and fair values

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

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management monitors the exposures to credit risk on an ongoing basis. Credit risk in respect of trade receivables is limited as the balances are due from financial institutions with high individual credit rating.



The Group does not provide any guarantees which would expose the Group to credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 13.

**(b) *Liquidity risk***

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

All of the Group's liabilities are carried at amounts not materially different from their contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of the reporting period.

**(c) *Interest rate risk***

The Group has no interest-bearing liability and thus the directors consider the Group's exposure to interest rate risk is minimal.

**(d) *Currency risk***

The Group's businesses are principally conducted in Hong Kong dollars and most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars. Accordingly, the directors consider the Group's exposure to foreign currency risk is not significant.

**(e) *Fair values***

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31st March, 2011, 2012 and 2013 and 31st August, 2013.

## 22 Commitments

At 31st March, 2011, 2012 and 2013 and 31st August, 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31st March,			As at 31st
	2011	2012	2013	August,
	HK\$'000	HK\$'000	HK\$'000	2013
Within 1 year	10,140	25,864	30,580	27,596
After 1 year but within 5 years	7,480	26,370	38,037	28,284
	<u>17,620</u>	<u>52,234</u>	<u>68,617</u>	<u>55,880</u>

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eight years with an option to renew the lease. None of the leases includes contingent rentals.

## 23 Material related party transactions

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

Name of related party	Relationship with the Group
Mr. YIP	Director and the controlling shareholder
Mr. WONG Hei Yan	Director (resigned on 27th June, 2013) and key management personnel
Mr. LAM Jhug Ching	Director
Asiatic Century	Controlled by Mr. WONG Hei Yan before 15th April, 2013 (note 20(d))
China Finance	Controlled by Mr. YIP
BSSI	Controlled by Mr. YIP
Colorline	Controlled by Mr. WONG Hei Yan
Goal Speed	Controlled by Mr. WONG Hei Yan
Gold Allied	Controlled by Mr. LAM Jhug Ching
Great Ease Limited (“ <b>Great Ease</b> ”)	Controlled by Mr. YIP
Jetsky	Controlled by Mr. YIP
Winners Name Limited (“ <b>Winners Name</b> ”)	Controlled by Mr. YIP

**(a) Transactions with related parties**

The Group has entered into the following material related party transactions during the Relevant Periods:

	Year ended 31st March,			Five months ended 31st August,	
	2011	2012	2013	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Club management fee paid to					
- Asiatic Century	—	119	204	85	—
- Colorline	—	105	—	—	—
- Goal Speed	1,050	1,920	—	—	—
- Gold Allied	720	720	—	—	—
	<u>720</u>	<u>720</u>	<u>—</u>	<u>—</u>	<u>—</u>
Consultancy fee paid to					
- BSSI	—	—	400	200	—
	<u>—</u>	<u>—</u>	<u>400</u>	<u>200</u>	<u>—</u>
Rental expenses for yacht paid to					
- China Finance	518	828	—	—	—
	<u>518</u>	<u>828</u>	<u>—</u>	<u>—</u>	<u>—</u>
Advertising and marketing expenses paid to					
- Great Ease	300	—	—	—	—
- Jetsky	800	1,600	—	—	—
- Winners Name	90	—	—	—	—
	<u>90</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The directors consider that the above related party transactions during the Relevant Periods were conducted on normal commercial terms and in the ordinary and usual course of the Group's business. In addition, the directors have confirmed that above transactions had been terminated on or before 31st August, 2013.

**(b) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7, is as follows:

	Year ended 31st March,			Five months ended	
	2011	2012	2013	31st August, 2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Short-term employee benefits	315	510	2,839	1,001	1,418
Post-employment benefits	<u>14</u>	<u>21</u>	<u>78</u>	<u>28</u>	<u>36</u>
	<u>329</u>	<u>531</u>	<u>2,917</u>	<u>1,029</u>	<u>1,454</u>

Total remuneration is disclosed in “staff costs” (see note 5(a)).

**24 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.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. Other key sources of estimation uncertainty in the preparation of the Financial Information are as follows:

**(a) Impairment of non-current assets**

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not readily available. In determining value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

**(b) Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

**25 Financial Information of the Company**

The Company was incorporated in the Cayman Islands on 14th January, 2013. The issued share capital as at the date of incorporation was HK\$0.01. As at 31st March, 2013 and 31st August, 2013, 1 share and 10,000 shares were issued and fully paid respectively. Except for the Reorganisation, the Company has not carried on any business since the date of incorporation to 31st August, 2013.

**26 Statutory financial statements**

The statutory financial statements of the Group's subsidiaries during the Relevant Periods were audited by the following auditors:

<b>Name of company</b>	<b>Financial period</b>	<b>Statutory auditors</b>
Cheerful Raise Limited	For the years ended 31st March, 2011, 2012 and 2013	KPMG
Club Kingdom The Central Group Limited	For the year ended 31st March, 2013	KPMG
Clubbing Kingdom Management Limited	For the period from 7th December, 2012 (date of incorporation) to 31st March, 2013	KPMG
Ease Goal Management Limited	For the year ended 31st March, 2013	KPMG

<b>Name of company</b>	<b>Financial period</b>	<b>Statutory auditors</b>
Easy Large Limited	For the year ended 31st March, 2013	KPMG
Honor Legend Limited	For the year ended 31st March, 2013	KPMG
Joyful Green Limited	For the years ended 31st March, 2012 and 2013	KPMG
Joyful Mercy Limited	For the year ended 31st March, 2013	KPMG
Kind Legend Limited	For the year ended 31st March, 2011	Chan Yok To, Certified Public Accountant
	For the year ended 31st March, 2012	Johnny Chan, Certified Public Accountant
	For the year ended 31st March, 2013	S.L. WONG & CO. Certified Public Accountants
Ocean Ample Investment Limited	For the period from 29th June, 2011 (date of incorporation) to 31st March, 2012 and year ended 31st March, 2013	KPMG
Sure Wise Investment Limited	For the year ended 30th November, 2010 (Note)	Chan Yok To, Certified Public Accountant
	For the year ended 30th November, 2011 (Note)	Johnny Chan Certified Public Accountant
	For the period from 1st December, 2011 to 31st March, 2013	S.L. WONG & CO. Certified Public Accountants

*Note:* Prior to the financial year ended 31st March, 2013, Sure Wise Investment Limited adopted 30th November, as its financial year end date. As part of the Reorganisation, Sure Wise Investment Limited has changed its year end date to conform with the Group.

**27 Immediate and ultimate controlling party**

As at 31st August, 2013, the directors consider the immediate controlling party of the Group to be Rainbow Key Investment Limited, which is incorporated in the BVI, and the ultimate controlling party of the Group to be Mr. YIP. None of the parties produces financial statements available for public use.

**28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods**

Up to the date of this Financial Information, the HKICPA has issued few amendments and a new standard which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 32, <i>Financial instruments: Presentation</i> — <i>Offsetting financial assets and financial liabilities</i>	1st January, 2014
HKFRS 9, <i>Financial instruments</i>	1st January, 2015

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the Group's results of operations and financial position.

**D SUBSEQUENT EVENTS**

The following significant transactions took place subsequent to 31st August, 2013:

**(a) Dividend**

On 24th October, 2013, the Company declared a dividend of HK\$10,000,000 to the Controlling Shareholder. Such dividend was not accounted for in the Financial Information during the Relevant Periods.

**(b) Share Option Scheme**

On 3rd January, 2014, the Company has conditionally adopted the Share Option Scheme. The details of the Share Option Scheme are set out in the section headed "Statutory and General Information — Other Information — 13. Share Option Scheme" in Appendix IV to the Prospectus.

**E SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 31st August, 2013.

Yours faithfully

**KPMG**  
*Certified Public Accountants*  
Hong Kong



The information sets out in this Appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to the Prospectus, and is included herein for information only.

#### A. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if the Global Offering had been completed on 31st August, 2013. It is based on the notes set forth below. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31st August, 2013 or any future date.

	<b>Consolidated net tangible assets of the Group as at 31st August, 2013</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted net tangible asset of the Group</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>
	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i>	<i>(in HK\$)</i> <i>(Note c)</i>
Based on an Offer Price of HK\$1.0 per Share	56,679	56,740	113,419	0.38
Based on an Offer Price of HK\$1.5 per Share	56,679	93,784	150,463	0.50

*Notes:*

- (a) The consolidated net tangible assets of the Group as at 31st August, 2013 is calculated based on the consolidated net assets of the Group of HK\$56,972,000 less intangible assets of HK\$293,000, as extracted from the financial information presented in Appendix I to the Prospectus.
- (b) Estimated net proceeds from the Global Offering. The estimated net proceeds from the Global Offering take no account of any Shares that may be issued upon exercise of the Over-allotment Option.

	<b>Based on indicative Offer Price of HK\$1.0 per Share</b>	<b>Based on indicative Offer Price of HK\$1.5 per Share</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross proceeds from the Global Offering	84,000	126,000
Underwriting fees and other expenses associated with the Global Offering	27,260	32,216
Net proceeds from the Global Offering	56,740	93,784

- (c) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 300,000,000 Shares (being the number of Shares expected to be in issue immediately after completion of the Global Offering). No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.
- (d) The unaudited pro forma adjusted net tangible assets do not take into account a dividend of HK\$10,000,000 declared by the Company to the then shareholders on 24th October, 2013. Had the dividend been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be HK\$0.34 (assuming an Offer Price of HK\$1.0 per Share) and HK\$0.47 (assuming an Offer Price of HK\$1.5 per Share), respectively.
- (e) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31st August, 2013.

**B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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



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

13th January, 2014

The Directors  
Magnum Entertainment Group Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Magnum Entertainment Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31st August, 2013 and related notes as set out on pages II-1 and II-2 of Appendix II to the prospectus dated 13th January, 2014 (the “**Prospectus**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in pages II-1 and II-2 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the “**Global Offering**”) on the Group’s financial position as at 31st August, 2013 as if the Global Offering had taken place at 31st August, 2013. As part of this process, information about the Group’s financial position as at 31st August, 2013 has been extracted by the Directors from the Group’s historical financial statements included in the Accountants’ Report as set out in Appendix I to the Prospectus.

*Directors’ Responsibilities for the Pro Forma Financial Information*

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

*Reporting Accountants' Responsibilities*

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31st August, 2013 would have been as presented.

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

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

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

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Use of Proceeds" in the Prospectus.

*Opinion*

In our opinion:

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

Yours faithfully,

**KPMG**  
*Certified Public Accountants*  
Hong Kong

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14th January, 2013 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

**1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since 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) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

**2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 3rd January, 2014, and will become effective from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) **Shares**

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with

or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

**(b) Directors**

*(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice 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). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall 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*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may 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 or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present 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 or statutorily 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 prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.



(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, 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. A Director may be or become a director or other officer or member of 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 or other benefits received by him as a director, officer or member of such other company. 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.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, 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 for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) 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/have 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 proposal 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 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 associate(s) 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 generally accorded to the employees to which such scheme or fund relates; or
  - (ee) 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.
- (vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion 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 has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board 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.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgement of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term 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 the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may 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 also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also 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 so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*(viii) Borrowing powers*

Pursuant to the Articles, 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 uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, 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. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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(ix) *Register of Directors and officers*

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks 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 a second or casting vote.

(c) **Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares 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 relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any 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) Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

**(f) Special resolution — majority required**

In accordance with the Articles, 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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, 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 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 less than 21 clear days' notice has been given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles 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 members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(g) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll 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 share which is fully paid or credited as fully paid registered in his name in the register of members of the Company 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 purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised 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 in



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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

---

accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, 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 member in contravention of such requirement or restriction shall not be counted.

**(h) Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

**(i) Accounts and audit**

The Board shall cause proper books of account 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 assets and liabilities of the Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to Shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the Shareholders not less than 21 days before the general meeting to those Shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(j) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may 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 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it 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;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

**(k) Transfer of shares**

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit 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 of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on 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 removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline 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 option scheme 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 the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located 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 register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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**(l) Power of the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles 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 requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

**(m) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

**(n) Dividends and other methods of distribution**

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.

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, although 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 in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) 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 members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

---

(bb) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus 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, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' 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 monies 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, 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.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(o) 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(p) Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit 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) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one 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 20% per annum as the Board shall fix 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state 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, nevertheless, 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(q) 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. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

**(r) 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, and continues to be present until the conclusion of the meeting.



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.

**(s) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(t) 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 amongst 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, then the excess shall be distributed *pari passu* amongst 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 amongst 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, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(u) Untraceable members**

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, 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 years and 3 months period (being the 3 months' notice period referred to in sub-paragraph (iii)), 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 stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) 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.

**(v) Subscription rights reserve**

Pursuant to the Articles, provided that it is not prohibited by and is otherwise 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 14th January, 2013 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies 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 must conduct its operations mainly outside the Cayman Islands. Moreover, 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**

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. 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 or 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 arrangements 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 such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in Section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that 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.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. 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 member and, for the avoidance of doubt, 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. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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.

Under Section 37A(1) the Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is

authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to Section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able 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**

With the exception of Sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, Section 34 of 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 (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that for so long as a company holds treasury shares, 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**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that 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 interest 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**

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to 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.

Section 59 of the Companies Law further states that 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.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

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 certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The 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 of Association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, 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 (2009 Revision) of the Cayman Islands.

**(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a 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 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.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to



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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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such office, the court shall 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.

**(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(q) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

**(r) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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**4.    GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of the Companies 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.

**INFORMATION ABOUT THE COMPANY****1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 14th January, 2013.

The Company has been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and the principal place of business in Hong Kong is at 22/F, Silver Fortune Plaza, No. 1 Wellington Street, Central, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms MOK Kung Yee and Ms TSANG Kwok Shan, Sandy have been appointed as the agent of the Company for the acceptance of service of process and any notice required to be served on the Company in Hong Kong.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands laws. Its constitution comprises the Memorandum of Association and the Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of Companies Law is set out in Appendix III to the Prospectus.

**2. Changes in share capital of the Company*****(a) Increase in authorised share capital***

- (i) As at the date of incorporation of the Company on 14th January, 2013, the authorised share capital was HK\$100,000,000 divided into 10,000,000,000 Shares having a par value of HK\$0.01 each.
- (ii) Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 300,000,000 Shares will be issued fully paid or credited as fully paid, and 9,700,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company.

Save as disclosed herein and in paragraphs headed “Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014” and “Group reorganisation” of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

**(b) Founder shares**

The Company has no founder shares, management shares or deferred shares.

**3. Resolutions in writing of the sole Shareholder passed on 3rd January, 2014 and on 7th January, 2014**

Written resolutions were passed by the sole Shareholder on 3rd January, 2014 and on 7th January, 2014, pursuant to which, among other matters:

- (a) the Company approved and adopted the Memorandum and the Articles of Association with effect from the Listing Date;
- (b) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in the Prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in the Prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of the Prospectus:
  - (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to allot and issue of the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 13 of this appendix, were approved and adopted and the Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at the Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
  - (iii) conditional on the share premium account of the Company being credited as a result of the Global Offering, the Directors were authorised to capitalise HK\$2,159,900 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 215,990,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on the day prior to the Listing Date (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in the Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (bb) the aggregate nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association, the Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
  - (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to repurchase Shares on the Stock Exchange or other stock exchange on which the securities of the Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
  - (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iii) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (iv) above.
- (c) the Company approved the form and substance of each of the service agreements made between the executive Directors and the Company, and the form and substance of each of the appointment letters made between each of the non-executive Director and independent non-executive Directors with the Company.

#### **4. Group reorganisation**

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. For more details regarding the Reorganisation, please refer to section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

#### **5. Changes in share capital of subsidiaries**

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to the Prospectus.

Save as disclosed herein and in paragraph 4 of this appendix and the section headed "History, Reorganisation and Corporate Structure" to the Prospectus, no other alterations in the share capital of each of the Company's subsidiaries took place within the two years immediately preceding the date of the Prospectus.

#### **6. Securities repurchase mandate**

This paragraph includes information required by the Stock Exchange to be included in the Prospectus concerning the repurchase by the Company of its own securities.

##### ***(a) Shareholders' approval***

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing passed by the sole Shareholder on 3rd January, 2014, among other things, the Repurchase Mandate was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

***(b) Source of funds***

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

***(c) Reasons for repurchases***

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and the Shareholders.

***(d) Funding of repurchases***

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in the Prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in the Prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 300,000,000 Shares in issue immediately after the Listing, would result in up to 30,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

***(e) General***

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeover Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of the Company and may become obliged under Rule 26 of the Takeovers Code to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

**FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY****7. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of the Prospectus and are or may be material:

- (a) the Deed of Non-Competition;
- (b) the Deed of Indemnity; and
- (c) the Hong Kong Underwriting Agreement.





## 8. Intellectual property rights of the Group

Set out below are the material intellectual property rights of the Group:

### (a) Trademark

As at the Latest Practicable Date, the Group is the registered proprietor and beneficial owner of the following material trademark:

Trademark	Place of Registration	Classes	Registration number	Duration of Validity	Registered Owner
A. 	Hong Kong	41, 43 <sup>(Note)</sup>	302188008	12th March, 2012 up to (and including) 11th March, 2022	Club Kingdom
B. 					

*Note:* The specifications of the applied-for services cover “providing of training; entertainment; sporting and cultural activities; club services; disc jockey services; discotheque services; management of discotheque; music hall; disco bar; piano bar; services provided by a night club; dancing club; entertainment services offered by performer(s); music shows and concerts; live performance; entertainer services; entertainment information; production of shows; production of music; production of radio and television programmes; providing on-line electronic publications, not downloadable; publication of books; publication of electronic books and journals on-line; publication of texts, other than publicity texts; provision of advisory and consultancy services in respect of all of the aforesaid services; all included in Class 41” under class 41 and “bar services; night club services; wine bar services; wine club services; provision of advisory and consultancy services in respect of all of the aforesaid services” under class 43.

### (b) Domain Names

As at the Latest Practicable Date, the Group has the following material registered domain names:

Domain Name	Name of Registrant	Date of expiry
www.beijingclub.com.hk	Cheerful Raise	4th September, 2014
www.billionclub.com.hk	Kind Legend	30th May, 2014
www.magnumclub.com.hk	Asiatic Century	12th September, 2016
www.zentral.com.hk	Easy Large	2nd July, 2018
www.magnumentertainment.com.hk	Easy Large	16th July, 2018

## 9. Related party transactions

Save as disclosed in the sections headed “Relationship with Controlling Shareholders” and “Financial Information” and in note 23 to the accountants’ report, the text of which is set out in Appendix I to the Prospectus, during the two years immediately preceding the date of the Prospectus, the Company has not engaged in any other material related party transactions.

## FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

### 10. Directors

#### (a) Disclosure of interests of the Directors

- (i) Mr. Yip is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in the paragraph 7 of this appendix.
- (ii) Save as disclosed in the Prospectus, none of the Directors or their associates were engaged in any dealings with the Group during the two years preceding the date of the Prospectus.

#### (b) Particulars of Directors’ service contracts

##### *Executive Directors*

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. Each of the executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

<b>Name</b>	<b>Approximate annual salary (HK\$)</b>
Mr. CHAN Chi Wah	410,000
Ms. MOK Kung Yee	419,000
Ms. TSANG Kwok Shan, Sandy	672,000
Mr. LAM Jhug Ching	314,000

*Non-executive Director*

The non-executive Director has entered into a letter of appointment with the Company commencing on 14th November, 2013 and shall continue for a period of 3 years from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other.

The current basic annual salary of the non-executive Director payable under the letter of appointment is as follows:

<b>Name</b>	<b>Annual salary</b> <i>(HK\$)</i>
Mr. YIP Mow Lum	Nil

*Independent non-executive Directors*

Each of the independent non-executive Directors has been appointed on 14th November, 2013 and shall continue for a period of 3 years commencing from the Listing Date until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$150,000 per annum. Save for Directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than contracts expiring or determinable by the employer within 1 year without the payment of compensation (other than statutory compensation).

**(c) Directors remuneration**

- (i) The aggregate emoluments paid and benefits in kind granted by the Group to the Directors in respect of the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2013 were approximately HK\$329,000, HK\$531,000, HK\$1,547,000 and HK\$831,000, respectively (*Note*).

*Note:* Mr. Wong was a Director and he resigned on 27th June, 2013. The remuneration paid to Mr. Wong during the years ended 31st March, 2011, 2012 and 2013 and the five months ended 31st August, 2013 was nil, nil, HK\$1,370,000 and HK\$623,000 respectively.

- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by the Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ending 31st March, 2014 are expected to be approximately HK\$2.0 million.
- (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for the three years ended 31st March, 2013 and the five months ended 31st August, 2013, (i) as an inducement to join or upon joining the Group; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for the three years ended 31st March, 2013 and the five months ended 31st August, 2013.

***(d) Interests and short positions of Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations***

Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

*(i) The Company*

<b>Name of Director</b>	<b>Capacity/ Nature of interest</b>	<b>Number and class of securities<sup>(1)</sup></b>	<b>Percentage of shareholding</b>
Mr. YIP <sup>(2)</sup>	Interest of a controlled corporation	216,000,000 Shares (L)	72%

*Notes:*

- (1) The letter "L" denotes the Directors' long position in the Shares.
- (2) Rainbow Key is a corporate Controlling Shareholder which is wholly owned by Mr. Yip (the Chairman and non-executive Director). Accordingly, Mr. Yip is deemed to be interested in all the Shares held by Rainbow Key by virtue of the SFO.

*(ii) Associated corporation*

<b>Name of associated corporation</b>	<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares in the associated corporation<sup>(1)</sup></b>	<b>Percentage of shareholding in the associated corporation</b>
Rainbow Key	Mr. Yip	Beneficial owner	1 share (L)	100%

*Note:*

(1) The letter “L” denotes the Directors’ long position in the shares of the associated corporation.

**11. Interest discloseable under the SFO and Substantial Shareholders**

So far as is known to the Directors, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons (other than the Directors and chief executive) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, 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 meeting of members of the Group:

<b>Name of Shareholder</b>	<b>Capacity/Nature of interest</b>	<b>Number and class of securities<sup>(1)</sup></b>	<b>Percentage of interest in the Company</b>
Rainbow Key <sup>(2)</sup>	Beneficial owner	216,000,000 Shares (L)	72%

*Notes:*

(1) The letter “L” denotes the person’s long position in the Shares.

(2) Rainbow Key is directly interested in 72% in the Company (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme).

**12. Disclaimers**

Save as disclosed in this Appendix and the section headed “Substantial Shareholders” of the Prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of the Company) who immediately following the completion of the Global Offering and the Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group; and
- (b) none of the Directors has any interest or short position in any of the Shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed.

Save as disclosed in this Appendix and the sections headed “History, Reorganisation and Corporate Structure” and “Underwriting” in the Prospectus,

- (a) none of the Directors nor any of the parties listed in the paragraph 20 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the 2 years immediately preceding the date of the Prospectus, acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company, or are proposed to be acquired or disposed of by or leased to the Company or any other member of the Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee; and
- (b) none of the Directors nor any of the parties listed in the paragraph 20 below is materially interested in any contract or arrangement subsisting at the date of the Prospectus which is significant in relation to business of the Group.

Save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 20 below:

- (i) is interested legally or beneficially in any securities of any member of the Group; or

- (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## OTHER INFORMATION

### 13. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the sole Shareholder passed on 3rd January, 2014. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

#### *(a) Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

#### *(b) Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of the Group;

- (bb) quality of work performed for the Group;
- (cc) initiative and commitment in performing his/her duties; and
- (dd) length of service or contribution to the Group.

***(c) Acceptance of an offer of options***

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

***(d) Maximum number of Shares***

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 30,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which



would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

***(e) Maximum number of options to any one individual***

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

(aa) the Eligible Participant's name, address and occupation;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of Shares in respect of which the option is offered;

(ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;

(gg) the date of the notice given by the grantee in respect of the exercise of the option; and

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

***(f) Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

***(g) Granting options to connected persons***

Any grant of options to a Director, chief executive or Substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant, such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

***(b) Restrictions on the times of grant of Options***

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 announced pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules); and ending on the date of actual publication of the results announcement.

***(i) Rights are personal to grantee***

An option is personal to the grantee. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

***(j) Time of exercise of option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of the Company (the “**Adoption Date**”). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

***(k) Performance target***

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

***(l) Rights on ceasing employment/death***

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his/her relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

***(m) Rights on dismissal***

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty, his/her option will lapse and not be exercisable after the date of termination of his/her employment.

***(n) Rights on takeover***

If a general offer is 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 concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

***(o) Rights on winding-up***

In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

***(p) Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is

terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

***(q) Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

***(r) Effect of alterations to capital***

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5th September, 2005 to all issuers relating to share option schemes. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5th September, 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

***(s) Expiry of option***

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n) or (o);
- (iii) the date upon which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

***(t) Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms and any adjustment to be made to the exercise price of the Share Option Scheme shall still comply with Chapter 17 of the



Listing Rules, the supplemental guidance of 5 September 2005 and any future guidance or interpretation of the Listing Rules from time to time and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

***(u) Cancellation of Options***

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

***(v) Termination of the Share Option Scheme***

The Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

***(w) Administration of the Board***

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

***(x) Conditions of the Share Option Scheme***

The Share Option Scheme is conditional on:

- (i) the Listing Committee granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Sole Global Coordinator (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

**(y) Disclosure in annual and interim reports**

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 30,000,000 Shares in total.

**14. Estate duty, tax and other indemnity**

The Controlling Shareholders, (the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (b) referred to in paragraph 7 above) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of Sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of the Group at any time on or before the Listing;
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of the Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation; and

- (c) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of the Group under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations occurred on or before the Listing.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of the Group for any accounting period up to 31st August, 2013;
- (b) to the extent that such taxation or liability falling on any of the members of the Group in respect of any accounting period commencing on or after 1st September, 2013 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, 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 Listing Date; and
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the Prospectus; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Group up to 31st August, 2013 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision

or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to the Group that it will indemnify and at all times keeps the Group fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of the Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

### **15. Litigation**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of the Company.

### **16. Preliminary expenses**

The preliminary expenses of the Company are approximately HK\$38,000 and are payable by the Company.

### **17. Promoters**

- (a) The promoter of the Company is Mr. Yip.
- (b) Save as disclosed in the section headed "History, Reorganisation and Corporate Structure" in this Prospectus, within the 2 years preceding the date of the Prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph (a) above in connection with the Global Offering or the related transactions described in the Prospectus.

### **18. Agency fees or commissions received**

The commission and expenses relating to the Global Offering that are to be borne by the Company are set out in the section headed "Underwriting" in the Prospectus. The Sole Sponsor will also receive fees relating to the Global Offering.

### **19. Application for listing of Shares**

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as

mentioned in the Prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

## 20. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in the Prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Anglo Chinese	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
Appleby	Cayman Islands legal advisers to the Company
KPMG	Certified Public Accountants
Dr. Gerard McCoy SBS QC SC	Senior counsel, barrister-at-law in Hong Kong
Mr. NG, Danny Pak Kin	Barrister-at-law in Hong Kong
Benny Kong & Yeung	Qualified Hong Kong lawyers

## 21. Consents of experts

Each of Anglo Chinese, Appleby, KPMG, Dr. Gerard McCoy SBS QC SC, Mr. NG, Danny Pak Kin and Benny Kong & Yeung has given and has not withdrawn its written consent to the issue of the Prospectus with the inclusion of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

## 22. Binding effect

The Prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

## 23. Taxation of holders of Shares

### (a) Hong Kong

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(b) *The Cayman Islands***

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty as long as the Company does not hold any interest in land in the Cayman Islands.

**(c) *Consultation with professional advisers***

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**24. Miscellaneous**

(a) Save as disclosed herein:

(i) within 2 years preceding the date of the Prospectus:

(aa) no share or loan capital of the Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) 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 the Company or any of its subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in the Company or any of its subsidiaries;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(b) Save as disclosed in the paragraphs headed “Recent development” and “Listing expenses” in the “Summary” section of the Prospectus, the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31st August, 2013 (being the date to which the latest consolidated financial statements of the Group were made up).

- (c) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of the Prospectus.

**25. Bilingual Prospectus**

The English language and Chinese language versions of the Prospectus are being published separately, in reliance upon the exemption provided under Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**26. Others**

The English text of the Prospectus shall prevail over the Chinese text.

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of the Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE** and **YELLOW** and **GREEN** Application Forms, the written consents referred to under the paragraph headed “Other information — 21. Consents of experts” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus, and certified copies of the material contracts referred to under the paragraph headed “Further information about the business of the Company — 7. Summary of material contracts” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22nd Floor, World-Wide House, Central, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of the Prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants’ report from KPMG, Certified Public Accountants, in respect of the historical financial information for the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013, the text of which is set out in Appendix I to the Prospectus;
- (c) the report on the unaudited pro forma financial information of the Group from KPMG, Certified Public Accountants, the text of which is set out in Appendix II to the Prospectus;
- (d) the audited financial statements of the Group for each of the years ended 31st March, 2011, 2012, 2013 and the five months ended 31st August, 2013;
- (e) the Companies Law;
- (f) the letter of advice prepared by Appleby summarising certain aspects of the Companies Law referred to in Appendix III to the Prospectus;
- (g) the legal opinion issued by Dr. Gerard McCoy SBS QC SC;
- (h) the legal opinion issued by Mr. NG, Danny Pak Kin;
- (i) the legal opinion issued by Benny Kong & Yeung;
- (j) the material contracts referred to in the paragraph headed “Further information about the business of the Company — 7. Summary of material contracts” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus;



- (k) the written consents referred to in the paragraph headed “Other Information — 21. Consents of experts” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus;
- (l) the Share Option Scheme; and
- (m) the service contracts and letters of appointment referred to in the paragraph headed “Further information about Directors and Shareholders — 10. Directors” of the section headed “Statutory and General Information” in Appendix IV to the Prospectus.



**BEIJING CLUB**



**MAGNUM CLUB**



**BILLION CLUB**



**MAGNUM ENTERTAINMENT GROUP HOLDINGS LIMITED**